2019 Annual Report

Scotia Group Jamaica Limited

130 YEARS IN JAMAICA

Scotiabank

What's inside

We are committed to doing our part to protect the environment. We have reduced the paper consumption associated with printing this Annual Report by using lightweight paper stock, reducing the number of Reports printed and distributing more copies electronically.

Scotiabank has been in Jamaica since 1889 and is the premier financial institution in the country

Scotia Group Jamaica Limited (SGJL) is a subsidiary of Scotiabank (Canada) and offers a diverse range of products and services including personal, commercial, and small business banking, wealth management, insurance, and mortgages. Our expert team of Scotiabankers are committed to assisting our customers to achieve their financial goals. SGJL is an award winning institution having been named on numerous occasions as the Bank of the Year and Best Bank in Jamaica by international financial publications – The Banker, LatinFinance, Euromoney, and Global Finance magazines. SGJL has $549 billion in assets (as at October 31, 2019).

Corporate Data

Secretary

Richard Fraser
Vice President,
Senior Legal Counsel &
Corporate Secretary

Registered Office

Scotiabank Centre
Cnr. Duke &
Port Royal Streets
P.O. Box 709
Kingston, Jamaica

Tel.: (876) 922.1000
Fax: (876) 922.6548

www.jm.scotiabank.com

Telex: 2297
SWIFT Bic Code:
NOSCJMKN

Auditors

KPMG
6 Duke Street
Kingston, Jamaica

Tel.: (876) 922.6640
Fax: (876) 922.4500
(876) 922.7198

firmmail@kpmg.com.jm

Registrar

PwC Corporate Services
(Jamaica) Limited
Scotiabank Centre
Corner Duke &
Port Royal Streets
Kingston, Jamaica

Office Tel.: (876) 922.6230
Fax: (876) 967.9467

http://www.pwc.com/jm

Financial Highlights

	Earnings per Share (EPS)	Dividends per Share	Return on Equity
2019	$4.24	$4.76*	11.25%
2018	$4.10	$1.95	

- Diversified business lines providing sustainable and growing earnings
- Focused on digitization to strengthen customer experience and improve efficiency
- Strong risk management culture
- Strong balance sheet with prudent capital and liquidity positions

* Includes special dividends of $2.68 paid in 2019, (regular dividends of $2.08).

Ten Year Statistical Review

Consolidated Balance Sheet	2019	2018	2017
Balance Sheet Data - $000			
Total Assets	**549,001,676**	521,862,287	490,882,681
Performing Loans	**201,902,111**	178,919,287	161,979,917
Non-Performing Loans	**3,723,273**	3,687,971	4,513,674
Investments & Other Earning Assets	**234,933,974**	244,092,864	241,897,129
Deposits by the Public	**312,968,147**	287,948,379	260,559,467
Securities Sold Under Repurchase Agreement	**-**	31,152	20,666,065
Stockholders' Equity	**118,114,076**	115,647,730	102,431,566
Profits and Dividends - $000			
Profit Before Tax	**18,482,724**	18,292,628	18,201,458
Net Profit After Tax Attributable to Stockholders	**13,190,054**	12,770,916	12,174,742
Dividends Paid And Proposed	**14,811,171**	6,067,607	5,694,214
Number of Stock Units at Year End	**3,111,573**	3,111,573	3,111,573
Financial Ratios			
Earnings Per Stock Unit	**4.24**	4.10	3.91
Price Earnings Ratio	**12.96**	13.09	13.10
Dividends Per Stock Unit	**4.76** **	1.95	1.83
Dividend Yield	**8.61%** **	3.66%	4.28%
Dividend Payout Ratio	**112.29%** **	47.51%	46.77%
Return on Average Equity	**11.25%**	11.54%	12.58%
Return on Assets at Year End	**2.40%**	2.45%	2.48%
Other Data			
Tier 1 Capital (Bank Only) (1) $000	**47,931,662**	39,909,535	33,900,498
Risk Based Capital Adequacy Ratio (Bank Only) (1)	**16.04%**	16.91%	15.28%
Stock Price at Year End	**54.95**	53.72	51.25
Price Change from Last Year	**2.29%**	4.82%	62.83%
Change In JSE Index from Last Year	**35.62%**	24.66%	75.64%
Number of Staff	**1,650**	1,727	1,876
Exchange Rate US$1.00 = J$	**138.9420**	127.9971	126.6851
Inflation Rate Year Over Year	**3.26%**	4.72%	4.68%

(1) Risk Based Capital Adequacy Ratio and Tier 1 Capital are calculated per Bank of Jamaica Regulations.
* Effective November 1, 2014 the Group adopted IFRIC 21, Levies. These amounts were restated due to the change in accounting policy.
+ Effective November 1, 2013 the Group adopted IAS 19 (Revised) Employee Benefits. The change in accounting policy was applied retroactively and these amounts were restated.
** Includes special dividends of $2.68 paid in 2019.

	2016	2015	2014 (Restated)	2013 (Restated)	2012 (Restated)	2011	2010
	477,391,654	432,931,945	407,030,262	389,260,505	358,141,805 +	332,041,259	325,823,953
	162,446,895	149,997,313	140,829,220	130,332,373	117,973,642	94,719,222	91,599,243
	4,379,885	4,502,060	4,902,782	4,491,383	4,551,026	5,257,217	4,215,254
	249,802,716	229,603,523	216,747,750	207,670,829	198,905,245	200,539,453	200,362,102
	248,416,381	209,461,602	190,726,667	183,369,415	160,994,182	144,670,083	145,664,085
	31,634,237	39,832,452	47,840,197	42,588,792	45,384,758	44,700,992	45,025,585
	91,855,773	85,257,232	76,484,253 *	69,775,527 *	63,974,046 +	60,310,619	53,155,381
	16,640,943	14,244,136	14,357,886 *	14,631,285 *	14,369,041 +	14,244,620	14,417,094
	11,300,599	9,921,429	10,457,709 *	11,980,842 *	9,932,812 +	10,193,390	10,405,649
	5,320,815	5,040,748	4,978,516	4,978,516	4,698,475	4,605,128	4,605,128
	3,111,573	3,111,573	3,111,573	3,111,573	3,111,573	3,111,573	3,111,573
	3.63	3.19	3.36 *	3.85 *	3.19 +	3.28	3.34
	8.67	8.43	5.72 *	5.19 *	6.65 +	7.59	6.09
	1.71	1.62	1.60	1.60	1.51	1.48	1.48
	5.53%	7.01%	8.08%	7.64%	6.69%	6.48%	7.08%
	47.08%	50.81%	47.61% *	41.55% *	47.30% +	45.18%	44.26%
	12.65%	12.32%	14.23% *	15.64% *	15.98% +	17.59%	20.78%
	2.37%	2.29%	2.57% *	3.08 *	2.77 +	3.07%	3.19%
	27,391,052	23,332,290	19,401,181	17,623,522	17,122,852	16,526,173	15,959,189
	12.88%	11.50%	12.08%	11.23%	11.75% +	14.95%	15.40%
	31.48	26.87	19.23	19.97	21.23	24.90	20.35
	17.16%	39.74%	-3.73%	-5.91%	-14.76%	22.36%	10.72%
	27.02%	83.05%	-12.36%	-8.89%	-5.72%	14.30%	3.46%
	2,021	2,144	2,311	2,326	2,315	2,337	2,283
	128.7033	119.5755	112.4939	104.6866	90.8050	86.2778	85.3825
	1.78%	2.03%	8.09%	9.40%	6.17%	7.26%	10.37%

Notice of Annual General Meeting

Scotia Group Jamaica Limited

NOTICE IS HEREBY GIVEN that the Annual General Meeting of **SCOTIA GROUP JAMAICA LIMITED** (the "Company") will be held on Thursday, March 12, 2020 at 10:00 a.m. at **The Jamaica Pegasus Hotel,** 81 Knutsford Boulevard, Kingston 5, Jamaica, to consider, and if thought fit, pass the following resolutions:-

1. **Resolution No. 1 – Audited Accounts**
   That the Directors' Report, the Auditors' Report and the Financial Statements of the Company for the year ended October 31, 2019 previously circulated be and are hereby received.

2. **Resolution No. 2 – Election of Directors**
   That each of the following persons shall be elected a Director of the Company for the term from the date of his or her election until the close of the next Annual General Meeting of the Company following election, subject always to earlier termination under the By-laws of the Company:-

   A. **Barbara Alexander**
   B. **Eric Crawford**
   C. **Angela Fowler**
   D. **Jeffrey Hall**
   E. **A. Mark Hart**
   F. **Brendan King**
   G. **W. David McConnell**
   H. **David Noel**
   I. **Leslie Reid**
   J. **Audrey Richards**
   K. **Evelyn Smith**

3. **Resolution No. 3 – Appointment of Auditors**
   That KPMG, Chartered Accountants, having agreed to continue in office as Auditors, be and are hereby appointed Auditors of the Company to hold office until the next Annual General Meeting at a remuneration to be fixed by the Directors of the Company.

BY ORDER OF THE BOARD

Richard Fraser
Company Secretary
December 4, 2019

REGISTERED OFFICE
Scotiabank Centre
Duke & Port Royal Streets
Kingston

A Member entitled to attend and vote at this meeting may appoint a Proxy to attend and vote in his/her stead. A Proxy need not also be a Member of the Company. Enclosed is a Proxy Form for your convenience, which must be lodged at the Company's Registered Office at least forty-eight hours before the time appointed for holding a meeting. The Proxy Form shall bear the stamp duty of $100.00 before being signed. The stamp duty may be paid by adhesive stamp(s) to be cancelled by the person executing the Proxy.

Directors' Report

Scotia Group Jamaica Limited

The Directors submit herewith the Statement of Consolidated Revenue, Expenses, Unappropriated Profits, Assets and Liabilities of the Group for the year ended October 31, 2019.

The Consolidated Statement of Revenue and Expenses reports pre-tax profit for the year of $18.48 billion from which there has been provided $5.29 billion for corporate income tax, leaving a balance of $13.19 billion.

The appropriation of earnings detailed in the financial statements includes:

A final dividend of 55 cents per stock unit payable to stockholders on record as at December 24, 2019 payable on January 15, 2020. This brings the total distribution for the year to $4.76 per stock unit compared with $1.95 per stock unit for the previous year.

The Auditors, KPMG, have signified their willingness to continue in office.

Your Directors wish to thank the Management and Staff of the Company for their performance during the year under review.

ON BEHALF OF THE BOARD

Jeffrey Hall
Chairman
Kingston, Jamaica
December 4, 2019

Chairman's Message to Shareholders

Jeffrey Hall
Chairman of the
Board of Directors

Dear Shareholders,

I am pleased to report that we have delivered another year of sound results. The Board remains focused on delivering positive results for shareholders, customers and employees, in line with our shared objectives. Our success this year was underpinned by a clearly defined customer focused strategy. We are also making significant investments in areas that we believe will position us for sustainable growth in the future. These include enhancing our customer experience and leveraging technology to increase convenience, reduce costs, and increase options for customers.

For Every Future

The Bank attained the milestone of 130 years of unbroken service to Jamaica in August, 2019. We are very proud of this accomplishment and we are positioning your business to ensure that we continue to enable financial goals for every customer and for every future.

During the year, we introduced upgrades to our Online and Mobile Banking offerings which have been well received by our customers. Scotia Alerts and Controls give customers more options for managing their accounts than ever before. Our new features include security alerts and balance notifications. New credit card features include the option to switch on or switch off international or online transactions to suit customer needs and improve their controls. We also made changes to improve customer traffic flow in branches. These initiatives have already enhanced customer satisfaction levels, which we monitor very closely. Our customer feedback tool, *The Pulse,* is a key part of our strategy. Since launching *The Pulse*, we have received well over 100,000 customer surveys which we are using to refine our products and processes.

Last year we announced major renovations that would take place at our Scotia Centre branch and head office building. I am happy to report that construction is currently underway and once complete, we will have a cutting edge branch like no other in our region, featuring digital banking options as well as more areas for customer engagement. Our head office space will be modernised and redesigned to facilitate greater collaboration and efficiency.

Governance

Maintaining strong oversight and the highest standards in corporate governance remain the primary focus of the Board of Directors. We continue to challenge the executive management team to ensure that we deliver results for the benefit of all our stakeholders. During the year, your Board met regularly as did the various sub-committees including the Audit and Conduct Review Committee, the Executive and Enterprise Risk Committee and the Human Resources and Pension Committee. Our Board is comprised of members from diverse backgrounds with extensive business experience and expertise in their areas of specialisation. All Board members continued to serve from the prior year.

Social Impact

We continue to work to develop our communities. In December 2018, Scotiabank partnered with Concacaf to launch the Next Play Football Programme. The programme aims to use football as a vehicle for social change and has benefitted several hundred boys and girls in primary schools across the country.

We also continued to support 34 Early Childhood Institutions, Special Needs Facilities and Primary Schools with our Scotia Nutrition for Learning Programme. Over 12,000 students benefit from this programme which aims at improving nutrition and consequently academic attendance and performance.

Acknowledgement

I sincerely thank our loyal customers and shareholders for their consistent trust and support. I would like to acknowledge the Scotia Group team who have delivered a commendable performance this year. I would also like to express my appreciation to my fellow Board members who are all committed to the success of this Group. We remain very confident that the Group is positioned to continue its legacy of serving customers and generating sustained value for shareholders.

Jeffrey Hall

President and CEO's Message to Shareholders

David Noel
President and Chief Executive Officer

Dear Shareholders,

We are pleased to report solid financial results for fiscal year 2018 – 2019. We have embarked on a strategy to focus on core business growth while making key investments for the future and we have seen good growth in core business lines. We are committed to delivering value to our customers and deepening our relationships with them.

Financial Performance

The Group recorded net income after tax (NIAT) of $13.2 billion for the year which represents an increase of $419 million or 3% versus the previous year. Excluding gains on the sale of a subsidiary of $753 million that occurred in the prior year, net income increased year on year by $1.2 billion or 10%. During the year, the Group took a decision to distribute accumulated earnings built up over several years and paid special dividends of $2.68. After factoring in these dividends, our capital remains strong to take advantage of future growth opportunities. Our return on equity (ROE) was 11.25% and earnings per share amounted to $4.24 which was 3.4% higher than prior year.

Economic Outlook

Jamaica's continued commitment to fiscal consolidation and structural reforms remained on a positive trajectory during 2019. The key macroeconomic indicators remain positive with low unemployment rates, continued reductions in public debt and low domestic interest rates signaling economic sustainability. The Government of Jamaica (GOJ) has achieved a significant milestone with the debt/GDP ratio falling below 100% (94.6% for FY2018/19), the lowest in almost two decades. This was buoyed by rating agencies signaling greater confidence in the Jamaican economy and Moody's Investors Service upgraded the GOJ's unsecured shelf rating to B2 Stable from B3 Positive on December 11, 2019. The prospects for the Jamaican economy over the next 12 months remain positive supported by robust private consumption levels, several strategic initiatives (from both private and public sectors), and sturdy, continued high investor confidence.

For the upcoming year, GOJ's liability management process is expected to remain on track, whilst mechanisms to improve its tax collection and expenditure restraint remain a priority for the Government. A low interest rate environment is expected to remain. While the expected decline in mining will have an impact on the economy, we believe that the long-term prospects for the Jamaican economy are very positive.

Business Line Performance

I am pleased to report strong growth in our core business. Our total loan portfolio increased year over year by 13%, this includes an increase of 17% over prior year in our Scotia Plan retail loan portfolio, and another year of double digit growth for the mortgage portfolio which increased by 13%. The significant growth in these portfolios was achieved through consistent execution of our strategic initiatives to improve service to customers, making it more convenient for them to access our suite of products and services. We also saw strong growth in our Corporate and Commercial banking portfolio with a 27% increase in loans to the private sector.

Our Insurance and Investment subsidiaries also delivered strong results for fiscal 2019. Scotia Investments exceeded performance when compared to the corresponding period last year, with an increase in revenues of 10% year over year and a 13% increase in assets under management. Our Capital Markets Unit successfully executed an Initial Public Offering for Fontana Pharmacy. Scotia Jamaica Life Insurance Company (SJLIC), our Insurance business line, continues to improve sales productivity and also delivered a 20% increase in policies sold year over year.

Looking Ahead

As we enter financial year 2020, we will continue to execute on our strategic agenda. We have already made advances in optimising our processes and customer offerings in branches, as well as through our digital channels. During the year we piloted new systems for managing branch traffic and we have further plans to change our branch operating model to better serve our customers. We have improved our digital banking offerings across our network with the introduction of newer and more efficient Automated Teller Machines (ATMs), as well as Intelligent Deposit Machines (IDMs) that allow customers immediate access to their deposits.

We have enhanced our online and mobile banking offerings with the introduction of new transaction and security alerts, and the addition of credit card controls which have all enhanced our customers' daily banking experience. We continue to utilise our real-time customer feedback tool, *The Pulse* to ensure that we are listening to our customers and proactively addressing their concerns.

Constantly evolving customer expectations and emerging technology continue to be significant factors in the financial industry and Scotiabank is positioning itself to be the bank of choice for the future. Next year we will continue to improve both our branch experience and user experiences on our mobile banking application. We look forward to the opening of our new state of the art branch at Scotiabank Centre, which will offer the best in class service to our customers.

We continue to be optimistic about Jamaica's future and our ability to deliver sustainable results to all stakeholders. We have a very strong, passionate team who remain committed to helping our shareholders and customers to achieve their financial objectives.

I would like to thank our Board of Directors for their sound guidance, you our valued shareholders for your loyalty and support, and our team for your unwavering commitment. I would also like to thank our customers for continuing to choose Scotia Group after 130 years and for every future.

David Noel

Corporate Governance

Above (left) – photo of Kingston, main branch interior, 1909. Courtesy of the Scotiabank Archives.

Above (right) – 3D rendering of Scotiabank Centre Branch 2019

Group Corporate Structure

Scotia Group Jamaica Limited (Scotia Group) is a publicly listed holding company trading on the Jamaica Stock Exchange.

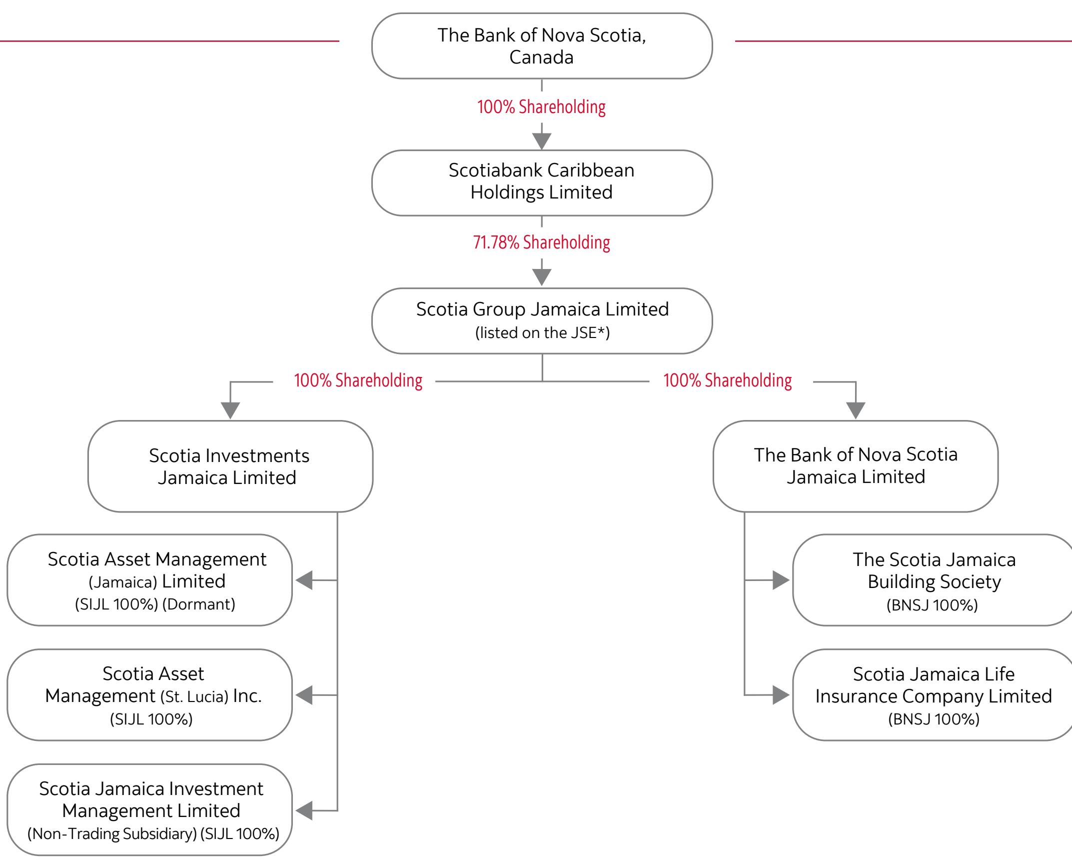
Scotia Group is the financial holding company for several entities operating within the financial sector. The Bank of Nova Scotia Jamaica Limited (BNSJ), which is its wholly owned subsidiary, is a duly licensed commercial bank and has two active subsidiaries: The Scotia Jamaica Building Society (SJBS) and Scotia Jamaica Life Insurance Company (SJLIC).

Scotia Group also wholly owns Scotia Investments Jamaica Limited (SIJL), which is licensed as a Member Dealer by the Jamaica Stock Exchange and a Securities Dealer by the Financial Services Commission.

Our Board of Directors recognizes that a robust corporate governance structure is critical to sustaining value and preserving the long-term financial viability of Scotia Group for the benefit of all stakeholders.

The Role and Responsibility of the Board Directors

The role of the Board of Directors is to supervise and monitor management's performance against the Board approved parameters and compliance with applicable legal and regulatory requirements. Additionally, the Directors provide advice and counsel to management to ensure that the key strategic objectives of the business are achieved.



* Jamaica Stock Exchange

While management undertakes the day-to-day functions of the Group's operations, it is the Board of Directors which remain ultimately accountable to the Company's stakeholders for the Company's performance and adherence to applicable laws and sound business practices.

The Board, in accordance with its approved Board mandate, is responsible for the following key duties and functions:

- Develop the Group's approach to corporate governance principles and guidelines
- Oversee and approve the Group's strategic direction, the organizational structure and succession planning of senior management
- Evaluate the actual operating and financial results of the Group against the Group's business objectives, business strategy and plans
- Identify the principal business risks, review and approve key risk management policies and practices and oversee the implementation of appropriate systems to enable compliance with such policies
- Oversee the integrity of the Group's internal controls and management information systems
- Identify, evaluate and select candidates for the Board of the Company and that of its subsidiaries
- Establish committees of the Group and subsidiary Boards with appropriate responsibilities, appoint Chairs for these Committees and approve the Terms of Reference for each Board Committee

At all times, our Directors are expected to exercise sound, independent, business judgment in the best interest of the Company and to balance the interests of various stakeholders. They may rely on the expertise of the Company's senior management, external advisors and auditors.

The Corporate Governance Policy, which is a Board approved Policy, is reviewed on an annual basis by the Board to ensure that its provisions remain relevant and in accord with local and international best practices, laws, regulations, and regulatory guidance.

A copy of our Corporate Governance Policy is available for review on our website at **www.jm.scotiabank.com**

Below is the definition of an Independent Director extracted from the Corporate Governance Policy. A Director is not considered independent if:

1. The Director has been an employee of the Company within the last five years
2. The Director is, or has been within the last three years, an employee or executive officer of any company within the Group or its parent company
3. The Director has received or receives additional remuneration from the Company apart from a director's fee, participates in the company's share option plan or performance related pay scheme, or is a member of the Company's pension scheme
4. The Director has close family ties with any of the Company's advisors, directors or senior employees
5. The Director represents a significant shareholder
6. The Director was a former Chief Executive Officer unless there has been a period of at least three years between ceasing employment with the Company and serving on the Board

Board Composition

As at October 31, 2019, the Board comprised of eleven Directors chaired by Mr. Jeffrey Hall, an Independent Chairman.

Our Directors have diverse skill sets, experience and backgrounds which include local and international experience in banking, business, strategic management, accounting, education and law, and they are recognized as strong leaders in their respective fields of work and experience.

Board Expertise	Independent(I)/Non-Independent(NI)	General Management	Finance /Audit/Accounting	Strategic Management	Governance	H.R/ Executive Compensation	Legal/Compliance/Regulatory	Risk Management
Jeffrey Hall	I	☒	☒	☒			☒	
Barbara Alexander	I	☒	☒			☒	☒	☒
Eric Crawford	I	☒	☒	☒				
Angela Fowler	I	☒	☒			☒	☒	
M. Antony Hart	I	☒	☒	☒		☒	☒	
Brendan King	NI	☒	☒	☒	☒	☒		☒
W. David McConnell	I	☒	☒	☒				
David Noel	NI	☒	☒	☒	☒		☒	☒
Leslie Reid	NI	☒	☒	☒	☒		☒	
Audrey Richards	I	☒	☒	☒	☒		☒	☒
Evelyn Smith	I	☒		☒		☒	☒	☒

Eight of our eleven Directors are independent of the Company, its parent, subsidiaries and affiliates and ten Directors of the Board are Non-Executive Directors.

All Directors have access to and are encouraged to meet with the Chairperson, the President and CEO and senior management. Time is reserved at the end of every Board meeting for discussions independent of management, among the Directors. This allows the Chairperson to independently identify any issues for discussion with management and the Board.

Committees of the Group and Subsidiary Boards

The Board has delegated certain responsibilities to its Audit & Conduct Review Committee and its Executive & Enterprise Risk Committee. The Bank of Nova Scotia Jamaica Limited, which is the main hiring arm of the Group, has a Human Resource & Pension Committee to which functions are also delegated.

Audit and Conduct Review Committee

The Group's Audit and Conduct Review Committee has oversight responsibility for the Group and its subsidiaries in relation to the following areas:

- The integrity of the financial reporting and system of internal controls
- Ensuring compliance with legal and regulatory requirements
- The performance of the internal auditors and external auditors
- The identification and resolution of conflicts of interest which may arise from transactions conducted by the Group and its subsidiaries

Prior to the adjournment of Committee meetings, time is reserved for the Chairman of the Committee to meet independently with the Internal and External Auditors to discuss any areas of concern.

Executive and Enterprise Risk Committee

The Group's Executive and Enterprise Risk Committee has oversight responsibility for the Group and its subsidiaries in relation to the following areas:

- Corporate Strategy and Annual Profit Plans
- Review of Board nominees prior to appointment
- Review of the Corporate Governance Policy
- Enterprise and Operational Risk Management
- Review of Board performance

Human Resources and Pension Committee

The Human Resources and Pension Committee has oversight responsibility for the following staff welfare and compensation matters:

- Staff compensation, including incentive programmes
- Senior level organisational structure and staffing needs
- Mandates for the negotiation of collective bargaining agreements
- Performance of the Executive Team and Board appointed officers
- Pension Plan design and Investment policies
- Monitoring Pension Plan Fund performance against its • policies, objectives and strategies
- Appointment and/or removal of the Sponsor Trustees of the Pension Fund
- Review of actuarial reports, audited financial statements of the Fund and proposed changes to the Pension Plan rules and benefits

Directors Orientation and Training Opportunities

The Board of Directors are exposed to continuous training and education about the Group, the business line segments, products, legal and regulatory changes impacting operations. Training and education sessions are multimodal being comprised of quarterly Board Presentations from senior management, web based training on a variety of governance, compliance and risk based areas of concentration, and internal and external seminars on industry related matters. In addition each year the Board are engaged by senior management on strategic industry initiatives.

Attendance Record for Directors	Annual General Meeting SGJL	Board Meeting SGJL	Audit & Conduct Review SGJL & BNSJ	Executive & Enterprise Risk SGJL & BNSJ	Human Resources & Pension BNSJ
Number of Meetings	**1**	**7**	**4**	**4**	**5**
Jeffrey Hall	1	7	4	4	
Barbara Alexander	1	6	4		5
Eric Crawford	1	6	4		
Angela Fowler	1	7	4		4
M. Antony Hart	1	6		2	
Brendan King	1	5		1	
W. David McConnell	1	7		3	
David Noel	1	7		4	5
Leslie Reid	1	7			
Audrey Richards	1	6	4		
Evelyn Smith	1	7			5

Appointment, Term, Election and Retirement of Directors

All Directors automatically retire from the Board at each Annual General Meeting (AGM) and are elected or re-elected (as the case may be) by the shareholders of the Company on the recommendation of the Board.

Subject to annual retirement, Directors appointed to the Board may serve on the Board until the earlier of age 70 or the completion of a 15 year term from the date of their first appointment. Where a Director is first appointed to the Board at an age over 60 he or she may serve the earlier of a term of 10 years or age 75. A Director appointed prior to March 1, 2013 who has attained the age of over 70 but who has not completed a 15 year term from the date of first appointment may serve the unexpired period of the 15 year term.

The date of first appointment for Directors appointed prior to March 1, 2013, shall be the date on which the Director was first appointed to the Board of The Bank of Nova Scotia Jamaica Limited.

Upon the recommendation of the Executive and Enterprise Risk Committee or any sub-committee of the Board charged with corporate governance, the Board may:

1. In extenuating circumstances, consider and approve the extension of a Director's term beyond the stipulated period as is considered appropriate
2. Reserve the right not to recommend a Director with an unexpired term to the shareholders for re-election at the Annual General Meeting

A Director shall resign from the Board upon the expiration of the respective term (including any variation of the term recommended by the Executive and Enterprise or other Committee no later than six weeks prior to the date of the Annual General Meeting of the year in which the term expires.

Any Director employed to the Company shall cease to be a Director upon termination of any employment contract with the Company.

Director Compensation

Directors Compensation is paid on the basis of an Annual Retainer Fee which covers Directors' attendance and participation at Board and Committee Meetings throughout the course of each year.

Scotiabank Code of Conduct

The Board of Directors, the management and all employees of the Group, its subsidiaries and affiliates are required to observe the Group's Code of Conduct and in this regard, annual certification of due compliance is required.

The Compensation Structure for Directors includes an annual retainer fee and per meeting fees as reflected in the Table of Fees below:

Fee Structure	Annual Retainer	Annual Meeting Fee			Annual Retainer	Annual Meeting Fee
		Board	Audit & Conduct Review	Executive & Enterprise Risk		Human Resources & Pension
Expressed in JMD		**SGJL**			**BNSJ**	
Board Chairman	$2,700,000				$250,000	
Deputy Board Chairman	$2,400,000				$187,500	
Committee Chair (other than Audit Chair)	$1,500,000				$125,000	
Audit Committee Chair	$1,800,000				$125,000	
Audit Committee Members	$1,200,000				$125,000	
All Directors	$1,020,000				$125,000	
Other Directors		$360,000	$288,000	$216,000		$216,000

The Code of Conduct outline the Group's rules and expectations regarding proper business conduct and ethical behaviour of directors, officers and employees of the subsidiaries, including:

- Following the law wherever the Group and its subsidiaries do business
- Avoiding putting themselves or any of the subsidiaries in a conflict of interest position
- Conducting themselves honestly and with integrity
- Keeping the subsidiaries' transactions, communications and information accurate, confidential and secure, and all customers' assets safe; and
- Treating everyone fairly and equitably – whether customers, suppliers, employees or others who deal with the Group and its subsidiaries
- Honouring our commitments to the communities in which we operate

In keeping with the established Code of Conduct, Board members and senior management of the Group's subsidiaries are subject to the Insider Trading Policy in respect of trading in the securities of the Company, its subsidiaries and affiliates.

Board Annual Self Evaluation

The Group's Board and the Boards of its subsidiaries conduct an annual self-evaluation of performance during the year. Directors are required to complete a questionnaire which tests a wide range of issues regarding the effectiveness of the Board's governance.

The issues include the quality of the information provided by management, the effectiveness of the operation of any committee and a performance assessment of the Board and Chairperson during the year.

Additionally, the Chairperson of the Board and the Chairman of the Executive & Enterprise Risk Committee conduct one-on-one interviews with each Independent Director to solicit feedback on the performance of the Board and Management.

The results of the questionnaire are reviewed by the Executive & Enterprise Risk Committee and appropriate action taken to remedy any areas of concern. The process has been invaluable to the continuous improvement of the governance process.

Scotia Group remains committed to good corporate governance practices and continues to comply with the applicable laws and regulations, international best practices and guidance from the Jamaica Stock Exchange, Bank of Jamaica, the Financial Services Commission, and other regulators.

Board of Directors

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1. Jeffrey M. Hall

Jeffrey M. Hall is the Chief Executive Officer and also Director of Jamaica Producers Group Limited and has worked with that Company since 2002. He is the Chairman of Kingston Wharves Limited and a member of the Board of Directors of several companies including Blue Power Group Limited and the National Housing Trust. He has served as a Director of the Jamaica Stock Exchange and the Bank of Jamaica.

Mr. Hall holds a Juris Doctorate from the Harvard Law School, a Master of Public Policy from Harvard University, USA and a Bachelor of Arts degree in Economics from Washington University, USA.

Scotiabank Board Details:-

- Chairman: Scotia Group Jamaica Limited (SGJ) since March 4, 2016; The Bank of Nova Scotia Jamaica Limited (BNSJ) since March 3, 2016; (Director of both companies since November 26, 2007); Scotia Investments Jamaica Limited (SIJL) since November 27, 2014; BNSJ & SGJ Executive & Enterprise Risk Committee since March 8, 2017; Scotia Jamaica Life Insurance Company Limited, Conduct Review Committee, since May 9, 2018
- Director: Scotia Jamaica Life Insurance Company Limited, since May 9, 2018
- Member: BNSJ & SGJ Audit & Conduct Review Committee; SIJL Audit & Conduct Review Committee, SJLIC: Audit Review Committee; Investment, Loan & Risk Committee, and Conduct Review Committee

2. Barbara A. Alexander

Barbara A. Alexander is a practicing Attorney-at-Law since 1976. She is a Consultant of the law firm, Myers, Fletcher & Gordon. Her experience includes Banking and Finance, Project Finance, Real Estate and Commercial Law.

Ms. Alexander serves on the Board of Governors of the United Way of Jamaica, chairs the Board of the Arts Foundation of the Edna Manley College and is an Executive Member of Jamaica Forum of the International Women's Forum. She is a member of the Jamaica Bar Association and the Law Society of England, United Kingdom.

A graduate of The University of the West Indies, Ms. Alexander holds a Bachelor of Science Honours degree in Accounting.

Scotiabank Board Details:-

- Chair: The Scotia Jamaica Building Society; BNSJ, Human Resource & Pension Committee; SIJL, Human Resource & Pension Committee
- Director: Scotia Group Jamaica Limited (SGJ) since November 26, 2007; The Bank of Nova Scotia Jamaica Limited (BNSJ) since November 26, 2007; Scotia Investments Jamaica Limited (SIJL) since December 14, 2006
- Member: BNSJ & SGJ Audit & Conduct Review Committee and SIJL Audit & Conduct Review Committee

3. Eric Crawford

Eric Crawford is one of five Commissioners appointed, by the Governor General to serve on the Integrity Commission of Jamaica, an amalgamation of three legacy anti-corruption agencies. He is the Chairman of the Jamaica International Financial Services Authority (JIFSA), and immediate past president of the Public Accountancy Board.

He has had a distinguished career in public accounting, having been a partner with PricewaterhouseCoopers (PwC) Jamaica, for 26 years where he led the firm's local and Caribbean region tax practices.

Mr. Crawford is a lifetime member and fellow of the Institute of Chartered Accountants of Jamaica (ICAJ), of which he served as President between 1995 and 1997, as well as the UK Chartered Association of Certified Accountants where he was Jamaica's Representative on its International Assembly in 1997/98.

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Scotiabank Board Details:-

- Chairman: BNSJ Audit & Conduct Review Committee
- Director: Scotia Group Jamaica Limited (SGJ) since June 8, 2017 and The Bank of Nova Scotia Jamaica Limited (BNSJ) since June 8, 2017

4. Angela Fowler

Angela Fowler is an Attorney-at-Law and Senior Partner of the law firm, Livingston, Alexander & Levy. She practices in the areas of commercial law, estate and corporate tax planning, pensions and employee benefits schemes.

Mrs. Fowler is a graduate of the University of the West Indies. She is a member of the Jamaican Bar Association, Private Sector Organization of Jamaica, the International Pension and Employee Benefits Lawyers' Association and Deputy Chairperson of the Jessie Ripoll Primary School Board.

Scotiabank Board Details:-

- Director: Scotia Investments Jamaica Limited (SIJL) since July 25, 2007; Scotia Group Jamaica Limited (SGJ) and The Bank of Nova Scotia Jamaica Limited (BNSJ) since May 4, 2018
- Member: SIJL, Audit & Conduct Review Committee, and Human Resources & Pension Committee; BNSJ & SGJ, Audit & Conduct Review Committee; BNSJ, Human Resources & Pension Committee

5. Antony Mark Hart

Mark Hart is a founder, Executive Chairman and controlling shareholder of Caribbean Producers (Jamaica) Limited, a leading, fast growing food/service distributor listed on the Junior Market of the Jamaica Stock Exchange. He is a member of several Boards including We Care of Cornwall Regional Hospital, Itel-BPO Solutions and Alpha Angels Investor Group.

He holds a Bachelor of Science degree in History and Motion Picture Film Production, from the University of Miami and participated in Executive Education at Columbia University, USA. Among his most recent accomplishments is the documentary film, Rise Up.

Scotiabank Board Details:-

- Director, Scotia Group Jamaica Limited (SGJ) since August 5, 2016; The Bank of Nova Scotia Jamaica Limited (BNSJ) since August 5, 2016;
- Member BNSJ & SGJ Executive & Enterprise Risk Committee

6. Brendan King

Brendan King is Senior Vice-President, International Banking, The Bank of Nova Scotia (Canada) with responsibility for Scotiabank's personal, commercial, wealth management and insurance operations in all countries in the Spanish and English Caribbean, Central America, Uruguay and Thailand and also the Bank's investment in Bank of Xian, China.

Mr. King's career started with The Bank of Nova Scotia (Canada) in 1990 in Commercial Banking. He has held numerous positions including senior roles in the Cayman Islands, Trinidad and Tobago and the Bahamas. In 2004 he joined the Asia Pacific region as Country Head for Greater China and led the Thanachart Bank investment in 2007 and the acquisition of Siam City Bank in 2010 where he became SVP & Deputy CEO of the combined bank, Thailand's 5th largest.

He holds an M.B.A. in Finance and International Banking and a B.A. Business & Economics from York University, Toronto, Canada.

Scotiabank Board Details:-

- Director: Scotia Group Jamaica Limited (SGJ) since August 5, 2016 and The Bank of Nova Scotia Jamaica Limited (BNSJ) since August 5, 2016
- Deputy Chairman: SGJ and BNSJ since March 8, 2017
- Member: BNSJ Executive & Enterprise Risk Committee

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7. William David McConnell

Mr. W. David McConnell is co-managing Director and co-founder of Select Brands Limited a leading Wines and Spirits Company in Jamaica. Prior to the establishment of his business he held the position of Managing Director of Sales and Marketing for J. Wray and Nephew Limited with key responsibility for increasing profitability and developing brand positioning for the company's products both locally and internationally. Mr. McConnell sits on the Board of the Supreme Ventures Limited, a member of the Jamaica Stock Exchange and Ironrock Insurance Company, a member of the Junior Market of the Jamaica Stock Exchange. He is also a Governor on the Board of Directors of Hillel Academy.

He holds an M.B.A. in Marketing and Finance from the University of Miami and a B.A., in Marketing and International Business from Florida International University.

Scotiabank Board Details:-

- Director: Scotia Investments Jamaica Limited since August 2, 2016 Scotia Group Jamaica Limited and The Bank of Nova Scotia Jamaica Limited since May 4, 2018
- Member: BNSJ & SGJ Executive & Enterprise Risk Committee

8. David Noel

David Noel is the SVP & Head of the Caribbean Central & North and President & CEO, Scotia Group Jamaica Limited. He joined Scotiabank Jamaica in 2001 as an Attorney-at-law in the Corporate & Legal Department. He held several senior positions before moving to Toronto in 2008 on a leadership development programme.

Mr. Noel is an experienced banker, attorney-at-law and CFA Charterholder. He completed his Bachelor of Laws degree at the University of the West Indies (Cave Hill) and was called to the bar in Jamaica in 1997. He started his career as an Attorney at Myer Fletcher & Gordon

Scotiabank Board Details:-

- Director: Scotia Group Jamaica Limited (SGJ) since September 5, 2017, The Bank of Nova Scotia Jamaica Limited (BNSJ) since September 5, 2017, Scotia Investments Jamaica Limited (SIJL) since September 5, 2017; Scotia Jamaica Life Insurance Company Limited (SJLIC), The Scotia Jamaica Building Society;
- Member BNSJ & SGJ Executive & Enterprise Risk Committee and BNSJ Human Resource & Pension Committee

9. Leslie Reid

Leslie Reid is the Vice President, AML and Internal Controls, International Banking, The Bank of Nova Scotia (Canada) with responsibility for the strategic direction, leadership and oversight for AML & Internal Controls (Non-Financial Risks) ensuring business strategies, plans and initiatives are supported in compliance with governing regulations, internal policies and procedures across the Caribbean, Central America, and Uruguay.

Mrs. Reid's career started with The Bank of Nova Scotia (Canada) in 1987 in Retail Banking. She has held numerous positions including senior roles in Canadian Banking before joining International Banking in 2005. She moved to Puerto Rico in 2010 to lead the integration of the acquisition of RG Premier Bank into Scotia Bank de Puerto Rico. Since returning to Canada in 2012, she has held leadership roles in Integration and Change and Operations and Shared Services.

She holds an M.B.A. in Business Administration from Dalhousie University.

Scotiabank Board Details:-

- Director: Scotia Group Jamaica Limited and The Bank of Nova Scotia Jamaica Limited since May 4, 2018

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10. Audrey Richards

Audrey Richards is a Consultant with the Development Bank of Jamaica, with responsibility for the development of the ecosystem for Venture Capital and Private Equity in Jamaica. She has held executive leadership positions in the Jamaican capital markets and has consulted for both private and public sector institutions, including the Inter-American Development Bank, Bank of Jamaica, Jamaica Stock Exchange, and the Financial Services Commission.

Ms. Richards sits on the Boards of British Caribbean Insurance Company Limited, Caribbean Mezzanine Fund 1, St. Andrew High School Foundation and the Board of Governors of the St. Andrew High School.

She holds an MBA (Finance) from the De Groote Graduate School of Business, McMaster University, Canada, and a BSc (Special Chemistry) from the University of the West Indies, Mona.

Scotiabank Board Details:-

- Chair: Scotia Jamaica Life Insurance Company Limited (SJLIC), since August 16, 2018; Scotia Investments Jamaica Limited, Audit & Conduct Review Committee, since April 5, 2017;
  SJLIC, Investment, Loan & Risk Committee, since May 9, 2018
- Director: Scotia Investments Jamaica Limited (SIJL), since April 5, 2017; Scotia Group Jamaica Limited & The Bank of Nova Scotia Jamaica Limited, since May 4, 2018
- Member: BNSJ & SGJ Audit & Conduct Review Committee; SJLIC, Audit Committee and Conduct Review Committee

11. Evelyn Smith

Evelyn Smith manages the Tensing Pen Hotel in Negril, one of Jamaica's leading character hotels. She serves on the Board of the Caribbean Hotel and Tourist Association (CHTA) and has served on the Boards of Jamaica Tourist Board (JTB), Jamaica Vacations (Jamvac), Tourism Enhancement Fund (TEF), Advisory Council of the Passport Immigration and Citizen Agency (PICA), and Negril Chamber of Commerce.

Mrs. Smith has been actively involved in the tourism industry since the late 1980's, and is Past President of Jamaica Hotel and Tourist Association (JHTA). She was the recipient of the JHTA Hotelier of the Year Award in 2008 and awarded the Prime Minister's Medal of Appreciation for Service to Tourism in 2013.

A graduate of the prestigious Wellesley College in Massachusetts, Mrs. Smith holds a Bachelor's degree with majors in French and Spanish, and an MBA with Honours from Nova Southeastern University, USA.

Scotiabank Board Details:-

- Director: The Bank of Nova Scotia Jamaica Limited (BNSJ) since December 15, 2015
- Member: BNSJ Human Resource & Pension Committee

Executive Management Team

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1. David Noel
President and
Chief Executive Officer

2. Tricia Davies
Vice President,
Business Support

3. Yanique Forbes-Patrick
Vice President,
Public Affairs and
Communications

4. Richard Fraser
Vice President, Senior
Legal Counsel &
Corporate Secretary

5. Marcia Gaudet
Vice President,
Human Resources

6. Perrin Gayle
Senior Vice President,
Corporate and
Commercial Banking

7. Marcette McLeggon
Chief Risk Officer

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8. Adrian Stokes

Senior Vice President,
Head of Insurance and
Wealth Management

9. Audrey Tugwell Henry

Executive Vice President,
Retail Banking

10. Gary-Vaughn White

Vice President,
Treasury

11. Naadia White

Vice President,
Compliance

12. Shelee Wilkie Channer

Chief Auditor

13. Michelle Wright

Chief Financial Officer

Management's Discussion and Analysis

Above (left) – photo of Scotiabank Centre entrance in Kingston. Courtesy of Sotiabank Archives.

Above (right) – 3D rendering of Scotiabank Centre Branch 2019

Introduction

Scotia Group Jamaica Limited (Scotia Group), established in 1889 and headquartered in Kingston is one of the largest banking and financial service organizations in Jamaica, with assets in excess of $549 billion. We provide a diversified range of financial services through our subsidiaries to a wide base of personal, commercial, corporate and government clients across all sectors within the Jamaican economy, supported by a network of 31 branches, 271 ATMs, 1,650 team members and a state-of-the-art online and mobile banking platform.

Subsidiaries	Services Provided
The Bank of Nova Scotia Jamaica Limited	Deposits, Lending, Foreign Exchange and Payments
Scotia Jamaica Life Insurance Company Limited	Credit and Life Insurance, Retirement Accumulation and Payout
Scotia Investments Jamaica Limited	Investments, Structured Financing
The Scotia Jamaica Building Society	Mortgage Lending, Deposits

Today, Scotia Group continues to build on 130 years of unbroken service to our customers in Jamaica as we continue to execute our strategic plans to build a bank for the future, while contributing to the growth and development of Jamaica.

Our Operating Environment

Macroeconomic environment remains positive

Scotia Group operated in a stable macroeconomic environment for the financial year 2019. Economic indicators remained robust and reflected stability throughout the year.

Point-to-point inflation rate decelerated and fell below the BOJ's targeted range over the 12- month period to October 2019, recording 3.3% relative to 4.7% for the same period last year. This was mainly influenced by a decline in the *Electricity and Gas & Other Fuels* subdivision which was offset by an increase in the *Food & Non–Alcoholic Beverages* index, primarily due to vegetables and starchy foods which were negatively impacted by moderate price increases. The lower inflationary impulse was underpinned by lower domestic demand conditions, as well as lower oil prices. The inflation rate is forecasted to fall within the Bank of Jamaica's (BOJ's) targeted range given expectations of continued fiscal restraint by the Government of Jamaica, improvement in agricultural supply, and moderate changes in international commodity prices.

Jamaica's fiscal commitment to economic reform continues to improve supported by a positive macroeconomic framework specifically, the shift in inflation which has allowed the BOJ to ease monetary policy thus increasing the demand for credit and facilitating credit growth in the economy. Total value added as at June 2019 declined to 1.3% compared to 2.2% for the same period last year, primarily due to dry weather conditions that impacted the *Agriculture, Forestry & Fishing* sectors. Job growth remained relatively stable, with the unemployment rate as at July 2019 registering a historic low of 7.8%. Public debt continued on a downward trajectory, falling to 95% of GDP in the first quarter of the calendar year, Net International Reserves (NIR) at high levels and rating agencies Fitch and Moody's upgrading Jamaica's outlook to B2 stable from B3 positive.

Financial Sector Performance

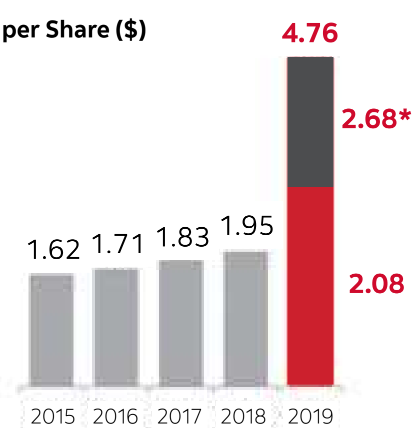
The financial sector continues to benefit from increased business activities and a more favorable interest rate environment for borrowing, which continue to support loan growth in the sector. As at June 2019 the overall growth in loans was 15.8% compared to 10.8% for the comparative period in 2018. Deposits grew 7.9% vs. 11.3% for 2018. Total assets expanded 9% compared to 11% for 2018. Additionally, as at June 2019, commercial banking sector loans to the private sector increased by 16.9% or $47.5 billion (8.1% or $21.1 billion in 2018), due mainly to growth in the *Construction, Distribution, Professional & Other Services*, and *Manufacturing* sectors. Credit quality for the sector continued to show improvements with non-performing loans representing 2.3% of total loans as at June 2019, relative to 2.6% for the same period last year. The Collective Investment Scheme industry (unit trusts and mutual funds) increased 8% to US$2.4 billion for the year ended October 31, 2019, as investors continued to reposition from repurchase agreements into these alternative investment vehicles. Additionally, gross life insurance premiums sold in the industry grew by 6.3% as at August 2019.

Overview of Financial Results

Total Revenue

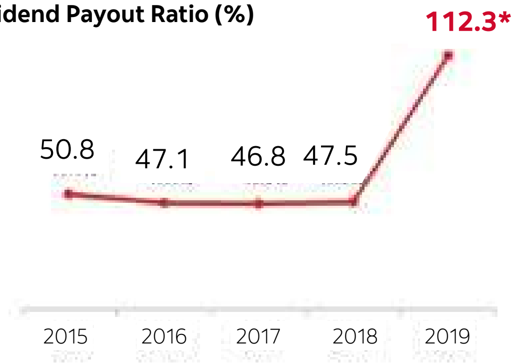
Scotia Group's net profit atributable to common shareholders was $13.2 billion, representing a return on average equity of 11.3%. These results translated to earnings per share of $4.24, increasing from $4.10 for the previous year. The dividend per share was $4.76, (special dividends of $2.68 and regular dividends of $2.08), representing a 112.3% dividend payout ratio.

Dividends per Share ($)



* Special dividends of $2.68 paid in 2019.

Dividend Payout Ratio (%)



* Dividend Payout Ratio of 49.07% excluding special dividends of $2.68.

Our results were achieved from our diversified business lines and our ability to seize opportunities as they became available, while managing the associated risks. Our core business remains strong and continues to perform well with strong growth in both retail and commercial loan volumes partially offset by contracting margins resulting from the stable macroeconomic environment. Additionally, our Treasury, Investment and Insurance business lines had solid performances which increased our non-interest revenues this year. Increases noted in our expenses were largely due to increased benefits for sales staff, and investment in technology for the future. These additional expenditures contributed to the slight decline in our productivity ratio from 52.1% last year to 53.3% for this financial year.

Scotia Group is one of the largest banking and financial services organizations in Jamaica, with assets of $549 billion and customer deposits of $313 billion as at October 31, 2019. The growth in our asset base was achieved through client acquisition and deepening relationships across all customer segments; corporate and commercial, consumer, as well as small and medium enterprises. The quality of our loan portfolio improved year over year, with non-accrual loans as a percentage of gross loans recorded at 1.8% compared to 2.0% for prior year.

Our Asset Management business in Scotia Investments continued to grow, with the total value of clients' funds in the Collective Investment Schemes growing by $6.9 billion or 10.9% for the year to $69.8 billion.

Financial Highlights	31-Oct-19 $millions	31-Oct-18 $millions
Total Assets	**549,002**	521,862
Investments	**138,998**	156,491
Loans (net of expected credit losses)	**205,625**	182,607
Deposits by the Public	**312,968**	287,948
Liabilities under repurchase agreements and other client obligations	**20,292**	23,829
Policyholders' Fund	**45,140**	45,292
Shareholders' Equity	**118,114**	115,648
Profit after Tax	**13,190**	12,771
Total Comprehensive Income	**18,104**	19,190
Return on Average Equity	**11.3%**	11.5%
Productivity Ratio	**53.3%**	52.1%
Operating Leverage	**-2.5%**	-2.0%
Earnings per share (cents)	**424**	410
Dividend per share (cents)	**476**	195

We continue to strengthen our capital base from profits generated internally, which grew by $2.5 billion or 2% year over year. Also, we have exceeded regulatory capital requirements in all our business lines. This strong capital position places us on a firm footing to support future growth opportunities and solidifies the resilience of our business and our ability to withstand market volatility, and further provides our valued customers and shareholders with confidence that we are building for the future.

Our Strategy

Our strategic priorities have been the roadmap for our continued success, which consist of four pillars, deeply focused on our customers and built on a strong risk culture. Our strategic pillars keep the focus on balancing key growth opportunities and structural transformation while delivering a superior experience to customers. These are the mainstays we believe will have the greatest impact and will drive long-term value creation for all stakeholders.

Customer Focus: We will continue to deepen primary relationships with our customers by placing them at the center of everything we do.

Our valued customers are our top priority and they are placed at the centre of the decision-making processes throughout our organisation. We take pride in understanding and anticipating their needs in order to provide them with the best advice, solutions and options. We continue to introduce strategies to deepen our relationship with customers and equip our employees to effectively resolve customer concerns at the first point of contact. We are committed to providing a superior and seamless customer experience through the enhancement of our distribution channels, to better serve all client segments. *The Pulse*, our customer feedback system has been yielding positive results and has indicated our customers' growing preference for the convenience of our digital channels which offer a more cost effective way to conduct transactions. Scotia Group remains focused on maintaining the trust and confidence of customers, while helping them to achieve their future goals and become financially better off.

Leadership: We are committed to creating and maintaining an inclusive environment, demonstrated through people and our practices that allow us to build leadership capacity and bench strength.

Developing and nurturing our talented employees is a high priority for Scotia Group. Our robust recruitment practices are designed to attract a diverse pool of high potential team members with the required knowledge and skills which are honed through our strong onboarding programmes. We remain committed to strengthening our leadership capability by grooming and growing talent from within to ensure the Group has the right people to drive superior performance. We are increasing our focus on performance management by enhancing our learning and development, coaching and performance measurement processes so that employees can reach their full potential. We consistently reinforce our culture of openness, collaboration, accountability, and personal development to maintain strong engagement and ensure that the Group continues to deliver the best results for all stakeholders.

Structural Cost Transformation: We are simplifying and optimizing our operations to better serve our customers and lower costs.

To build a more efficient, agile and better bank for the future we will continue to invest in levers such as technology, process improvements and organizational design to reduce complexity, improve productivity and our service offerings. We remain focused on our core businesses, recognizing our customers' need for convenience and speed and we will continue to optimize our distribution channels for enhanced customer satisfaction. Over the long-term, our intention is to reduce operational costs, deliver world class customer experience to our customers while increasing shareholders' value.

Digital Transformation: We are re-imagining the customers' experience through innovation to make it easier for them to do business with us.

We have been rolling out our Digital Roadmap with the objective of differentiating and enhancing customers' experience at all touch points. As digital trends and changing customer preferences re-shape the financial services industry, we continue to introduce more digital capabilities so that our customers can conduct business with us how, when and where they want. We have heightened our efforts to drive digital and mobile banking as well as other innovative solutions to improve outcomes for our customers.

Group Financial Performance

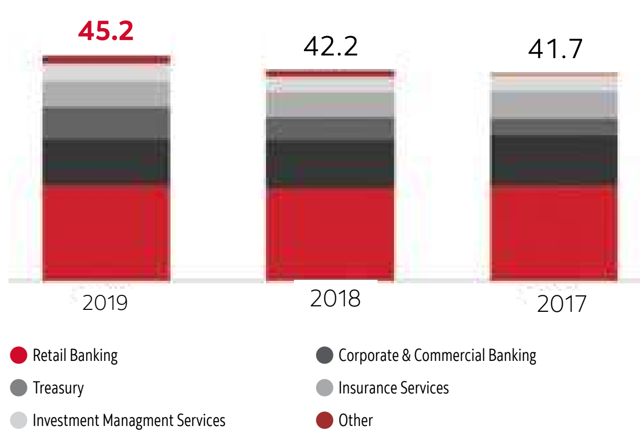
Total Revenue

Total revenue was $42.6 billion in 2019, compared to $40.3 billion for 2018. We achieved revenue growth in our retail, investment, insurance services, and treasury business lines, while our commercial revenues were impacted by lower interest rates partially offset by loan growth.

- **Retail (+3%):** Loan growth was led by Scotia Plan loans which increased by 17% or $9.1 billion and residential mortgages which grew by 13% or $4.0 billion. Our overall retail loan growth of $14.5 billion or 13.0% resulted from higher loan volumes.
- **Commercial (-3%):** Though there were improvements in our commercial loan balances, which grew by 14% year over year, as well as higher deposit and payment services in our merchant services, lower yields were the main contributor to the reduction in revenues in this business segment.
- **Insurance Services (+3%):** The growth in our insurance revenues was due to higher premium income year over year, improved sales productivity and gains from sale of securities, which was partially offset by lower actuarial reserve releases.
- **Investment Management (+10%):** Despite lower interest income, revenues in our investment management segment grew year over year due to growth in funds under management. We continued to pursue our strategy to grow our Asset Management segment which has resulted in lower net interest income, however we gained higher fees from the Asset Management segment of 18% year over year.
- **Treasury (+37%):** Higher foreign exchange trading volumes, driven by strategy changes and increased collaboration among the various business lines were the major drivers behind the year over year increase in revenues.

Revenues by Business Line

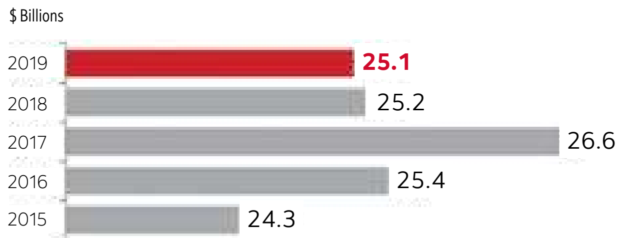
(Excluding expected credit losses) $ Billions



Net Interest Income

Loan volumes improved across our business lines, however, interest income was impacted by lower portfolio yields due to reducing interest rates, underpinned by a stable macroeconomic environment. We recorded net interest income of $25.1 billion, flat compared to the prior year. The Group's average earning assets increased by 4.1%, while the net interest margin (net interest income as a percentage of average earning assets) declined relative to the previous year by 24 basis points. Average yields on earning assets were lower by 40 basis points as a result of the lower interest rate environment.

Net Interest Income



Net Interest Margin Analysis ($'000)	2019	2018
Rate Variance	**(1,091,348)**	(2,121,960)
Volume Variance	**1,002,626**	685,635
Net Interest Income	**(88,722)**	(1,436,325)

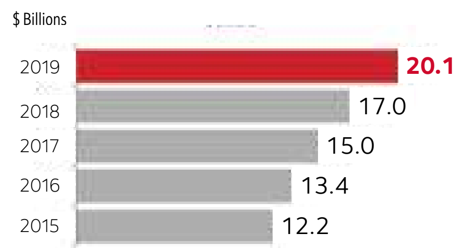
The year over year growth in volumes contributed a positive $1.0 billion to net interest income, partially offsetting the negative impact from declining yields of $1.1 billi

Other Income

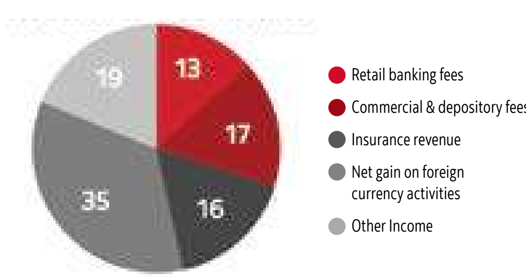
Other income, defined as all income other than interest income, was $20.1 billion for this fiscal year, up $3.1 billion or 18% from prior year.

- Insurance other income was up 13% and amounted to $3.3 billion compared to $2.9 billion for 2018, driven by growth in core insurance business. Of note, the number of policies sold was up 20% year over year.
- Fees and Commissions were down $22.3 million or 0.3% and totaled $8.1 billion for this financial year. Marginally lower net fees were due to the ongoing shift to online and mobile banking, driven by our continuous customer education on alternatives to reduce fees.
- Foreign Exchange revenues were up 74.0% and amounted to $7.0 billion compared to $4.0 billion for 2018. This performance was mainly driven by increased market activities.
- Net gains on financial assets were up 27% and amounted to $1.5 billion compared to $1.2 billion for the prior year. The growth was due to higher volumes from increased market activities, as well as fair value gains on the sale of securities.

Other Income



Sources of Non-Interest Revenues (%)

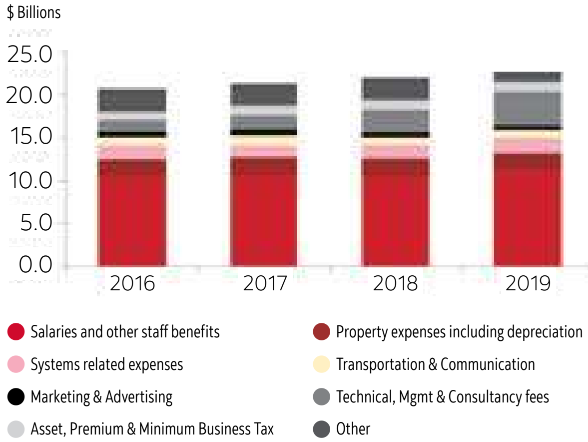


Non-Interest Expenses

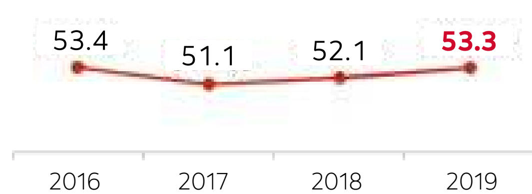
Non-Interest expenses for the year totaled $24 billion, up $2 billion or 9.5% year over year. Salaries and employee benefits which represent 46.2% of our operating costs, increased by $697 million or 6.7%, primarily due to increased incentives to our sales team. We have seen the positive impact of this increase from the solid growth in our loan portfolio and other business lines. We have been investing heavily in technology through our ATM software, online banking enhancements, security chips for credit cards, and network upgrades to support our digital strategy, along with increased compliance and outsourced services. These factors contributed to the increases noted in technical and support services. The outsourced services have resulted in reductions or lower rate of increases in the other expense lines. These increases were mainly offset by lower professional, legal and consultancy fees, down $224 million or 37%, transportation & communication expenses down $38 million or 4% and lower marketing & advertising expenditures which were $28 million or 6% lower than last year.

Our productivity ratio, which is calculated as total expenses as a percentage of total revenue (excluding expected credit losses), marginally increased from 52.1% to 53.3% in 2019, due to margin compression, and increased expenses which was driven primarily by structural transformation costs incurred during the year to drive long-term efficiency and support technological changes for the future.

Non-Interest Expenses



Productivity Ratio (%)



Taxes

For the year ended October 31, 2019 income tax expense totaled $5.3 billion, down $229.0 million or 4.1% from prior year. Our effective income tax rate reduced to 28.6% from 30.2% as a result of an increase in non-taxable income in 2019. When asset tax of $1.1 billion is added, the tax expense for the year equated to 32.8% of our pre-tax income.

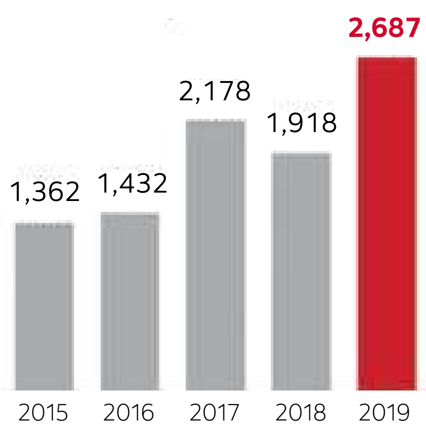
Taxation Charge ($'000)	**2019**	2018	2017
Profit Before Taxes	**18,482,724**	**18,292,628**	**18,201,458**
Current Income Tax:			
Income tax calculated at 33 1/3%	3,777,626	3,781,195	4,519,136
Income tax calculated at 30%	522,179	455,918	410,888
Income tax calculated at 25%	983,137	1,096,376	1,071,442
Adjustment for over provision of prior year's charge	(4,013)	(5,275)	–
	5,278,929	**5,328,214**	**6,001,466**
Deferred Income Tax	13,741	193,498	(207,298)
Taxation Charge	**5,292,670**	**5,521,712**	**5,794,168**
Effective Tax Rate	**28.6%**	**30.2%**	**31.8%**

Credit Quality

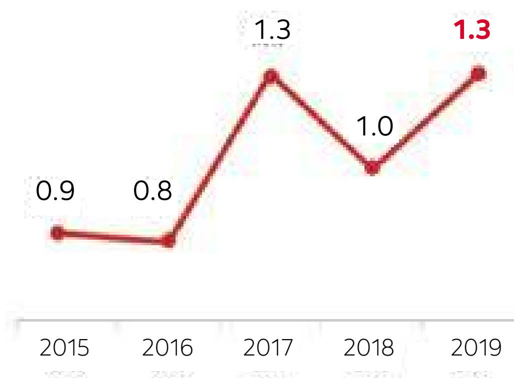
Expected credit losses on loans amounted to $2.7 billion, and were up $769 million or 40% from prior year impacted by the initial adoption of IFRS 9 (Financial Instruments), which resulted in a significant change to the Group's impairment methodology. Non-accruals loans (NALs) as at October 31, 2019 was $3.7 billion, up $35.3 million or 1% compared to prior year. NALs currently represent 1.77% of gross loans and 0.68% of total assets as at year end October 31, 2019. The Group's NALs as a percentage of gross loans and total assets remain well below the industry average.

Expected Credit Losses

$ Millions

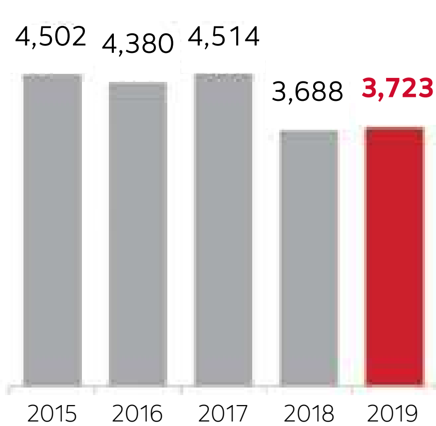


Expected Credit Losses (Profit & Loss) to Gross Loans (%)



Non-Accrual Loans

$ Millions



Non-Accrual Loans to Gross Loans (%)

Credit Quality *(continued)*

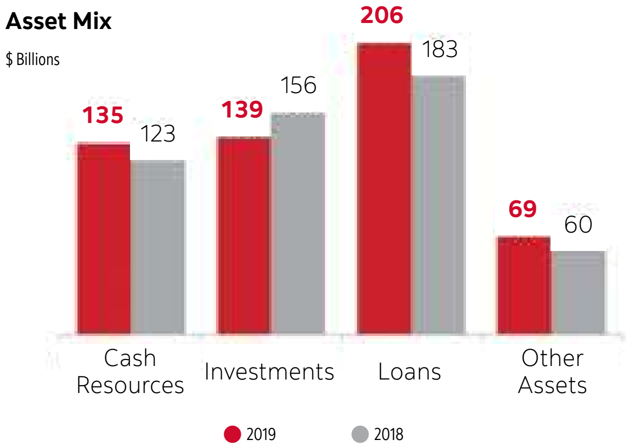
The total expected credit losses reflect higher levels of IFRS and Regulatory provisions. Losses which fall outside of the IFRS provisions are charged to the income statement, while those which meet the regulatory requirements but exceed the IFRS standards are credited to a non-distributable loan loss reserve. The table below shows the IFRS and regulatory provisions for the past three years and the expected credit loss for 2019.

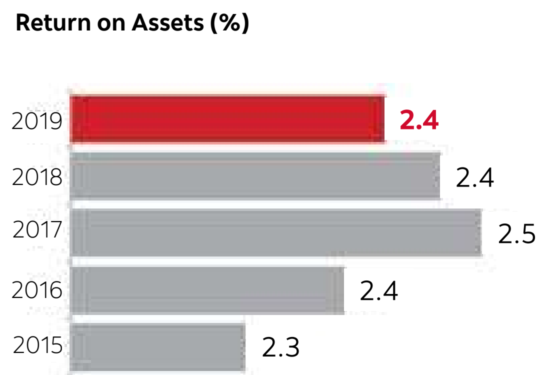
Loan Loss Provision Analysis ($'000)	**2019**	2018	2017	2016
Gross Loans	**209,775,324**	184,822,921	168,813,395	168,734,577
Non Accrual Loans	**3,723,273**	3,687,971	4,513,674	4,379,885
Expected Credit Losses (2016-2018: Impairment Allowance)	**4,149,940**	2,215,663	2,319,804	1,907,797
Loan Loss Reserve	**2,304,057**	2,377,843	2,687,050	3,143,875
Total Regulatory Expected Credit Losses	**6,453,997**	4,593,506	5,006,854	5,051,672
IFRS Expected Credit Losses	**2.0%**	1.2%	1.4%	1.1%
IFRS Expected Credit Losses as a % of Non Accrual Loans	**111.5%**	60.1%	51.4%	43.6%
Total Regulatory Expected Credit Losses as a % of Gross Loans	**3.1%**	2.5%	3.0%	3.0%
Total Regulatory Expected Credit Losses as a % of Non Accrual Loans	**173.3%**	124.6%	110.9%	115.3%
Total Assets	**549,001,676**	521,862,287	490,882,681	477,391,654
Net Loans (after expected credit losses)	**205,625,384**	182,607,258	166,493,591	166,826,780
NAL : Gross Loans	**1.8%**	2.0%	2.7%	2.6%
NAL : Net Loans	**1.8%**	2.0%	2.7%	2.6%
NAL : Total Assets	**0.7%**	0.7%	0.9%	0.9%

Group Financial Condition

Assets

Total assets increased by $27 billion or 5.2% to $549 billion as at October 31, 2019. The growth in our asset base was driven by a 13% increase in our loan portfolio, as well as a $9.4 billion or a 16% increase in other assets resulting from higher retirement benefit assets in our pension scheme. These increases were offset by reduction in our stock of investment assets which fell by $17.5 billion or 11%, due to lower balances being held in our Investment Company, as well as sale of securities used to fund our regular and special dividend payments during the year.





Cash Resources

Cash resources held to meet statutory reserves and the Group's prudential liquidity targets stood at $135.0 billion as at October 31, 2019, up $12.2 billion or 10% from $122.8 billion last year. The growth was due to increased liquidity from inflows of retail and commercial deposits, and the general increase in market liquidity. We continue to maintain adequate liquidity levels to enable us to respond effectively to changes in cash flow requirements.

Investments

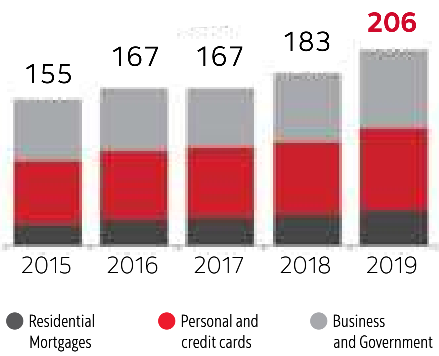
Total investment securities decreased by $17.5 billion or 11% to $139.0 billion, mainly due to lower balances being held in our investment company arising from an increase in our clients' off-balance sheet holdings.

Loans

Our loan portfolio grew by $23.0 billion or 13% this year, with loans, after allowance for expected credit losses, increasing to $205.6 billion. We had solid growth in our core business lines, with residential mortgages showing strong growth of 13%, personal and credit cards increasing by 13%, and business and government increasing by 14%.

Loan Portfolio (net of expected credit losses)

$ Billions



Liabilities

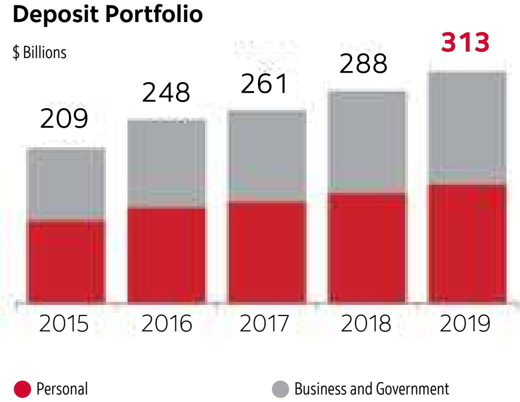
Total liabilities as at October 31, 2019 were $430.9 billion, an increase of $24.7 billion or 6%. The growth in our liabilities was as a result of increases in our retail and commercial customer deposit base.

Deposits

Deposits by the public increased to $313 billion, up from $288 billion last year. This increase represents $25 billion or 9% growth in core deposits which was reflected in higher inflows from our retail and private sector portfolio, as we expanded our customer base and deepened relationships with customers.

Deposit Portfolio

$ Billions



Obligations related to repurchase agreements, capital management and government securities funds

This mainly represents placements by clients of Scotia Investments in addition to other wholesale funding. Our strategic focus is to grow our mutual funds and unit trusts business lines, as such, the net of these obligations decreased by $3.5 billion or 14.9% compared to prior year. Of note, our fund and asset management portfolios grew by $21.7 billion or 13.2% compared to the prior year to close at $164.3 billion. Our suite of products offered continue to drive our performance, placing us as a dominant player in the collective investment scheme industry.

Funds Under Management Unit Trusts & Mutual Funds

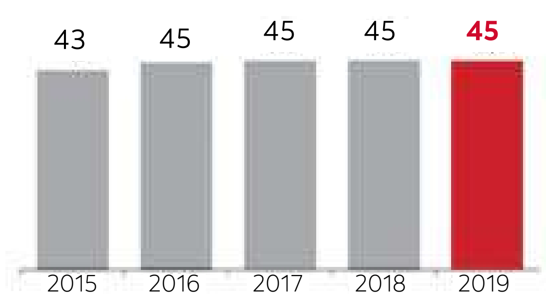
$ Billions

Policyholders' Fund

The Policyholders' Fund reflects the insurance contract liabilities held at Scotia Insurance for our ScotiaMINT product. As at October 31, 2019 the Fund stood at $45.1 billion, compared to $45.3 billion in 2018.

Policyholders' Fund

$ Billions



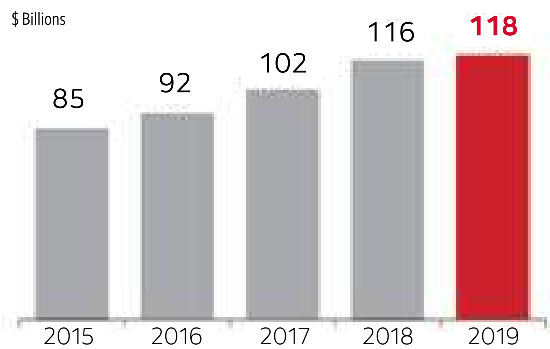
Shareholders' Equity

Total shareholders' equity grew to $118.1 billion in 2019, an increase of $2.5 billion or 2% more than the prior year driven mainly by internally generated profits.

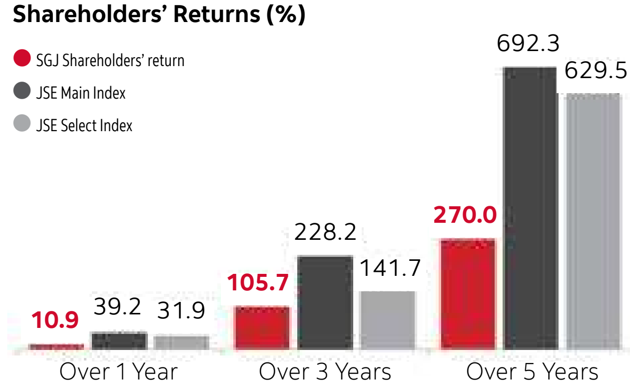
Shareholders' Return

Our total shareholder return for financial year 2019 was 10.9% (including both dividends and change in the price of the Group's common shares). Returns this year yielded 105.7% over the last 3 years and 270.0% over the last 5 years.

Shareholders' Equity



Shareholders' Returns (%)



Shareholder returns for the 3 and 5 year horizons were largely influenced by the 83.1% and 75.6% increase in the Jamaica Stock Exchange (JSE) Index in the 2015 and 2018 financial years, as well as 35.6% increase in this financial year. Scotia Group's closing share price grew by 2.3% this year. Our consistent dividend policy continues to be a key component of shareholder return with 21% of the 10.9% shareholder returns this year attributable to share price appreciation and 84.3% of the 5 year return of 270% came from dividends. We remain focused on achieving sustainable, long-term earnings growth and maintaining stable dividend income streams for our shareholders.

Shareholders' Returns – For the years ended	2019	2018	2017
Closing Market Price ($)	**54.95**	53.72	51.25
Dividends Paid ($)	**4.76**	1.95	1.83
Dividend Yield	**8.61%***	3.66%	4.28%
Change in Share Price	**2.29%**	4.82%	62.83%
Total Annual Shareholder Return	**10.90%**	8.48%	67.11%

* Dividend yield of 4.37% excluding special dividends of $2.68 paid in 2019.

Capital Management

Scotia Group is committed to retaining a strong capital base to support the risks associated with its business lines, ensuring the safety of customers' funds and fostering investor confidence. This policy also allows the Group to take advantage of growth opportunities as they arise, and invest further in our core businesses to enhance shareholders' return.

The Group's capital management framework includes a capital adequacy assessment process to ensure that the Group is able to meet current and future risks and achieve its strategic objectives.

Regulatory Capital

Capital ratios are a means to monitor the capital adequacy and the financial strength of financial institutions. Capital adequacy standards for Jamaican financial institutions are regulated by the Bank of Jamaica for Deposit Taking Institutions and the Financial Services Commission for Securities Dealers and Insurance Companies. These standards are largely guided by international criteria set by the Basel Committee on Banking Supervision (BCBS).

Capital Adequacy	2019 Capital Adequacy Ratio	2018 Capital Adequacy Ratio	Regulatory Requirement	Excess over Regulatory Requirement
Banking and Building Society	17.0%	18.0%	10.0%	7.0%
Investment Management	40.9%	32.4%	10.0%	30.9%
Life Insurance	460.0%	703.0%	150.0%	310.0%

We continue to exceed regulatory capital requirements in all our business lines.

Business Outlook

Jamaica has successfully completed its economic reform programme, supported by a US$1.64 billion Stand-By Arrangement from the IMF. The country's strong ownership, as well as the government's commitment to reform implementation have resulted in a stronger and more stable economic environment over the past year as evidenced by the major macroeconomic indicators trending in a positive direction. This was reflected in the upgrade in the credit rating for Jamaica by all three major credit rating agencies over the past year, which is an indication of greater confidence in the market.

The favorable rating was supported by positive trends in the fiscal agenda which saw GOJ attaining wage/GDP target of 9% and debt/GDP ratio falling below 100%. The outcome in the latter is the lowest recorded in approximately 19 years, which has been supported by a strong liability management programme, consistent fiscal and primary balance surplus outturns as GOJ improved its tax collection mechanisms and maintained tight expenditure controls. These measures are indicative of the GOJ's continued commitment to fiscal prudence and signals fiscal certainty to the wider market.

There was increased volatility in the foreign exchange market resulting from heightened activities during the year, while support from the Bank of Jamaica via reserves (BFIXTT mechanism) and inflows from remittances and tourism, are expected to counterbalance the increased demand pressures. The GOJ continued to create a supportive investment environment by reducing stamp duty and transfer tax rates and the removal of the asset tax for non-financial institutions. This move is expected to provide greater stimulus for growth and investment in all areas of the economy. The record low interest rate environment, continued reduction in the unemployment rate, and growth in major economic industries have also augured well for increased investment opportunities. Moderate levels of liquidity in the local market is expected to maintain downward pressure on local interest rates which will provide further support to the investment agenda in upcoming periods providing greater enhancements to economic growth. These circumstances continue to drive competition in the financial industry.

The Group understands that an ever evolving customer base forces financial institutions to fundamentally change the way they do business in light of the digital revolution and mounting market competition. In response to these continuous industry shifts, our focus will be on our core business and utilizing our full range of products across our business lines to identify and provide enhanced solutions to satisfy our customers' needs, demands and expectations. We will continue to enrich the experience of our customers by offering them greater speed and convenience in our service delivery, as we continue to improve our operational efficiency through our digital and alternate banking channels.

We expect that our retail loans will continue to grow given favourable market conditions. We also anticipate that our Commercial and Small Business customers will continue to grow their operations as they seek to benefit from the positive macroeconomic environment. We will capitalize on opportunities as they arise, and continue to support these businesses by assisting them to meet their financial goals.

Our people continue to be the dominant force behind our operational activities and we will continue to improve our workforce transformation by integrating our people, processes and technology to improve efficiency and better serve our customers, as our success depends on the immeasurable contribution of our valued team members.

We have begun renovations on our head office branch which will incorporate digital technology to create a new world class banking experience for our customers. We will continue our thrust to remain the financial partner of choice, leveraging our growing global footprint as well as our team of expert professionals, to offer a wide range of tangible solutions to our customers while delivering superior customer experience for the benefit of all our stakeholders.

We are optimistic about our business prospects in the year ahead as the Group is well positioned to capitalize on opportunities that will be created from the positive economic trends while managing the associated risks. We will maintain a disciplined approach in the execution of our strategic agenda, which will persistently drive long-term shareholder value for the future.

Risk Management

Above (right) – photo of Port Antonio branch exterior from 1960.
Courtesy of the Scotiabank Archives.

The role of risk management has expanded, however the focus of risk management continues to be to minimize exposure, protect the Group's assets while working collaboratively with other key stakeholders to increase shareholder value. The Group's risk management activities are geared towards ensuring that there is an appropriate balance between risk and reward and that the outcomes of risk-taking activities are consistent with the Group's strategies and risk appetite.

Risk Management Principles

Risk-taking and risk management activities across the enterprise are guided by the following principles:

- Risk and Reward – business decisions are consistent with strategies and risk appetite
- Understand the Risks – all material risks to which the Group is exposed including financial and non-financial are identified and managed
- Forward Thinking – emerging risks and potential vulnerabilities are proactively identified
- Shared Accountability – every employee is responsible for managing risk
- Customer Focus – understanding our customers and their needs is essential to all business and risk decision making
- Protect our Brand – all risk taking activities must be in line with the Group's risk appetite, Code of Conduct, Core Values and policy principles
- Compensation – performance and compensation structures reinforce the Group's values and promote sound risk taking behavior

Risk Management Framework

Scotiabank has a robust, disciplined risk management framework supported by a strong risk management culture where risk management is a responsibility shared by all of the Group's employees.

This framework is subject to constant evaluation to ensure that it meets the changes in the markets in which the Group operates, including regulatory standards and industry best practices.

The Group's risk management framework is applied on an enterprise-wide basis and consists of five key elements:

Risk Governance

The Group has a well-established risk governance structure, with an active and engaged Board of Directors supported by an experienced senior management team and a centralized risk management group that is independent of the business lines. Decision-making is highly centralized through a number of senior and executive risk management committees.

Risk Appetite

The Group's Risk Appetite Framework (RAF) articulates the amounts and types of risk the Group is willing to take in order to meet its strategic objectives. The RAF consists of the identification of risk capacity, a risk appetite statement and risk appetite measures. Together, the application of these components help to ensure the Group stays within appropriate risk boundaries, finds an optimal balance between risk and return and assists in nurturing a healthy risk culture.

Risk Management Tools

Effective risk management includes tools that are guided by the Group's Risk Appetite Framework and integrated with the Group's strategies and business planning processes. Risk management tools are regularly reviewed and updated to ensure consistency with risk-taking activities, and relevance to the business and financial strategies of the Group.

Risk Identification & Assessment

Effective risk management requires a comprehensive process to identify risks and assess their materiality. The Group's principal risk types are reviewed regularly to ensure they adequately reflect the Group's risk profile.

Risk Culture

The Group's risk culture is influenced by numerous factors including the interdependent relationship amongst the Group's risk governance structure, risk appetite, strategy, organizational culture, and risk management tools.

Risks are managed within the framework of policies and limits that are approved by the Board of Directors. The Board receives reports on a quarterly basis on risk exposures and performance against approved limits. Senior management committees meet periodically and provide oversight of the various risks; while the Group's Risk Management Units provide independent oversight of the significant risks of the Group.

Three Lines of Defence

Effective risk management requires that every employee becomes a risk manager and is responsible for managing risks. Scotia Group's risk management framework is predicated on the three lines of defence model.

Within this model:

- **First Line:** As the first line of defence the Business Lines identify, own, assess and manage the risks
- **Second Line:** Risk Management units and other control functions provide independent oversight and objective challenge to the first line of defence, as well as measuring, monitoring, reporting and control of risk
- **Third Line:** Internal Audit Department provides assurance that control objectives are achieved by the first and second lines of defence

Principal Risk Types

Financial Risk

These risks are directly associated with the Group's primary business and revenue generating activities. The Group understands these risks well and takes them on in order to generate sustainable, consistent and predictable earnings. Financial risks are generally quantifiable and are relatively predictable. The Bank has higher risk appetite for financial risks which are considered to be a fundamental part of doing business; but only when they are well understood, within established limits, and meet the desired risk and return profile.

Credit Risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Group. Credit risk arises in the Group's direct lending operations, and in its funding, investment and trading activities where counterparties have repayment or other obligations to the Group.

The Group's Risk Management Units develop the credit risk management programme and credit risk policies that detail, among other things; the credit risk rating systems and associated parameters, the delegation of authority for granting credit, the calculation of the allowance for credit losses, and the authorization of write-offs. The Board reviews and approves the Group's Credit Risk Policy and key credit risk related documents and limits.

The Group's counterparty credit risk taking activities include Securities Financing Transactions (SFTs), such as repurchase/reverse repurchase transactions and securities borrowing/lending. These types of risk taking activities give rise to counterparty credit risk. The Counterparty Credit Risk Management Framework and Credit Risk Policy describe the approach taken to manage counterparty credit risk.

Market Risk

Market risk is the risk of loss from changes in market prices and rates (including interest rates, credit spreads, equity prices, and foreign exchange rates), the correlations among them, and their levels of volatility.

Market risk exposures primarily come from the Group's investment and funding activities, with exposures managed through the Group's asset-liability management processes. Exposures also come from the Group's trading activities; with policies, processes and controls designed to achieve a balance between pursuing profitable trading opportunities and managing earnings volatility. These activities are primarily customer focused, but also include a proprietary component. In its trading activities, the Group primarily buys and sells currencies, equities and bonds for its customers.

The key exposures arising from these activities are:

Interest Rate Risk

The Group actively manages its interest rate exposures with the objective of enhancing net interest income within established risk tolerances. Exposures are managed to control the risk of changes in interest rates to income and the economic value of shareholders' equity. Interest rate exposures in individual currencies are also controlled by gap limits.

Interest rate risk exposure is generally based on the earlier of contractual re-pricing or maturity of the Group's assets and liabilities. Certain assets and liabilities without a fixed maturity (such as credit cards and savings deposits) are assigned a maturity profile based on the longevity of the exposure.

Further details on the interest rate risk exposure for the Group are summarized in Note 48 (c) (i) of the Financial Statements.

Foreign Currency Risk

This arises from foreign currency operations and is typically mitigated by financing foreign currency assets with borrowings in the same currencies.

The foreign currency risk exposure for the Group is summarized in Note 48 (c) (ii) of the Financial Statements.

Credit Spread Risk

This arises from investment portfolios that the Group holds to meet liquidity and statutory reserve requirements and for investment purposes. Debt investments primarily consist of government and corporate bonds. The majority of these securities are fair valued using prices obtained from external sources.

Liquidity Risk

Liquidity risk is the risk that the Group is unable to meet its financial obligations in a timely manner at reasonable prices. Financial obligations include liabilities to depositors, settlement of securities borrowing and repurchase transactions, and lending and investment commitments.

Effective liquidity risk management is essential in order to maintain the confidence of depositors and counterparties, and to enable the core businesses to continue to generate revenue, even under adverse circumstances.

The key elements of the liquidity risk framework are:

- **Measurement and modeling** – the Group measures and forecasts cash inflows and outflows, including off-balance sheet cash flows by currency on a daily basis; and runs regular stress tests to assess the sufficiency of their stock of liquid asset resources under stressed conditions.
- **Contingency planning** – the Group maintains a liquidity contingency plan that specifies an approach for analyzing and responding to actual and potential liquidity events. The plan outlines the governance structure for the management and monitoring of liquidity events, processes for effective internal and external communication, and identifies potential counter measures to be considered at various stages of an event.
- **Funding diversification** – the Group actively manages the diversification of its deposit liabilities by source, type of depositor, instrument, and term. Funding source concentrations are regularly monitored and analyzed against established limits. The principal sources of funding are capital, core deposits from retail and commercial clients through the branch network, and wholesale funding.
- **Core liquidity** – the Group maintains a pool of highly liquid, unencumbered assets that can be readily sold, or pledged to secure borrowings, under stressed market conditions or due to company specific events.

Non- Financial Risk

Non-financial risks could directly or indirectly affect the Bank's primary business and revenue generating activities. They are inherent to the Group's businesses, and if not managed properly, could have significant operational, strategic, business, and/or reputational consequences. Unlike financial risks, these core risks are less predictable and are more difficult to define and measure. The Bank has low risk appetite for core risks and mitigates these risks through robust internal controls and processes.

Operational Risk

Operational risk is the risk of loss, resulting from people, inadequate or failed internal processes and systems, or from external events. Operational risk includes third party risk management and legal risk but excludes strategic risk and reputational risk. Operational risk in some form exists in each of the Group's business and support activities and can result in financial loss, regulatory sanctions and the damage to the Group's reputation.

Operational risk losses can be catastrophic and as such require close monitoring. To this end, the Group has policies, processes and assessment methodologies to ensure that operational risks are appropriately identified and managed with effective controls. This includes a senior management Non-Financial Risk and Internal Controls Committee chaired by the CRO, and the Operational Risk function within the Group's risk management unit which oversees the identification, assessment and analysis of operational risk, and reporting on actual loss events.

Technology, Information and Cyber Security Risk

Information Technology (IT) risk refers to the likelihood of failures or deficiencies related to the IT environment that may result in loss or other negative impact to the Group. Cybersecurity risk is a sub-discipline of IT risk, and refers to the protection of information assets by addressing threats to information processed, stored, and transported by internetworked information systems.

The increase in Technology, Information and Cyber Security Risks has impacted financial institutions and other businesses in Jamaica and globally. The continuous evolution of, and access to various technologies have facilitated the increase in volumes and the sophistication level of the ever lurking threats.

The era of digitization has led to the continued development and deployment of mobile and Internet banking platforms. While these changes to the technological environment simplify transactions for the Group's customers, and facilitate the receipt of leading applications, processes and services from third parties they could be subject to attacks, breaches or other compromises. Occurrences like these can result in disruption to operations, misappropriation or unauthorized release of confidential, financial or personal information, as well as fines, sanctions, and reputational damage. In order to protect key systems and critical assets, the Group proactively monitors and manages these potential risks and continuously updates and refines programmes as new threats emerge. Additionally, the Group has the necessary insurance coverage in place to mitigate and minimize potential losses associated with cyber incidents.

The Group also trains and sensitizes employees and customers about the increasing levels of security threats faced on a daily basis. Our employees complete mandatory annual training around cyber security. These trainings are facilitated through various channels such as internal and external workshops, online lectures and presentations. Awareness programmes for our customers are delivered by our Marketing department through bulletins, print media and digital channels. These programmes are geared towards educating our customers about best practices, dos and don'ts. As part of our continued efforts to reduce cyber security risks, the necessary measures have been taken to have protection guidelines for our ATMs and vestibules.

Data Risk

The risk, whether direct or indirect, to data that is used to support the Group's ability to make informed decisions and develop accurate reporting and analytics for the Group, including the Board, senior management and regulators, or for customer facing and/or marketing purposes. Risks to which the Group is exposed include data management, data taxonomy, metadata breaches or data that is incomplete, inaccurate, invalid, untimely and/or inaccessible.

To ensure robust governance and oversight, the Group has a Data Governance Framework and policy which ensures that the outcomes of the data management activities fulfill all regulatory requirements, align to industry best practices, and enable the Group to manage the key components of data governance used to support decision making.

Environmental risk

Environmental Risk refers to the possibility that environmental concerns involving the Group or its customers could affect the Bank's financial performance.

The Group's Environmental Policy outlines key principles that the Group uses when managing matters relating to potential environmental risks and considerations. The Environmental Policy instructs lending practices, supplier agreements, the management of real estate holdings, and external reporting practices. It is complemented with other policies and practices specific to individual business operations.

Insurance Risk

Insurance Risk is the risk of potential financial loss due to actual experience being different from that assumed in the pricing process of insurance products.

Scotia Jamaica Life Insurance Company (SJLIC), the Group's insurance subsidiary, engages in insurance underwriting activity. These activities are guided by an Insurance Risk Policy and Insurance Risk Management Framework which influences and guides SJLIC in its governance and risk management practices. SJLIC's Board of Directors provide oversight and approval of the SJLIC's insurance risk policies and risk appetite statement.

Reputational Risk

Reputational risk is the risk that negative publicity regarding the Group's conduct, business practices or associations, whether true or not, will adversely affect its revenues, operations or customer base, or require costly litigation or other defensive measures.

The Group's Reputational Risk Policy, and applicable procedures are used to manage suitability risk, reputational and legal risk specific to structured finance transactions. Throughout the enterprise, reputational risks are managed and controlled by the use of codes of conduct, governance practices and risk management programmes, policies, procedures and training. All directors, officers and employees have a responsibility to conduct their activities in accordance with the Group's Code of Conduct, and in a manner which minimizes reputational risk. The activities of the Legal, Corporate Secretary, Public, Corporate Affairs and Compliance departments are geared towards the management of reputational risk.

Strategic Risk

Strategic Risk is the risk that the enterprise, business lines or corporate functions will make strategic choices that are poorly executed and or ineffective, or insufficiently resilient to changes in the business environment.

The ultimate responsibility for the oversight of strategic risks lies with the Board of Directors. On an annual basis, the Group uses a robust strategic planning and approval process to formulate its strategic plans.

On an ongoing basis, Heads of Business Lines and Control Functions identify, manage, and assess the internal and external risks which could impede the achievement, or progress of strategic imperatives. The executive management team meets regularly to evaluate the effectiveness of the Group's strategic plan, and where necessary make amendments.

Shareholdings

Scotia Group Jamaica Limited – As at 31 October 2019

Top Ten Largest Shareholders*

Rank	Shareholder	Holdings*
1	SCOTIABANK CARIBBEAN HOLDINGS LIMITED	2,233,403,384
2	SAGICOR POOLED EQUITY FUND	63,241,902
3	NATIONAL INSURANCE FUND	57,924,069
4	SJIML A/C 3119	55,725,439
5	RESOURCE IN MOTION	31,257,242
6	NCB INSURANCE CO. LTD A/C WT109	24,291,176
7	GRACEKENNEDY PENSION FUND CUSTODIAN LTD	20,897,463
8	ATL GROUP PENSION FUND TRUSTEES NOMINEE LTD	16,504,778
9	SAGICOR SELECT FUNDS LIMITED - (CLASS B' SHARES) FINANCIAL	13,487,986
10	JCSD TRUSTEE SERVICES LTD - SIGMA EQUITY	12,792,269

*As at 31 October 2019

Shareholdings of Directors, Senior Managers and Connected Parties*

Directors	Total Shareholdings (Units)	Direct (Units)	Connected Parties (Units)
ALEXANDER, BARBARA ANN	108,000	108,000	0
CRAWFORD, ERIC	45,000	45,000	0
FOWLER, ANGELA	47,760	0	47,760
HALL, JEFFREY MCGOWAN	40,000	0	40,000
HART, ANTONY MARK	24,960	24,960	0
KING, BRENDAN	0	0	0
NOEL, DAVID	40,000	0	40,000
MCCONNELL, WILLIAM DAVID	265,248	0	265,248
REID, LESLIE	0	0	0
RICHARDS, AUDREY	5,000	5,000	0
SMITH, EVELYN	0	0	0
Senior Managers			
ANDERSON, YVETT	109,958	55,835	54,123
BRIGHT, ALSTON CARL	290,895	174,195	116,700
BUCKNOR, DAYNE	17,106	17,106	0
DANIEL, KIYOMI	0	0	0
DAVIES, TRICIA	0	0	0
FORBES-PATRICK, YANIQUE	0	0	0
FRASER, RICHARD	0	0	0
GAUDET, MARCIA	0	0	0
GAYLE, PERRIN	0	0	0
HARVEY, VINCENT AGUSTUS	13,945	9,045	4,900
HEYWOOD, NADINE	17	17	0
MAIR, HORACE CRAIG	65,663	65,663	0
MAUCIERI, JEAN	0	0	0
MCLEGGON, MARCETTE	241,621	241,621	0
NELSON, MORRIS	643	643	0
SPENCE, DEBRA	0	0	0
STOKES, ADRIAN	0	0	0
SYLVESTER, COURTNEY A	403,141	278,377	124,764
TUGWELL HENRY, AUDREY	29,996	0	29,996
WHITE, GARY-VAUGHN	121,776	121,776	0
WHITE, NAADIA	8,522	8,522	0
WILKIE-CHANNER, SHELEE NADINE	144,177	123,129	21,048
WRIGHT, MICHELLE	64,443	64,443	0

*As at 31 October 2019

Scotiabank in the Community

Young People in the Community

- **Health and Well-Being**
  - **Live Healthy**
    - Nutrition & Safety
    - Sports & Active Living
  - **Stay Healthy**
    - Access to Medical Care
    - Healthcare Support
- **Education**
  - **Access to Education**
    - Financial, Physical & Digital Access
    - Educational Support
  - **Knowledge & Skills Development**
    - Financial Empowerment
    - Technology & Skills Development

Supporting Our Communities

Our focus on Young People in the Community gives consideration to their **Health, Well-Being** and **Education**.

During the year we continued to support our youth through programmes which enabled them to **Live Healthy**, have **Access to Education** and acquire **Knowledge & Skills Development**.

Live Healthy – Nutrition

Our major programme was the Scotiabank Nutrition for Learning Programme which impacts 12,000 students in 34 educational institutions in 14 parishes: - 30 schools and 4 homes for children with disabilities. During the year, we provided funding to the institutions to supplement their budgets for nutritious foods. We provided educational material to guide canteen chefs on food safety, sanitation and storage. Additionally, several schools cultivated and reaped from their vegetable gardens which were created by Scotia Volunteers.

Live Healthy – Sports & Active Living

The Scotiabank Kiddy Cricket Programme saw over 13,000 students from over 240 primary schools playing cricket and learning the game. A highlight was 96 boys and girls from 8 parishes playing cricket during the half time period of the West Indies versus India 2nd Test Match in August, at Sabina Park in Kingston. They were supported by the Scotiabank Volunteer Coaches. The Scotiabank Kiddy Cricket programme started in 2000 and has introduced the sport of cricket to thousands of students at the primary level.

Scotiabank has also partnered with Concacaf to develop youth sports in the region. The main programme resulting from this partnership is the Scotiabank Concacaf Next Play Football Cup. This competition involves 10 – 11 year old boys and girls from across the island vying for the Cup. The winners were the Holy Family Primary School from Kingston. The students and coaches were rewarded for their victory with a life changing trip to Chicago in July to watch Jamaica play at the Gold Cup. They were joined by the winning schools from the Bahamas, Barbados and Trinidad and Tobago where the Concacaf Next Play Football Cup was also held.

The Mount Pleasant Academy football team and coaching staff from St. Ann represented Jamaica in the Scotiabank Concacaf Under-13 Champions League held in San Jose, Costa Rica. This was the second year that Mount Pleasant Academy represented Jamaica in the league, which is in its 5th year. While they did not advance to the finals, the students were outstanding ambassadors for their school and country.

Access to Education

The Foundation continued its scholarship payments to ongoing ScotiaFoundation Shining Star Scholars, supporting just under 70 scholars to fund their high school education.

Consolidated Financial Statements

of Scotia Group Jamaica Limited
October 31, 2019

Above (left) – 3D rendering of Scotiabank Centre Branch 2019

Above (right) – photo of Black River branch interior from 19

Contents


23. Courtesy of the Scotiabank Archives.

KPMG
Chartered Accountants
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INDEPENDENT AUDITORS' REPORT

To the Members of
<u>SCOTIA GROUP JAMAICA LIMITED</u>

Report on the Audit of the Financial Statements

Opinion

We have audited the separate financial statements of Scotia Group Jamaica Limited ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), set out on pages 62 to 152, which comprise the Group's and the Company's statements of financial position as at October 31, 2019, the Group's and the Company's statements of revenue and expenses, comprehensive income, changes in stockholders' equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and the Company as at October 31, 2019, and of the Group's and the Company's financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and the Jamaican Companies Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
SCOTIA GROUP JAMAICA LIMITED

Report on the Audit of the Financial Statements (continued)

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Expected credit losses

The key audit matter	*How the matter was addressed in our audit*
Loans, net of allowance for expected credit losses (ECL), represent 37% or $206 billion of the Group's total assets and financial investments subject to ECL represent 24% or $131 billion of the Group's total assets. Allowance for ECL on loans of $4.1 billion and a charge of $2.6 billion has been recognised by the Group in respect of loans and other financial assets. The estimation of ECL on financial assets requires management to make significant judgements to determine the probabilities of default, exposures at the date of default and the expected losses in the event of default. Management is also required to make judgements about future economic scenarios and their impact on expected credit losses.	Our procedures in this area included the following: • Testing controls over the Group's impairment process, such as: (a) controls over the completeness and accuracy of the data used to determine the allowance for ECL. (b) management review of the recoverable value calculations. • Using our Financial Risk Modelling Specialists, evaluating the economic and mathematical assumptions used in the ECL models used by the Group, including the criteria used to determine a significant increase in credit risk.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
SCOTIA GROUP JAMAICA LIMITED

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

1. Expected credit losses (continued)

The key audit matter (continued)	*How the matter was addressed in our audit (continued)*
The combination of estimates and judgements increases the risk that management's estimate could be materially misstated. *[see notes 3(o) and 24 of the financial statements]*	Our procedures in this area included the following (continued): • Evaluating the reasonableness of economic assumptions and probabilities used in making adjustments for forward-looking information; • Assessing whether disclosures in the financial statements are adequate in respect of the Group's exposure to credit risk and measurement of allowances for ECL.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
SCOTIA GROUP JAMAICA LIMITED

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

2. Fair value of investments

The key audit matter	*How the matter was addressed in our audit*
Investment securities measured at fair value represent 24% of total assets of the Group. The valuation of the Group's investments requires significant estimation, as quoted prices are not available for some of these instruments. Valuation of these investments, although based on observable inputs, involves the exercise of judgement and the use of assumptions. Management used valuation techniques which require inputs such as market yields obtained from established yield curves. These judgements and assumptions could result in estimated fair values that are materially different from actual transaction values. *[see notes 3, 21, 25 and 49 of the financial statements]*	Our procedures in this area included the following: • Assessing and testing the design and operating effectiveness of the Group's controls over the determination and computation of fair values. • Challenging the reasonableness of yields/prices by comparing to independent third party pricing sources. • Assessing the reasonableness of significant assumptions used by such third-party pricing sources. • Involving our own valuation specialists to determine/obtain yields/prices of specific securities and comparing these to management's estimates. • Assessing the adequacy of the disclosures, including the degree of estimation involved in determining fair values.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
SCOTIA GROUP JAMAICA LIMITED

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

3. Valuation of policyholders' liabilities

The key audit matter	*How the matter was addressed in our audit*
Policyholders' liabilities represent 11% of the Group's total liabilities. Determining the settlement value of long-term policyholders' liabilities is an area that requires significant judgment. It involves the use of economic assumptions such as investment returns and discount rates, morbidity and mortality assumptions, maintenance expenses, lapse and withdrawals as key inputs in estimating these actuarially determined liabilities. The combination of assumptions and judgements increases the risk that management's estimate could be materially misstated. *[see notes 3(j), 4, 39, and 48(e), of the financial statements]*	Our procedures in this area included the following: • Testing the policy master file for completeness and accuracy of the underlying data used by management as inputs to the actuarial valuation. • Testing a sample of contracts to assess that the terms of contract agree to the data file provided by the management to the actuarial expert. • Assessing the objectivity, qualification, and experience of management's actuarial expert. • Involving our own actuarial specialist to assess whether the liabilities as determined by management's actuarial expert, fall within a reasonable range of our expectations, the assumptions are appropriate, changes to the product features are confirmed and the actuarial valuation has been performed in accordance with accepted and commonly used actuarial systems, methodologies and practices. • Assessing whether disclosures in the financial statements are adequate in respect of the Group's exposure to insurance risk.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
SCOTIA GROUP JAMAICA LIMITED

Report on the Audit of the Financial Statements (continued)

Key Audit Matters (continued)

4. Valuation of retirement benefits asset and obligations

The key audit matter	*How the matter was addressed in our audit*
The Group operates a defined benefit retirement scheme and provides other unfunded retirement benefits. Significant estimates are made in valuing the Group's retirement benefits asset and obligations. The valuations are considered to be a significant risk, as given the size of the assets and liabilities, small changes in the assumptions can have a material financial impact on the Group's financial statements. The key assumptions involved in calculating retirement benefit assets and liabilities are discount rates, inflation and future increases in salaries and pensions. The use of significant assumptions increases the risk that management's estimate can be materially misstated. *[see notes 3(u) and 30 of the financial statements]*	Our procedures in this area included the following: • Testing employee data provided by management to the actuarial expert. • Comparing the discount and the inflation rates used to independent sources. • Recomputing interest income and cost associated with retirement benefits. • Agreeing the scheme's assets to independent supporting information. • Assessing whether disclosures in the financial statements are appropriate in respect of the Group's retirement benefit arrangements.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
SCOTIA GROUP JAMAICA LIMITED

Report on the Audit of the Financial Statements (continued)

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS and the Jamaican Companies Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
SCOTIA GROUP JAMAICA LIMITED

Report on the Audit of the Financial Statements (continued)

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.

A further description of our responsibilities for the audit of the financial statements is included in the Appendix to this auditors' report. This description, which is located at pages 60-61, forms part of our auditors' report.

Report on additional matters as required by the Jamaican Companies Act

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion, proper accounting records have been maintained, so far as appears from our examination of those records, and the financial statements, which are in agreement therewith, give the information required by the Jamaican Companies Act in the manner required.

The engagement partner on the audit resulting in this independent auditors' report is Nigel R. Chambers.

KPMG

Chartered Accountants
Kingston, Jamaica

December 10, 2019

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
SCOTIA GROUP JAMAICA LIMITED

Appendix to the Independent Auditors' report

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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
SCOTIA GROUP JAMAICA LIMITED

Appendix to the Independent Auditors' report (continued)

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matters or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Year ended October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2019	2018
Net interest income and other revenue			
Net interest income, calculated using the effective interest method			
Interest from loans and deposits with banks		23,203,128	22,352,770
Interest from securities		4,525,460	6,058,328
Total interest income	7	27,728,588	28,411,098
Interest expense	7	(2,609,532)	(3,203,320)
Net interest income		25,119,056	25,207,778
Expected credit losses		(2,595,985)	(1,917,989)
Net interest income after expected credit losses		22,523,071	23,289,789
Other revenue			
Fee and commission income	8	16,033,300	14,894,138
Fee and commission expense	8	(7,928,559)	(6,767,110)
		8,104,741	8,127,028
Net gains on foreign currency activities	9(a)	6,953,520	4,001,556
Net gains on financial assets	9(b)	1,477,020	1,160,818
Insurance revenue	10	3,302,198	2,931,627
Gain on sale of subsidiary	38(b)	-	753,145
Other revenue	11	220,891	29,297
Total other revenue		20,058,370	17,003,471
		42,581,441	40,293,260
Expenses			
Salaries, pensions and other staff benefits	12	11,143,903	10,446,820
Property expenses, including depreciation		2,131,161	2,140,995
Amortisation of intangible assets	29	154,764	154,552
Asset tax		1,134,145	1,089,022
Other operating expenses		9,534,744	8,169,243
	13	24,098,717	22,000,632
Profit before taxation	14	18,482,724	18,292,628
Taxation	15	(5,292,670)	(5,521,712)
Profit for the year attributable to stockholders of the Company		13,190,054	12,770,916
EARNINGS PER STOCK UNIT (expressed in $) **attributable to stockholders of the Company**	16	4.24	4.10

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

Year ended October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2019	2018
Profit for the year		13,190,054	12,770,916
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit plan asset and obligations	30(a)(vi) & (b)(iii)	8,136,799	7,636,885
Taxation	37(a)	(2,712,266)	(2,545,628)
		5,424,533	5,091,257
Items that are or may be reclassified to profit or loss:			
Unrealised gains on investment securities		174,167	2,214,797
Realised gains on investment securities		(697,931)	(514,087)
Foreign operations – foreign currency translation		18,341	(11,166)
Expected credit losses on investment securities		(87,963)	-
		(593,386)	1,689,544
Taxation	37	82,589	(361,294)
		(510,797)	1,328,250
Other comprehensive income, net of tax		4,913,736	6,419,507
Total comprehensive income attributable to stockholders of the Company		18,103,790	19,190,423

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

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2019	2018
ASSETS			
Cash resources			
Cash and balances at Bank of Jamaica	17	70,052,340	69,070,417
Government and bank notes other than Jamaican	20	1,431,305	898,300
Due from other banks	18	37,072,701	17,573,229
Accounts with parent and fellow subsidiaries	19	26,442,800	35,221,037
	20	134,999,146	122,762,983
Financial assets at fair value through profit or loss	21	3,261,577	24,175
Pledged assets	22	15,670,497	21,433,179
Loans, net of allowance for credit losses	23	205,625,384	182,607,258
Investment securities	25	119,465,785	134,732,786
Government securities purchased under resale agreements	26	600,518	300,473
Other assets			
Customers' liabilities under acceptances, guarantees and letters of credit		13,494,138	13,232,396
Taxation recoverable		2,932,659	3,490,939
Sundry assets	27	2,516,305	2,428,094
Property, plant and equipment	28	5,827,844	5,303,898
Goodwill and intangible assets	29	785,655	961,914
Retirement benefits asset	30(a)	43,704,650	34,517,087
Deferred taxation	37(b)	117,518	67,105
		69,378,769	60,001,433
		549,001,676	521,862,287

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

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2019	2018
LIABILITIES			
Deposits by the public	31	312,968,147	287,948,379
Due to other banks and financial institutions	32	7,127,995	6,823,007
Due to ultimate parent company	33	2,014,202	3,311,000
Due to fellow subsidiaries	34	334,678	178,642
		322,445,022	298,261,028
Other liabilities			
Cheques and other instruments in transit	20	3,542,628	3,008,914
Acceptances, guarantees and letters of credit		13,606,718	13,232,396
Securities sold under repurchase agreements		-	31,152
Capital management and government securities funds	35	20,291,757	23,797,925
Other liabilities	36	6,839,399	6,436,777
Taxation payable		1,293,182	636,794
Deferred tax liabilities	37(b)	13,082,092	10,790,027
Retirement benefit obligations	30(b)	4,646,759	4,727,215
		63,302,535	62,661,200
Policyholders' liabilities	39	45,140,043	45,292,329
EQUITY			
Share capital	40	6,569,810	6,569,810
Reserve fund	41	3,249,976	3,249,976
Retained earnings reserve	42	45,891,770	37,891,770
Capital reserve	43	11,340	11,340
Cumulative remeasurement gains from investment securities	44	916,666	1,902,761
Loan loss reserve	45	2,304,057	2,377,843
Other reserves	46	9,964	9,964
Translation reserve		(5,084)	(23,425)
Unappropriated profits		59,165,577	63,657,691
Total equity		118,114,076	115,647,730
Total equity and liabilities		549,001,676	521,862,287

The financial statements on pages 62 to 152 were approved for issue by the Board of Directors and signed on its behalf on December 6, 2019 by:

Jeffrey Hall, Director

David Noel, Director

Eric Crawford, Director

Richard Fraser, Secretary

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

Scotia Group Jamaica Limited | Consolidated Statement of Changes in Stockholders' Equity

Year ended October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

		Attributable to equity holders of the Company									
	Notes	Share capital	Reserve fund	Retained earnings reserve	Capital reserve	Cumulative remeasurement result from investment securities	Loan loss reserve	Other reserves	Translation reserves	Unappropriated profits	Total
Balances at October 31, 2017		**6,569,810**	**3,249,976**	**31,891,770**	**11,340**	**565,980**	**2,687,050**	**9,964**	**(12,259)**	**57,457,935**	**102,431,566**
Profit for the year		-	-	-	-	-	-	-	-	12,770,916	12,770,916
Other comprehensive income:											
Remeasurement of defined benefit plan/obligations		-	-	-	-	-	-	-	-	5,091,257	5,091,257
Foreign currency translation		-	-	-	-	-	-	-	(11,166)	-	(11,166)
Unrealised gains on available-for-sale securities, net of taxes		-	-	-	-	1,704,950	-	-	-	-	1,704,950
Realised gains on available-for-sale securities, net of taxes		-	-	-	-	(365,534)	-	-	-	-	(365,534)
Total other comprehensive income		-	-	-	-	1,339,416	-	-	(11,166)	5,091,257	6,419,507
Total comprehensive income		-	-	-	-	1,339,416	-	-	(11,166)	17,862,173	19,190,423
Transfer to loan loss reserve		-	-	-	-	-	(309,207)	-	-	309,207	-
Transfer to retained earnings reserve		-	-	6,000,000	-	-	-	-	-	(6,000,000)	-
Transfer to unappropriated profits		-	-	-	-	(2,635)	-	-	-	2,635	-
Transactions with owners of the Company:											
Dividends paid	54	-	-	-	-	-	-	-	-	(5,974,259)	(5,974,259)
Net movement for the year		-	-	6,000,000	-	(2,635)	(309,207)	-	-	(11,662,417)	(5,974,259)
Balances at October 31, 2018		**6,569,810**	**3,249,976**	**37,891,770**	**11,340**	**1,902,761**	**2,377,843**	**9,964**	**(23,425)**	**63,657,691**	**115,647,730**
Cumulative effect of adopting IFRS 9		-	-	-	-	(456,957)	-	-	-	(493,768)	(950,725)
Adjusted balances at November 1, 2018		6,569,810	3,249,976	37,891,770	11,340	1,445,804	2,377,843	9,964	(23,425)	63,163,923	114,697,005
Profit for the year		-	-	-	-	-	-	-	-	13,190,054	13,190,054
Other comprehensive income:											
Remeasurement of defined benefit plan/obligations		-	-	-	-	-	-	-	-	5,424,533	5,424,533
Foreign currency translation		-	-	-	-	-	-	-	18,341	-	18,341
Unrealised losses on investment securities, net of taxes and provisions		-	-	-	-	(14,952)	-	-	-	-	(14,952)
Realised gains on investment securities, net of taxes		-	-	-	-	(514,186)	-	-	-	-	(514,186)
Total other comprehensive income		-	-	-	-	(529,138)	-	-	18,341	5,424,533	4,913,736
Total comprehensive income		-	-	-	-	(529,138)	-	-	18,341	18,614,587	18,103,790
Transfer from loan loss reserve		-	-	-	-	-	(73,786)	-	-	73,786	-
Transfer to retained earnings reserve		-	-	8,000,000	-	-	-	-	-	(8,000,000)	-
Transactions with owners of the Company:											
Dividends paid	54	-	-	-	-	-	-	-	-	(14,686,719)	(14,686,719)
Net movement for the year		-	-	8,000,000	-	-	(73,786)	-	-	(22,612,933)	(14,686,719)
Balances at October 31, 2019		**6,569,810**	**3,249,976**	**45,891,770**	**11,340**	**916,666**	**2,304,057**	**9,964**	**(5,084)**	**59,165,577**	**118,114,076**

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

Year ended October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2019	2018
Cash flows from operating activities			
Profit for the year		13,190,054	12,770,916
Adjustments for:			
Taxation charge	15	5,292,670	5,521,712
Depreciation	28	553,190	567,648
Amortisation of intangible assets	29	154,764	154,552
Expected credit losses		3,312,660	3,192,042
(Gain)/loss on sale of property, plant and equipment	11	(185,933)	1,878
Impairment of intangible assets		21,495	-
Gain on sale of subsidiary	38(b)	-	(753,145)
Increase in retirement benefits asset/obligation, net		(1,016,854)	(889,679)
		21,322,046	20,565,924
Interest income	7	(27,728,588)	(28,411,098)
Interest expense	7	2,609,532	3,203,320
		(3,797,010)	(4,641,854)
Changes in operating assets and liabilities			
Loans		(27,564,790)	(19,306,142)
Deposits by the public		21,538,375	33,348,951
Deposits with Bank of Jamaica maturing after ninety days		-	655,915
Policyholders' liabilities		(152,286)	121,173
Sundry assets, net		(88,211)	(353,783)
Other liabilities, net		402,622	788,052
Due to parent company and fellow subsidiaries		(1,129,504)	(599,113)
Assets held for sale, net		-	185,522
Accounts with parent and fellow subsidiaries		(2,067,568)	(6,324,460)
Financial assets at fair value through profit or loss		(3,224,853)	(15,608)
Guarantees and acceptances, net		1,322	-
Taxation recoverable		558,280	(916,791)
Retirement benefits asset/obligations		(114,366)	(126,569)
Amounts due to other banks and financial institutions		309,901	754,950
Statutory reserves at Bank of Jamaica		5,955,828	(3,379,069)
Securities sold under repurchase agreements		(30,744)	(20,527,216)
		(9,403,004)	(20,336,042)
Interest received		28,007,909	28,531,066
Interest paid		(2,650,886)	(3,329,467)
Taxation paid		(4,622,541)	(6,847,674)
Net cash provided by/(used in) operating activities (carried forward to page 68)		11,331,478	(1,982,117)

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

Year ended October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2019	2018
Cash flows from operating activities			
(brought forward from page 67)		11,331,478	(1,982,117)
Cash flows from investing activities			
Investment securities		14,528,339	(12,849,758)
Pledged assets		7,429,802	16,674,156
Proceeds from disposal of property, plant and equipment		225,604	3,666
Purchase of property, plant and equipment	28	(1,116,807)	(554,935)
Purchase of intangible assets	29	-	(22,323)
Net proceeds from sale of subsidiary	38(a)	-	1,194,767
Net cash provided by investing activities		21,066,938	4,445,573
Cash flows from financing activity			
Dividends paid to stockholders, being net cash used in financing activity	54	(14,686,719)	(5,974,259)
Effect of exchange rate changes on cash and cash equivalents		4,884,146	329,260
Net increase/(decrease) in cash and cash equivalents		22,595,843	(3,181,543)
Cash and cash equivalents at beginning of year		70,854,714	74,036,257
Cash and cash equivalents at end of year	20	93,450,557	70,854,714

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

Year ended October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2019	2018
Net interest income calculated using the effective interest method			
Interest from deposit with banks	7	280,932	212,986
Net gains on foreign currency activities		1,261,747	63,568
Gain on sale of subsidiary	38(b)	-	1,075,750
Dividend income		8,620,487	12,467,088
		9,882,234	13,606,406
Total income		10,163,166	13,819,392
Expenses			
Asset tax		200	200
Other operating expenses		46,616	44,616
	13	46,816	44,816
Profit before taxation	14	10,116,350	13,774,576
Taxation	15	(58,579)	(42,048)
Profit for the year		10,057,771	13,732,528

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

Scotia Group Jamaica Limited | Statement of Financial Position

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2019	2018
ASSETS			
Cash resources			
Accounts with subsidiaries	19	11,079,375	15,646,295
Investment in subsidiaries, at cost		13,029,908	13,029,908
Other assets			
Taxation recoverable		238,153	272,312
		24,347,436	28,948,515
LIABILITES			
Accrued expenses and other liabilities		12,220	8,770
Taxation payable		61,139	34,160
Deferred tax liabilities	37	8,559	11,119
		81,918	54,049
EQUITY			
Share capital	40	6,569,810	6,569,810
Unappropriated profits		17,695,708	22,324,656
Total stockholders' equity		24,265,518	28,894,466
Total liabilities and equity		24,347,436	28,948,515

The financial statements on pages 62 to 152 were approved for issue by the Board of Directors and signed on its behalf on December 6, 2019 by:

_______________ Director
Jeffrey Hall

_______________ Director
David Noel

_______________ Director
Eric Crawford

_______________ Secretary
Richard Fraser

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

Year Ended October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	Share capital	Unappropriated profits	Total
Balances at October 31, 2017		6,569,810	14,566,387	21,136,197
Profit for the year, being total comprehensive income		-	13,732,528	13,732,528
Transaction with owners:				
Dividends paid	54	-	(5,974,259)	(5,974,259)
Balances at October 31, 2018		6,569,810	22,324,656	28,894,466
Profit for the year, being total comprehensive income		-	10,057,771	10,057,771
Transaction with owners:				
Dividends paid	54	-	(14,686,719)	(14,686,719)
Balances at October 31, 2019		**6,569,810**	**17,695,708**	**24,265,518**

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

Year ended October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2019	2018
Cash flows from operating activities			
Profit for the year		10,057,771	13,732,528
Adjustments for:			
Gain on sale of subsidiary	38(b)	-	(1,075,750)
Interest income	7	(280,932)	(212,986)
Taxation	15	58,579	42,048
		9,835,418	12,485,840
Changes in operating assets and liabilities			
Loan to subsidiary		-	180,000
Other assets, net		34,163	35,402
Accounts with fellow subsidiaries		2,816,573	(5,995,188)
Other liabilities		3,451	437
		12,689,605	6,706,491
Interest received		291,174	181,422
Taxation paid		(34,160)	(36,180)
Net cash provided by operating activities		12,946,619	6,851,733
Cash flow from investing activity			
Net proceeds from sale of subsidiary		-	1,275,750
Cash flows from financing activity			
Dividends paid, being cash used in financing activity	54	(14,686,719)	(5,974,259)
Net (decrease)/increase in cash and cash equivalents		(1,740,100)	2,153,224
Cash and cash equivalents at beginning of year		3,327,996	1,174,772
Cash and cash equivalents at end of year	20	1,587,896	3,327,996

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

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

1. Identification, Regulation and Licence

Scotia Group Jamaica Limited ("the Company") is incorporated and domiciled in Jamaica. It is a 71.78% subsidiary of Scotiabank Caribbean Holdings Limited, which is incorporated and domiciled in Barbados. The Bank of Nova Scotia, which is incorporated and domiciled in Canada is the Company's ultimate parent. The registered office of the Company is located at Scotiabank Centre, Corner of Duke and Port Royal Streets, Kingston, Jamaica. The Company is listed on the Jamaica Stock Exchange.

The Company is the parent of The Bank of Nova Scotia Jamaica Limited, ("the Bank") which is licensed under the Banking Services Act, 2014 and Scotia Investments Jamaica Limited ("SIJL"), which is licensed under the Securities Act.

The Company's subsidiaries, which together with the Company are referred to as "the Group", are as follows:

Subsidiaries	Principal Activities	Holding by Company	Holding by Subsidiary	Financial Year-End
The Bank of Nova Scotia Jamaica Limited and its subsidiaries:	Banking	100%		October 31
The Scotia Jamaica Building Society	Mortgage Financing		100%	October 31
Scotia Jamaica Life Insurance Company Limited	Life Insurance		100%	December 31*
Scotia Investments Jamaica Limited and its subsidiaries:	Investment Banking	100%		October 31
Scotia Asset Management (St. Lucia) Inc.	Fund Management		100%	October 31
Scotia Asset Management Jamaica Limited	Non-trading		100%	October 31
Scotia Jamaica Investment Management Limited	Non-trading		100%	October 31

All subsidiaries are incorporated in Jamaica, except for Scotia Asset Management (St. Lucia) Inc.

*The statements included in the consolidation are audited financial statements as at and for the year ended October 31, 2019.

2. Changes in significant accounting policies

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

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

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

- an increase in impairment losses recognised on financial assets;
- reclassification of fair value measurement of certain investment securities;
- additional disclosures related to IFRS 9 [see notes 24 and 48(b)]

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

2. Changes in significant accounting policies (Continued)

IFRS 9 *Financial Instruments*

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

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

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

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

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

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

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

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

Unappropriated profits:

	The Group
Balance as at October 31, 2018 under IAS 39	63,657,691
Reclassification of investment at FVOCI to FVTPL	456,957
Recognition of expected credit losses under IFRS 9:	
Loans	(1,218,062)
Investment securities	(831)
Other financial assets (Guarantees and deposits with banks)	(133,598)
Related deferred tax	401,766
	(493,768)
Opening balance under IFRS 9 as at November 1, 2018	63,163,923

Cumulative remeasurement on investment securities:

	The Group
Balance as at October 31, 2018	1,902,761
Reclassification of investment from AFS to FVTPL	(570,036)
Recognition of expected credit losses:	
Investments at FVOCI	159,747
Related deferred tax	(46,668)
	(456,957)
Opening balance under IFRS 9 as at November 1, 2018	1,445,804

2. Changes in significant accounting policies (continued)

IFRS 9 *Financial Instruments* (continued)

(b) Classification and measurement of financial instruments

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

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

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

For an explanation on how the Group classifies and measures financial instruments under IFRS 9, see note 24.

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

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

2. Changes in significant accounting policies (continued)

IFRS 9 *Financial Instruments* (continued)

(b) Classification and measurement of financial instruments

	Note	IAS 39 Classification	IFRS 9 Classification	IAS 39 carrying amount 31 October 2018	Reclassification	Remeasurement	IFRS 9 carrying amount at 1 Nov 2018
Financial assets							
Cash and cash balances at Bank of Jamaica		Loans and receivables	Amortised cost	69,070,417	-	(47,438)	69,022,979
Government and bank notes other than Jamaican		Loans and receivables	Amortised cost	898,300	-	-	898,300
Due from other banks		Loans and receivables	Amortised cost	17,573,229	-	-	17,573,229
Accounts with parent and fellow subsidiaries		Loans and receivables	Amortised cost	35,221,037	-	-	35,221,037
Financial assets at fair value through profit or loss		Held for trading	FVTPL	24,175	-	-	24,175
Pledged assets		Available-for-sale	FVOCI	13,192,804	(1,749,483)	-	11,443,321
Pledged assets		Available-for-sale	FVTPL	-	1,749,483	-	1,749,483
Pledged assets		Loans and receivables	Amortised cost	7,711,242	-	(831)	7,710,411
Pledged assets		Held to maturity	Amortised cost	529,133	-	-	529,133
Loans, after allowance for impairment losses		Loans and receivables	Amortised cost	182,607,258	-	(1,218,062)	181,389,196
Investments – debt securities		Available-for-sale	FVOCI	132,679,458	(2,351,022)	-	130,328,436
Investments – debt securities		Available-for-sale	FVTPL	-	2,351,022	-	2,351,022
Investments – equity securities		Available-for-sale	FVOCI	2,053,328	(298,740)	-	1,754,588
Investments – equity securities		Available-for-sale	FVTPL	-	298,740	-	298,740
Securities purchased under resale agreements		Loans and receivables	Amortised cost	300,473	-	-	300,473
Customers liabilities under acceptances guarantees and letter of credit		Loans and receivables	Amortised cost	13,232,396	-	(86,160)	13,146,236
Total financial assets				475,093,250	-	(1,352,491)	473,740,759
Financial liabilities							
Deposits by the public		Loans and receivables	Amortised cost	287,948,379	-	-	287,948,379
Due to other banks and financial institutions		Loans and receivables	Amortised cost	6,823,007	-	-	6,823,007
Due to ultimate parent company		Loans and receivables	Amortised cost	3,311,000	-	-	3,311,000
Due to fellow subsidiaries		Loans and receivables	Amortised cost	178,642	-	-	178,642
Cheques and other instruments in transit		Loans and receivables	Amortised cost	3,008,914	-	-	3,008,914
Acceptances, guarantees and letters of credit		Loans and receivables	Amortised cost	13,232,396	-	-	13,232,396
Total financial liabilities				314,502,338	-	-	314,502,338

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

2. Changes in significant accounting policies (continued)

IFRS 9 *Financial Instruments* (continued)

(c) Impairment of financial assets

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

Transition

The Group has determined that application of IFRS 9's impairment requirements at November 1, 2018 affected the allowance for impairment as follows:

	Impairment allowance under IAS 39 (October 31, 2018)	Adjustments	Allowance for ECL under IFRS 9 (November 1, 2018)
Loans	2,215,663	1,218,062	3,433,725
Investment securities at FVOCI	-	108,362	108,362
Deposits with financial institutions	-	47,438	47,438
Customers liabilities under acceptances	-	86,160	86,160
Total	2,215,663	1,460,022	3,675,685

IFRS 15 *Revenue from Contracts with Customers*

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

3. Summary of significant accounting policies

(a) Basis of preparation

Statement of compliance

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

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

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

(i) IFRS 16 *Leases*

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

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short term leases and leases of low-value items of US$5,000 or less. Lessor accounting remains similar to current practice as the lessor will continue to classify leases as finance and operating leases.

3. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

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

(i) IFRS 16 *Leases* (continued)

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

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short term leases and leases of low-value items of US$5,000 or less. Lessor accounting remains similar to current practice as the lessor will continue to classify leases as finance and operating leases.

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

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

The Group has performed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 in the period of initial application will depend on future economic conditions, the Group's assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

The nature of expenses related to those leases will change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

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

Based on the information currently available, the Group estimates that it will recognise additional lease liabilities of $1,575,017 as at November 1, 2019.

Transition

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

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

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

- identifies insurance contracts as those contracts under which the entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event, (the insured event) adversely affects the policyholder;

3. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

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

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

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

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

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

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

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

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

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

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

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

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

3. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

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

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

Prepayment features with negative compensation

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

Modifications to financial liabilities

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

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

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

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

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

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

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

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

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

The main change relates to how and when assets and liabilities are recognised and de-recognised in 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 an entity has no practical ability to avoid it. This may bring liabilities on balance sheet earlier than at present.
- A new control-based approach to de-recognition will allow an entity to derecognise an asset when it loses control over all or part of it; the focus will no longer be on the transfer of risks and rewards.

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

3. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

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

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

(i) An election to use a concentration test that results in an asset acquisition if substantially all of the fair value of the business is concentrated in single identifiable asset or a group of similar identifiable assets.

(ii) Otherwise, the assessment focuses on the existence of a substantive process. A business consists of inputs and processes applied to those inputs to create outputs.

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

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

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

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

(b) Basis of consolidation

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

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

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

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

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

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

3. Summary of significant accounting policies (continued)

(c) Segment reporting

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

(d) Foreign currency translation

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

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

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

(e) Revenue recognition

Interest income

Policy applicable from November 1, 2018

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

When calculating the effective interest rate for financial instruments, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not 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 (or impairment allowance before November 1, 2018).

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

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

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, net of ECL allowance. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

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

3. Summary of significant accounting policies (continued)

(e) Revenue recognition (continued)

Interest income (continued)

Applicable before November 1, 2018

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

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

Under both periods, where collection of interest income is considered doubtful, or payment is outstanding for more than 90 days, the banking regulations stipulate that interest should be taken into account on the cash basis. IFRS requires that when loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

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

Fee and commission income

Policy applicable from November 1, 2018

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

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

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

Performance obligations and revenue recognition policies:

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

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

3. Summary of significant accounting policies (continued)

(e) Revenue recognition (continued)

Fee and commission income (continued)

Applicable before November 1, 2018

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

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

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

Premium income

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

Dividend income

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

(f) Interest expense

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

(g) Insurance contracts

Classification

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

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. The Group defines insurance risk as significant if an insured event could cause an insurer to pay significant additional benefits in a scenario that has a discernible effect on the economics of the transactions.

As a general guideline, the Group defines as significant insurance risk, the possibility of having to pay benefits, at the occurrence of an insured event, that are at least 10% more than the benefits payable if the insured event did not occur.

Recognition and measurement

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

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

3. Summary of significant accounting policies (continued)

(g) Insurance contracts (continued)

Recognition and measurement (continued)

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

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

(h) Claims

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

(i) Reinsurance contracts held

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

(j) Policyholders' liabilities

The policyholders' liabilities have been calculated using the Policy Premium Method (PPM) of valuation. Under this method, explicit allowance is made for all future benefits and expenses under the policies. The premiums, benefits and expenses for each policy are projected and the resultant cash flows are discounted to the valuation date to determine the reserves.

Annuities are immediate payouts of fixed and variable amounts for a guaranteed period and recognised on the date that they originate. Benefits are recognised as liabilities until the end of the guarantee period. These liabilities are increased by interest credited and are decreased by policy administration fees, period payment charges and any withdrawals. Income consists mainly of fees deducted for fund administration and interest credited is treated as an expense in profit or loss. The annuity fund is included as a part of policyholders' liabilities [note 39(a)].

(k) Taxation

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

Current income tax

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

Deferred income tax

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

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

3. Summary of significant accounting policies (continued)

(k) Taxation (continued)

Deferred income tax (continued)

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

(l) Financial assets and liabilities

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

Recognition

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

Classification and measurement, derecognition, and impairment of financial instruments.

Applicable from November 1, 2018

Classification and measurement

Classification and measurement of financial assets

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

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

Financial assets include both debt and equity instruments.

Debt instruments

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

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

Classification of debt instruments is determined based on:

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

3. Summary of significant accounting policies (continued)

(I) Financial assets and liabilities (continued)

Applicable from November 1, 2018 (continued)

Business model assessment

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

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

Contractual *cash flow characteristics assessment*

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

Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instrument due to repayments or 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 Group identifies any contractual features that could significantly modify the cash flows of the instrument such that they are no longer consistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Debt instruments measured at amortised cost

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

3. Summary of significant accounting policies (continued)

(l) Financial assets and liabilities (continued)

Applicable from November 1, 2018 (continued)

Debt instruments measured at amortised cost (continued)

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

Debt instruments *measured at FVOCI*

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

Impairment on debt instruments measured at FVOCI is calculated using the expected credit loss approach. The ECL on debt instruments measured at FVOCI does not reduce the carrying amount of the asset in the statement of financial position, which remains at its fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI with a corresponding charge for credit losses in the consolidated statement of revenue and expenses. The accumulated allowance recognised in OCI is recycled to the consolidated statement of revenue and expenses upon derecognition of the debt instrument.

Debt *instruments measured at FVTPL*

Debt instruments are measured at FVTPL if assets:

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

These instruments are measured at fair value in the consolidated statement of financial position, with transaction costs recognised immediately as part of non-interest income. Realised and unrealised gains and losses are recognised as part of non-interest income in the consolidated statement of revenue and expenses.

Debt instruments designated at FVTPL

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

Financial assets designated at FVTPL are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recognised in non-interest income in the consolidated statement of income.

Equity instruments

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

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

3. Summary of significant accounting policies (continued)

(l) Financial assets and liabilities (continued)

Applicable from November 1, 2018 (continued)

Equity instruments *measured at FVTPL*

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

Equity instruments measured at FVOCI

At initial recognition, there is an irrevocable option for the Group to classify non-trading equity instruments at FVOCI. This election is used for certain equity investments for strategic or longer term investment purposes. This election is made on an instrument-by-instrument basis and is not available for equity instruments that are held for trading purposes.

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

Classification *and measurement of financial liabilities*

Financial liabilities are classified into one of the following measurement categories:
- Amortised cost; or
- Designated at FVTPL.

Financial liabilities measured at FVTPL

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

Financial liabilities measured at amortised cost

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

Financial liabilities designated at FVTPL

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

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

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

3. Summary of significant accounting policies (continued)

(l) Financial assets and liabilities (continued)

Applicable from November 1, 2018 (continued)

Financial liabilities designated at FVTPL (continued)

Financial liabilities designated at FVTPL are recorded in the consolidated statement of financial position at fair value. Any changes in fair value are recognised in non-interest income in the consolidated statement of revenue and expenses, except for changes in fair value arising from changes in the Group's own credit risk which are recognised in the OCI. Changes in fair value due to changes in the Group's own credit risk are not subsequently reclassified to the statement of revenue and expenses upon derecognition/extinguishment of the liabilities.

Determination of fair value

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

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

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

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

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

Derecognition of financial assets and liabilities

Derecognition of financial assets

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

A financial asset is derecognised when the contractual rights to the cash flows from the asset has expired; or the Group 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 Group 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 Group has retained substantially all of the risks and rewards of ownership.

3. Summary of significant accounting policies (continued)

(l) Financial assets and liabilities (continued)

Applicable from November 1, 2018 (continued)

Derecognition of financial assets and liabilities (continued)

Derecognition of financial assets (continued)

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

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

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

Derecognition of financial liabilities

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

Applicable before November 1, 2018

Classification

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

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

Held-to-maturity

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

3. Summary of significant accounting policies (continued)

(l) Financial assets and liabilities (continued)

Applicable before November 1, 2018 (continued)

Available-for-sale

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

Derecognition

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

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

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

Measurement

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

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

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

(m) Embedded derivatives

Applicable from November 1, 2018

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

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

3. Summary of significant accounting policies (continued)

(m) Embedded derivatives (continued)

Applicable from November 1, 2018 (continued)

The Group's holdings of embedded derivatives are currently carried at FVTPL.

Applicable before November 1, 2018

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

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

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

(n) Cash and cash equivalents

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

(o) Allowance for expected credit losses

Applicable from November 1, 2018

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

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

Expected credit loss impairment model

The Group's allowance for credit loss calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Each 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.

3. Summary of significant accounting policies (continued)

(o) Allowance for expected credit losses (continued)

Applicable from November 1, 2018 (continued)

Expected credit loss impairment model (continued)

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

- Stage 1 – Where there has not been a significant increase in credit risk (SIR) since initial recognition of a financial instrument. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.
- Stage 2 – When a financial instrument experiences a SIR subsequent to origination but is not considered to be in default. 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.
- 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 Group relies on a broad range of forward-looking economic information as inputs, such as: GDP growth, unemployment rates, central-bank interest rates, and house-price indices. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays may be made as temporary adjustments using expert credit judgment.

Multiple forward-looking scenarios

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

3. Summary of significant accounting policies (continued)

(o) Allowance for expected credit losses (continued)

Applicable from November 1, 2018 (continued)

Multiple forward-looking scenarios (continued)

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

Assessment of significant increase in credit risk (SIR)

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

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

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

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

Expected life

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

Presentation of allowance for credit losses in the statement of financial position

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

3. Summary of significant accounting policies (continued)

(o) Allowance for expected credit losses (continued)

Applicable from November 1, 2018 (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 Group may modify the contractual terms of loans for either commercial or credit reasons. The terms of a loan in good standing may be modified for commercial reasons to provide competitive pricing to borrowers. Loans are also modified for credit reasons where the contractual terms are modified to grant a concession to a borrower that may be experiencing financial difficulty.

For all financial assets, modifications of the contractual terms may result in derecognition of the original asset when the changes to the terms of the loans are considered substantial. These terms include interest rate, 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 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 allowance for expected credit losses line in the income statement.

Definition of default

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

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

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

Write-off policy

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

Purchased loans

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

3. Summary of significant accounting policies (continued)

(o) Allowance for expected credit losses (continued)

Applicable from November 1, 2018 (continued)

Purchased loans (continued)

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

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

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

Applicable before November 1, 2018

Identification and measurement of impairment

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

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

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

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

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

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

3. Summary of significant accounting policies (continued)

(o) Allowance for expected credit losses (continued)

Applicable before November 1, 2018 (continued)

Identification and measurement of impairment (continued)

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

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

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

(p) Repurchase and reverse repurchase agreements

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

(q) Acceptances and guarantees

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

(r) Property, plant and equipment

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

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

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

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

3. Summary of significant accounting policies (continued)

(r) Property, plant and equipment (continued)

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

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

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

(s) Investment in subsidiaries

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

(t) Goodwill and intangible assets

Intangible assets acquired separately

Intangible assets acquired separately are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on the straight-line basis over their estimated useful lives. The estimated useful lives and amortisation methods are reviewed at each reporting date, with the effect of any changes in estimate being accounted for prospectively.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of intangible assets and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are measured at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Impairment of tangible and intangible assets excluding goodwill

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

3. Summary of significant accounting policies (continued)

(t) Goodwill and intangible assets (continued)

Goodwill (continued)

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Acquired customer relationships

This asset represents the present value of the benefit to the Group from customer lists, contracts, or customer relationships that can be identified separately and measured reliably. Acquired customer relationships include those of SIJL, and stockbroking customer relationships with an estimated useful life of 15 years.

Contract-based intangible assets

Contract-based intangible assets represent the Group's right to benefit from SIJL's unit trust management contracts. This asset has an indefinite useful life and is therefore tested for impairment annually and whenever there is an indication that the asset may be impaired.

Licences

The asset represents the value of SIJL's Jamaica Stock Exchange licence to trade shares, which has an indefinite useful life. The asset is tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Computer software

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

(u) Employee benefits

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

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

3. Summary of significant accounting policies (continued)

(u) Employee benefits (continued)

Pension obligations

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

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

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

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

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

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

Termination benefits

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

Other post-retirement obligations

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

3. Summary of significant accounting policies (continued)

(u) Employee benefits (continued)

Equity compensation benefits

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

The amount contributed to the ESOP trust (note 55) by the Group for acquiring shares and allocating them to employees is recognised as an employee expense at the time of making the contribution, as the effect of recognising it over the two-year period in which the employees become unconditionally entitled to the shares, is not considered material. Further, the effect of forfeitures is not considered material.

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

Annual leave

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

Defined contribution plan

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

(v) Borrowings

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

(w) Share capital

Classification

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

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

Share issue costs

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

Dividends

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

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

3. Summary of significant accounting policies (continued)

(x) Leases

As lessee

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

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

As lessor

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

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

(y) Impairment of non-financial assets

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

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

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

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

(z) Fiduciary activities

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

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

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

Expected credit losses

Policy applicable from November 1, 2018

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and fair value through other comprehensive income (FVOCI) is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in notes 24 and 48(b), which also set out key sensitivities of the ECL to changes in these elements.

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

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

Policy applicable before November 1, 2018

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

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

Valuation of financial instruments

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

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

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

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

Policy applicable before November 1, 2018 (continued)

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

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

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

These estimates are more fully described in note 39.

Pension and other post-employment benefits

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

The Group determines the appropriate discount rate at the end of each year; such rate represents the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension and post-retirement benefit obligations. In determining the appropriate discount rate, the Group considers interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liabilities. The expected rate of increase of medical costs has been determined by comparing the historical relationship of the actual medical cost increases with the rate of inflation. Past experience has shown that the actual medical costs have increased on average by the rate of inflation. Other key assumptions for the pension and other post-employment benefit cost and credit are based, in part, on current market conditions.

Recognition and measurement of intangible assets

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

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

Income taxes

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

5. Responsibilities of the appointed actuary and external auditors

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

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

6. Segmental financial information

The Group is organised into six main business segments:

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

(b) Corporate and Commercial Banking – this incorporates non-personal direct debit facilities, current accounts, deposits, overdrafts, loans and other credit facilities;

(c) Treasury – this incorporates the Group's liquidity and investment management function, management of correspondent bank relationships, as well as foreign currency trading activities;

(d) Investment Management Services – this incorporates investments, unit trusts, pension and other fund management, brokerage and advisory services, and the administration of trust accounts;

(e) Insurance Services – this incorporates the provision of life and medical insurance, individual pension administration and annuities;

(f) Other operations of the Group – comprises the parent company and non-trading subsidiaries.

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

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

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

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

6. Segmental financial information (continued)

	The Group 2019							
	Banking							
	Retail	Corporate and Commercial	Treasury	Investment Management Services	Insurance Services	Other	Eliminations	Group
Net external revenues	18,855,698	8,007,098	8,213,330	3,465,535	5,093,087	1,542,678	-	45,177,426
Revenue from other segments	376,270	1,181,670	(1,785,412)	208,414	70,405	-	(51,347)	-
Total revenues	19,231,968	9,188,768	6,427,918	3,673,949	5,163,492	1,542,678	(51,347)	45,177,426
Total expenses and credit losses	(15,628,961)	(7,778,226)	(565,924)	(1,394,360)	(1,191,925)	(46,816)	(88,490)	(26,694,702)
Profit before tax	3,603,007	1,410,542	5,861,994	2,279,589	3,971,567	1,495,862	(139,837)	18,482,724
Taxation								5,292,670
Profit for the year								**13,190,054**
Segment assets	136,534,750	91,298,678	178,939,016	37,288,657	58,530,404	24,347,436	(23,999,248)	502,939,693
Unallocated assets								46,061,983
Total assets								**549,001,676**
Segment liabilities	171,369,564	173,205,216	-	27,951,890	46,001,589	81,918	(11,200,574)	407,409,603
Unallocated liabilities								23,477,997
Total liabilities								**430,887,600**
Other segment items:								
Capital expenditure	678,606	429,768	-	8,433	-	-	-	1,116,807
Expected credit losses	2,251,332	441,007	(64,372)	8,752	(40,734)	-	-	2,595,985
Depreciation and amortisation	376,070	190,902	-	137,588	3,394	-	-	707,954

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

6. Segmental financial information (continued)

	The Group 2018							
	Banking							
	Retail	Corporate and Commercial	Treasury	Investment Management Services	Insurance Services	Other	Eliminations	Group
Net external revenues	18,278,020	7,793,014	7,037,229	3,094,700	4,979,881	1,028,405	-	42,211,249
Revenue from other segments	405,571	1,634,393	(2,347,057)	249,262	56,243	1,295	293	-
Total revenues	18,683,591	9,427,407	4,690,172	3,343,962	5,036,124	1,029,700	293	42,211,249
Total expenses and losses	(13,803,172)	(6,673,444)	(586,333)	(1,506,962)	(1,228,131)	(44,816)	(75,763)	(23,918,621)
Profit before tax	4,880,419	2,753,963	4,103,839	1,837,000	3,807,993	984,884	(75,470)	18,292,628
Taxation								(5,521,712)
Profit for the year								**12,770,916**
Segment assets	120,517,664	82,562,123	177,823,742	37,606,313	60,359,317	28,948,515	(23,077,411)	484,740,263
Unallocated assets								37,122,024
Total assets								**521,862,287**
Segment liabilities	161,421,613	159,070,223	-	29,281,828	46,297,163	54,049	(10,411,625)	385,713,251
Unallocated liabilities								20,501,306
Total liabilities								**406,214,557**
Other segment items:								
Capital expenditure	339,153	219,406	-	18,699	-	-	-	577,258
Expected credit losses	1,898,664	16,938	-	2,387	-	-	-	1,917,989
Depreciation and amortisation	387,412	196,496	-	133,322	4,970	-	-	722,200

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

7. Net interest income

	The Group		The Company	
	2019	2018	2019	2018
Interest income calculated using the effective interest method:				
Deposits with banks and other financial institutions	1,614,741	1,635,538	280,932	207,707
Investment securities	4,496,361	6,038,833	-	-
Financial assets at fair value through profit or loss	15,503	2,541	-	-
Reverse repurchase agreements	13,596	16,955	-	-
Loans and advances	21,588,387	20,717,231	-	5,279
	27,728,588	28,411,098	280,932	212,986
Interest expense measured on the effective interest basis:				
Banks and customers	1,211,780	1,508,215	-	-
Repurchase agreements	56,568	274,741	-	-
Policyholders' liabilities	1,322,039	1,400,860	-	-
Other	19,145	19,504	-	-
	2,609,532	3,203,320	-	-
Net interest income	25,119,056	25,207,778	280,932	212,986

8. Net fee and commission income

	The Group	
	2019	2018
Fee and commission income:		
Retail banking fees	6,988,831	6,175,100
Credit related fees	1,358,011	1,299,058
Commercial and depository fees	5,608,442	5,642,062
Insurance related fees	269,014	231,770
Trust and other fiduciary fees	40,929	51,470
Asset management and related fees	1,768,073	1,494,678
	16,033,300	14,894,138
Fee and commission expenses	(7,928,559)	(6,767,110)
	8,104,741	8,127,028

9. Net gains on foreign currency activities and financial assets

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

(b) Net gains on financial assets:

	The Group	
	2019	2018
Gains on securities held for trading	1,163,435	376,462
Gains on securities at FVOCI (2018: AFS)	313,585	784,356
	1,477,020	1,160,818

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

10. Insurance revenue

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

11. Other revenue

	The Group	
	2019	2018
Gain/(loss) on sale of property, plant and equipment	185,933	(1,878)
Dividend and other income	34,958	31,175
	220,891	29,297

12. Salaries, pensions and other staff benefits

	The Group	
	2019	2018
Wages and salaries	9,692,602	9,001,681
Statutory payroll contributions	801,027	801,081
Other staff benefits	1,667,128	1,533,737
	12,160,757	11,336,499
Post-employment benefits:		
Credit on defined benefit plan [note 30(a)(v)]	(1,559,843)	(1,445,568)
Other post-retirement benefits [note 30(b)(ii)]	542,989	555,889
	(1,016,854)	(889,679)
Total (note 13)	11,143,903	10,446,820

13. Expenses by nature

	The Group		The Company	
	2019	2018	2019	2018
Salaries, pension contributions and other staff benefits (note 12)	11,143,903	10,446,820	-	-
Property expenses, including depreciation	2,131,161	2,140,995	-	-
Amortisation and impairment of intangible assets	176,259	154,552	-	-
Systems related expenses	1,696,988	1,531,751	-	-
Insurance claims and benefits	215,875	191,616	-	-
Transportation and communication	930,548	968,977	2,961	3,501
Marketing and advertising	435,510	463,443	-	-
Professional, legal and consultancy fees	375,814	599,801	39,118	36,359
Technical and support services	4,057,710	2,756,188	-	-
Deposit insurance	466,127	436,148	-	-
Stationery	367,508	322,350	991	2,516
Asset tax	1,134,145	1,089,022	200	200
Licensing and other regulatory fees	179,221	159,290	-	-
Other operating expenses	787,948	739,679	3,546	2,240
	24,098,717	22,000,632	46,816	44,816

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

14. Profit before taxation

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

	The Group		The Company	
	2019	2018	2019	2018
Auditors' remuneration	58,843	52,479	7,700	6,914
Depreciation of property, plant and equipment	553,190	567,648	-	-
Amortisation and impairment of intangible assets	176,259	154,552	-	-
Directors' emoluments:				
Fees	32,120	22,630	16,569	11,692
Management remuneration	59,657	58,235	-	-
Operating lease rentals	430,750	451,624	-	-

15. Taxation

(a) Taxation charge

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

	The Group		The Company	
	2019	2018	2019	2018
Current income tax:				
Income tax at 33⅓%	3,777,626	3,781,195	-	-
Income tax at 30%	522,179	455,918	-	-
Income tax 25%	983,137	1,096,376	61,139	34,160
Adjustment for over-provision of prior year's charge	(4,013)	(5,275)	-	-
Deferred income tax [note 37(a)]	13,741	193,498	(2,560)	7,888
	5,292,670	5,521,712	58,579	42,048

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

	The Group		The Company	
	2019	2018	2019	2018
Profit before taxation	18,482,724	18,292,628	10,116,350	13,774,576
Tax calculated at 25%	-	-	2,529,089	3,443,644
Tax calculated at 33⅓%	6,160,908	6,097,543	-	-
Adjusted for the tax effects of:				
Different tax regimes applicable to the life insurance and mortgage financing subsidiaries and non-regulated entities	(867,990)	(548,935)	-	-
Income not subject to tax	(211,782)	(386,024)	(2,155,123)	(3,116,772)
Expenses not deductible for tax purposes	367,071	364,265	50	65
Prior period over provision	(4,013)	(5,275)	-	-
Other charges and allowances	(151,524)	138	(315,437)	(284,889)
	5,292,670	5,521,712	58,579	42,048
Effective tax rate	28.64%	30.19%	0.58%	0.31%

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

16. Earnings per stock unit

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

	2019	2018
Consolidated profit for the year attributable to stockholders of the Company	13,190,054	12,770,916
Weighted average number of ordinary stock units in issue ('000)	3,111,573	3,111,573
Earnings per stock unit (expressed in $)	4.24	4.10

17. Cash and balances at Bank of Jamaica

	The Group	
	2019	2018
Statutory reserves – non-interest bearing (note 20)	31,929,861	37,885,689
Cash in hand and other balances at Bank of Jamaica	38,122,479	31,184,728
	70,052,340	69,070,417

At the reporting date, statutory reserves with Bank of Jamaica represent the required primary reserve ratios.

Relevant legislation	Entity	Reserve percentage			
		Jamaican		Foreign currency	
		2019	2018	2019	2018
Banking Services Act, Section 14(i)	BNSJ	7%	12%	15%	15%
Building Society Regulations Section 31	SJBS	1%	1%	1%	1%

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

18. Due from other banks

	The Group	
	2019	2018
Items in course of collection from other banks	449,885	349,952
Placements with other banks	36,622,816	17,223,277
	37,072,701	17,573,229

19. Accounts with parent and fellow subsidiaries

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

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

20. Cash and cash equivalents

	The Group		The Company	
	2019	2018	2019	2018
Cash resources	134,999,146	122,762,983	11,079,375	15,646,295
Less amounts not considered cash and cash equivalents:				
Statutory reserves (note 17)	(31,929,861)	(37,885,689)	-	-
Cheques and other instruments in transit	(3,542,628)	(3,008,914)	-	-
Accounts with parent and fellow subsidiaries greater than ninety days	(9,457,244)	(12,273,822)	(9,457,244)	(12,273,822)
Expected credit losses	15,558	-	-	-
Accrued interest	(51,025)	(83,815)	(34,235)	(44,477)
	90,033,946	69,510,743	1,587,896	3,327,996
Add other cash equivalent balances:				
Repurchase agreements less than ninety days (note 26)	600,000	300,000	-	-
Pledged assets less than ninety days (note 22)	2,816,611	1,043,971	-	-
	93,450,557	70,854,714	1,587,896	3,327,996

	The Group		The Company	
	2019	2018	2019	2018
Cash and cash equivalents is comprised of:				
Cash and balances with Bank of Jamaica other than statutory reserves	38,138,037	31,184,728	-	-
Government and bank notes other than Jamaican	1,431,305	898,300	-	-
Amounts due from other banks	37,072,701	17,573,229	-	-
Accounts with parent and fellow subsidiaries	16,985,556	22,947,215	1,622,131	3,372,473
Repurchase agreements	600,000	300,000	-	-
Pledged assets	2,816,611	1,043,971	-	-
Accrued interest	(51,025)	(83,815)	(34,235)	(44,477)
	96,993,185	73,863,628	1,587,896	3,327,996
Cheques and other instruments in transit	(3,542,628)	(3,008,914)	-	-
	93,450,557	70,854,714	1,587,896	3,327,996

21. Financial assets at fair value through profit or loss

	The Group	
	2019	2018
Government of Jamaica securities	2,858,213	23,633
Quoted stocks	47,525	-
Unit trusts	342,748	-
	3,248,486	23,633
Accrued interest	13,091	542
	3,261,577	24,175

22. Pledged assets

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

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

22. Pledged assets (continued)

	The Group	
	2019	2018
Investment securities pledged as collateral for securities sold under repurchase agreements	-	32,741
Capital Management and Government Securities funds	14,003,531	19,845,766
Securities with regulators, clearing houses and other financial institutions	1,666,966	1,554,672
	15,670,497	21,433,179

Included in pledged assets are the following categories of assets:

	The Group	
	2019	2018
Deposits with financial institutions	5,661,943	6,403,160
Government issued securities:		
Fair value through OCI (2018: Available-for-sale)	6,089,986	5,106,678
Amortised cost (2018: Held-to maturity)	281,845	529,133
Loans	1,606,644	1,308,082
Unitised funds:		
Fair value through OCI (2018: Available-for-sale))	-	1,749,483
Fair value through profit or loss	2,030,079	-
Other:		
Fair value through OCI (2018: Available-for-sale)	-	6,336,643
	15,670,497	21,433,179

Included in pledged assets are the following amounts, which are regarded as cash equivalents for the purposes of the statement of cash flows:

	The Group	
	2019	2018
Debt securities and other investments with an original maturity of less than ninety days (note 20)	2,816,611	1,043,971

23. Loans, net of allowance for credit losses

	The Group	
	2019	2018
Business and Government	82,817,333	72,430,744
Personal and credit cards	88,523,414	78,062,100
Residential mortgages	37,336,804	33,309,094
Interest receivable	1,097,773	1,020,983
	209,775,324	184,822,921
Less: Allowance for expected credit losses (note 24)	(4,149,940)	(2,215,663)
	205,625,384	182,607,258

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

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

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

	The Group	
	2019	2018
Neither past due nor impaired	192,215,332	170,589,863
Past due but not impaired		
Past due 1-30 days	7,465,391	6,608,328
Past due 31-60 days	4,023,020	2,053,945
Past due 61-90 days	1,250,537	861,830
	12,738,948	9,524,103
Impaired:		
Past due more than 90 days	3,723,273	3,687,971
Interest receivable	1,097,771	1,020,984
Gross loan portfolio	209,775,324	184,822,921
Less: expected credit loss (2018: allowance for impairment losses)	(4,149,940)	(2,215,663)
Loans, net of allowance for credit losses	205,625,384	182,607,258

(ii) Repossessed collateral

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

24. Expected credit losses on loans

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

Some of the key drivers include the following:

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

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

24. Expected credit losses on loans (continued)

	The Group				
	2019				2018
	Stage 1	Stage 2	Stage 3	Total	Total $
Allowance at beginning of year	1,041,780	695,330	1,696,615	3,433,725	2,319,804
Provided during the year	325,902	480,768	2,596,674	3,403,344	3,192,042
Bad debts written off	-	-	(2,691,275)	(2,691,275)	(3,296,183)
Foreign exchange movement	(388,659)	594,181	(201,376)	4,146	-
Transfer to/(from) stages					
Stage 1	676,166	(664,701)	(11,465)	-	-
Stage 2	(262,470)	532,301	(269,831)	-	-
Stage 3	(10,525)	(326,361)	336,886	-	-
Allowance at end of year (note 23)	1,382,194	1,311,518	1,456,228	4,149,940	2,215,663

The charge for expected credit losses recognised for the year comprises:

	Stage 1	Stage 2	Stage 3	Total	2018 Total
Provided during the year	325,902	480,768	2,596,674	3,403,344	3,192,042
Recoveries of bad debts	-	-	(716,454)	(716,454)	(1,274,053)
Expected credit losses reported in profit for the year	325,902	480,768	1,880,220	2,686,890	1,917,989

Uncollected interest not accrued on loans in default is estimated at $1,038,713 (2018: $1,360,536) for the Group.

	The Group 2019 $
Allowance at October 31, 2018	2,215,663
Adjustment on initial application of IFRS 9	1,218,062
Allowance as at November 1, 2018	3,433,725

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

	The Group	
	2019	2018
Allowance based on IFRS - [see (a) below]	4,149,940	2,215,663
Additional allowance based on BOJ regulations [see (b) below]	2,304,057	2,377,843
	6,453,997	4,593,506

(a) This is the allowance based on the requirements of IFRS 9, *Financial Instruments*.

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

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

25. Investment securities

	The Group	
	2019	2018
Fair value through other comprehensive income [2018: available-for-sale]		
Unquoted shares	5,105	5,105
Government securities	113,232,627	115,107,162
Treasury bills	1,670,268	5,067,101
Corporate bonds	3,888,985	13,354,654
Other	-	298,740
Interest receivable	668,800	900,024
	119,465,785	134,732,786

Included in investment securities are Government of Jamaica Benchmark Investment Notes with a book value of $90,000 (2018: $90,000) which have been deposited by one of the Group's subsidiaries, Scotia Jamaica Life Insurance Company Limited, with the insurance regulator, Financial Services Commission, pursuant to Section 8(1)(a) of the Insurance Regulations 2001.

26. Government securities purchased under resale agreements

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

	The Group	
	2019	2018
Reverse repurchase agreements with an original maturity of less than 90 days (note 20)	600,000	300,000
Interest receivable	518	473
	600,518	300,473

The fair value of collateral held pursuant to reverse repurchase agreements is $630,828 (2018: $315,068).

27. Sundry assets

	The Group	
	2019	2018
Accounts receivable and prepayments	523,122	545,809
Deferred charges	1,084,346	1,115,096
Other	908,837	767,189
	2,516,305	2,428,094

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

28. Property, plant and equipment

	The Group				
	Freehold land and buildings	Leasehold improvements	Furniture, fixtures, motor vehicles & equipment	Capital work-in-progress	Total
Cost:					
October 31, 2017	4,304,559	510,074	6,714,915	280,006	11,809,554
Additions	12,958	3,513	60,414	478,050	554,935
Disposals	-	-	(37,757)	-	(37,757)
Transfers	39,918	9,752	452,587	(502,257)	-
October 31, 2018	4,357,435	523,339	7,190,159	255,799	12,326,732
Additions	12,854	1,077	136,640	966,236	1,116,807
Disposals	-	(39,671)	(8,641)	-	(48,312)
Transfers	89,846	64,337	257,818	(412,001)	-
October 31, 2019	4,460,135	549,082	7,575,976	810,034	13,395,227
Depreciation:					
October 31, 2017	846,622	473,463	5,167,314	-	6,487,399
Charge for the year	91,594	15,708	460,346	-	567,648
Eliminated on disposals	-	-	(32,213)	-	(32,213)
October 31, 2018	938,216	489,171	5,595,447	-	7,022,834
Charge for the year	93,489	20,939	438,762	-	553,190
Eliminated on disposals	-	-	(8,641)	-	(8,641)
October 31, 2019	1,031,705	510,110	6,025,568	-	7,567,383
Net book values:					
October 31, 2019	3,428,430	38,972	1,550,408	810,034	5,827,844
October 31, 2018	3,419,219	34,168	1,594,712	255,799	5,303,898
October 31, 2017	3,457,937	36,611	1,547,601	280,006	5,322,155

29. Goodwill and intangible assets

	The Group					
	Customer relationships	Contract-based intangibles	License	Goodwill	Computer software	Total
Cost:						
October 31, 2017	1,382,582	348,987	49,470	136,892	454,251	2,372,182
Additions	-	-	-	-	22,323	22,323
October 31, 2018 and 2019	1,382,582	348,987	49,470	136,892	476,574	2,394,505
Amortisation:						
October 31, 2017	937,191	71,574	5,333	40,229	223,712	1,278,039
Amortisation for the year	88,492	-	-	-	66,060	154,552
October 31, 2018	1,025,683	71,574	5,333	40,229	289,772	1,432,591
Amortisation for the year	88,492	-	-	-	66,272	154,764
Impairment for the year	-	-	-	21,495	-	21,495
October 31, 2019	1,114,175	71,574	5,333	61,724	356,044	1,608,850

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

29. Goodwill and intangible assets (continued)

	The Group					
	Customer relationships	Contract-based intangibles	License	Goodwill	Computer software	Total
Net book values:						
October 31, 2019	268,407	277,413	44,137	75,168	120,530	785,655
October 31, 2018	356,899	277,413	44,137	96,663	186,802	961,914
October 31, 2017	445,391	277,413	44,137	96,663	230,539	1,094,143

30. Retirement benefits asset/obligations

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

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

	The Group	
	2019	2018
Defined benefit pension plan (a)	43,704,650	34,517,087
Other post-retirement benefits (b)	(4,646,759)	(4,727,215)
	39,057,891	29,789,872

(a) Defined benefit pension plan

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

	The Group	
	2019	2018
Present value of funded obligations (iii)	(38,055,078)	(36,033,524)
Fair value of plan assets (iv)	81,759,728	70,550,611
Asset in the statement of financial position	43,704,650	34,517,087

(ii) Movement in the amount recognised in the statement of financial position:

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

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

30. Retirement benefits asset/obligations (continued)

(a) Defined benefit pension plan (continued)

(iii) Movement in the present value of obligation:

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

(iv) Movement in fair value of pension plan assets:

	The Group	
	2019	2018
Fair value of plan assets at beginning of year	70,550,611	60,654,296
Contributions	584,991	527,037
Benefits paid	(1,413,413)	(1,359,907)
Interest income on plan assets	5,256,301	5,418,788
Administrative fees	(145,001)	(94,060)
Remeasurement gain on plan assets included in other comprehensive income	6,926,239	5,404,457
Fair value of plan assets at end of year	81,759,728	70,550,611

Plan assets consist of the following:

	The Group	
	2019	2018
Government stocks and bonds	43,741,086	42,592,204
Quoted equities	30,247,495	23,441,002
Reverse repurchase agreements	234,745	509,908
Certificates of deposit	2,759,757	220,290
Real estate	3,173,561	3,562,971
Net current assets	1,603,084	224,236
	81,759,728	70,550,611

(v) Components of defined benefit credit recognised in statement of revenue and expenses:

	The Group	
	2019	2018
Current service costs	898,563	734,271
Interest cost on obligation	2,652,894	2,811,469
Interest income on plan assets	(5,256,301)	(5,418,788)
Interest on effect of asset ceiling	-	333,420
Administrative fees	145,001	94,060
	(1,559,843)	(1,445,568)

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

30. Retirement benefits asset/obligations (continued)

(a) Defined benefit pension plan (continued)

(vi) Components of defined benefit credit recognised in other comprehensive income:

	The Group	
	2019	2018
Remeasurement of defined benefit obligations	(700,981)	1,392,449
Remeasurement of plan assets	(6,926,239)	(5,404,457)
Change in effect on asset ceiling	-	(4,038,086)
	(7,627,220)	(8,050,094)

(vii) Sensitivity analysis on projected benefit obligation:

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

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

(viii) Liability duration

The average liability duration is as follows:

	The Group	
	2019	2018
Active members and all participants (years)	16.0	16.6

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

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

	The Group	
	2019	2018
Discount rate	6.50%	7.50%
Future salary increases	5.00%	6.50%
Future pension increases	2.25%	3.50%

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

30. Retirement benefits asset/obligations (continued)

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

(i) Movement in the present value of unfunded obligations:

	The Group 2019	The Group 2018
Balance at beginning of year	(4,727,215)	(3,884,186)
Current service costs	(192,670)	(211,193)
Interest cost	(350,319)	(344,696)
Benefits paid	113,866	126,069
Actuarial gains arising from:		
Experience adjustments	65,690	77,624
Changes in financial assumptions	318,825	(758,912)
Changes in demographic assumptions	125,064	268,079
Balance at end of year	(4,646,759)	(4,727,215)

(ii) Components of benefit costs recognised in the statement of revenue and expenses:

	The Group 2019	The Group 2018
Current service costs	192,670	211,193
Interest on obligation	350,319	344,696
	542,989	555,889

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

	The Group 2019	The Group 2018
Experience adjustments	(65,690)	(77,624)
Changes in financial and demographic assumptions	(443,889)	490,833
	(509,579)	413,209

(iv) Principal actuarial assumptions:

In addition to the assumptions used for the pension plan that are applicable to the group health plan, the estimate assumes a long-term increase in health costs of 4.50% (2018: 6.0%) per year.

(v) Sensitivity analysis on projected benefits obligation

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

	The Group			
	2019		2018	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Discount rate	(703,000)	909,000	(736,000)	953,000
Future pension increases	803,000	(634,000)	861,000	(678,000)
Future salary increases	17,000	(15,000)	15,000	(13,000)

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

30. Retirement benefits asset/obligations (continued)

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

(v) Liability duration

The average liability duration is as follows:

	The Group	
	2019	2018
Active members and all participants (years)	17.6	18.3

31. Deposits by the public

	The Group	
	2019	2018
Personal	161,808,073	149,616,835
Business	151,089,922	138,235,687
Interest payable	70,152	95,857
	312,968,147	287,948,379

Deposits include $709,156 (2018: $830,892) held as collateral for irrevocable commitments under letters of credit.

32. Due to other banks and financial institutions

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

33. Due to ultimate parent company

	The Group	
	2019	2018
The Bank of Nova Scotia:		
Facility I	598,109	1,101,989
Facility II	1,368,579	1,765,080
	1,966,688	2,867,069
Interest payable	24,939	36,197
	1,991,627	2,903,266
Deposits held with Bank	22,575	407,734
	2,014,202	3,311,000

(i) Facility I is a USD denominated twelve (12) year non-revolving loan from the ultimate parent company, for on-lending. The repayment of the principal commenced May 2012, after a four year moratorium period, to be completed by August 2020 and is subject to a fixed interest rate of 5.63% per annum.

(ii) Facility II is a USD denominated fourteen (14) year non-revolving loan from the ultimate parent company, for on-lending. The repayment of the principal commenced May 2012, after a four year moratorium period, to be completed by February 2022 and is subject to a fixed interest rate of 5.95%.

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

34. Due to fellow subsidiaries

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

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

35. Capital Management and Government Securities funds

The capital management and government securities funds represent the investment of contributions from third-party clients. Changes in the value of the funds at each valuation date are based on the net accretion in value of the underlying investments.

36. Other liabilities

	The Group	
	2019	2018
Accrued staff benefits	2,700,320	2,216,051
Prepaid letters of credit	32,929	695,383
Provisions	434,369	404,942
Accrued liabilities	3,671,781	3,120,401
	6,839,399	6,436,777

37. Deferred tax assets and liabilities

Deferred income taxes are calculated on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, using applicable tax rates of:

- Scotia Group Jamaica Limited at 25%;
- The Bank of Nova Scotia Jamaica Limited at 33⅓%;
- Scotia Investments Jamaica Limited at 33⅓%;
- The Scotia Jamaica Building Society at 30%;
- Scotia Jamaica Life Insurance Company Limited at 25% and;
- Other unregulated subsidiaries at 25%

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

	The Group		The Company	
	2019	2018	2019	2018
Balance as at beginning of year	(10,722,922)	(7,624,624)	(11,119)	(3,231)
Cumulative effect of adopting IFRS 9	401,766	-	-	-
Balance at November 1	(10,321,156)	(7,624,624)	(11,119)	(3,231)
Recognised in the profit for the year (note 15)	(13,741)	(193,498)	2,560	(7,888)
Recognised in other comprehensive income				
Remeasurement of defined benefits asset/obligations	(2,712,266)	(2,545,628)	-	-
Fair value through OCI (2018: Available-for-sale investments)				
- fair value remeasurement	(129,543)	(255,300)	-	-
- transfer to profit	212,132	(105,994)	-	-
	82,589	361,294	-	-
	(2,629,677)	(2,906,922)	-	-
Other	-	2,122	-	-
Balances at end of year	(12,964,574)	(10,722,922)	(8,559)	(11,119)

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

37. Deferred tax assets and liabilities (continued)

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

	The Group		The Company	
	2019	2018	2019	2018
Pension benefits	(14,570,028)	(11,507,560)	-	-
Other post-retirement benefits	1,549,339	1,576,172	-	-
Investment securities	(533,347)	(592,429)	-	-
Vacation accrued	150,621	144,979	-	-
Accelerated tax depreciation	11,584	(31,269)	-	-
Allowances for expected credit losses (2018: Impairment losses)	458,538	(215,050)	-	-
Interest receivable	(138,030)	(207,003)	(8,559)	(11,119)
Unrealised net premiums on investment securities	102,365	88,812	-	-
Other	4,384	20,426	-	-
Net deferred income tax liability	(12,964,574)	(10,722,922)	(8,559)	(11,119)

	The Group		The Company	
	2019	2018	2019	2018
This is comprised of:-				
Deferred income tax asset	117,518	67,105	-	-
Deferred income tax liability	(13,082,092)	(10,790,027)	(8,559)	(11,119)
	(12,964,574)	(10,722,922)	(8,559)	(11,119)

(c) The deferred tax charge recognised in profit for the year relates to the following temporary differences:

	The Group		The Company	
	2019	2018	2019	2018
Accelerated tax depreciation	(42,853)	(47,743)	-	-
Pensions and other post retirement benefits	377,035	338,583	-	-
Allowance for expected credit losses	(271,822)	(170,430)	-	-
Vacation accrued	(5,642)	(11,919)	-	-
Interest receivable	(68,973)	(4,800)	(2,560)	7,888
Trading assets	16,042	-	-	-
Unrealised premiums/(discount) on investment securities	(13,553)	87,686	-	-
Other	23,507	2,121	-	-
	13,741	193,498	(2,560)	7,888

38. Disposal of subsidiary

On December 1, 2017 the Group disposed of its shares in Scotia Jamaica Microfinance Company Limited. This transaction is in line with the Group's strategic direction to simplify its operations, focus on growing its core banking, insurance and investment business and deliver value to shareholders.

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

38. Disposal of subsidiary (continued)

(a) Net cash inflow from sale of subsidiary:

	2018 The Group
Proceeds from sale	1,350,000
Less: cash and cash equivalents	(80,983)
Less: other costs	(74,250)
Net cash inflow	1,194,767

(b) Gain on sale of subsidiary:

	2018	
	The Group	The Company
Consideration received	1,350,000	1,350,000
Net assets on sale of subsidiary	(522,605)	-
Investment in subsidiary at cost	-	(200,000)
Transaction costs	(74,250)	(74,250)
Gain on sale of subsidiary	753,145	1,075,750

39. Policyholders' liabilities

(a) Composition of policyholders' liabilities:

	The Group	
	2019	2018
Policyholders' fund	51,802,107	51,594,637
Benefits and claims payable	233,934	181,629
Unprocessed premiums	21,506	12,639
Annuity fund	592,815	539,869
Insurance risk reserve - Individual life	(8,906,602)	(8,055,034)
- Individual accident and sickness	452,653	357,126
- Universal life	-	(31,722)
- Whole life	99,084	112,474
- Group life	844,546	580,711
	45,140,043	45,292,329

(b) Movement in policyholders' liabilities:

	The Group	
	2019	2018
Policyholders' fund:		
At beginning of year	51,594,637	50,861,291
Gross premium	4,886,323	5,111,179
Disbursements	(6,000,892)	(5,779,629)
Interest credited	1,322,039	1,401,796
At end of year	51,802,107	51,594,637

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

39. Policyholders' liabilities (continued)

(b) Movement in policyholders' liabilities (continued):

	The Group	
	2019	2018
Benefits and claims payable:		
At beginning of year	181,629	188,801
New claims and benefits made during the year	268,180	184,444
Benefits and claims paid	(215,875)	(191,616)
At end of year	233,934	181,629

	The Group	
	2019	2018
Unprocessed premiums:		
At beginning of year	12,639	14,902
Premiums received	7,854,752	7,536,105
Premiums applied	(7,845,885)	(7,538,368)
At end of year	21,506	12,639
Annuity fund:		
At beginning of year	539,869	493,549
Issue of new annuities	72,574	62,483
Payments	(38,706)	(35,660)
Interest credited	19,078	19,497
At end of year	592,815	539,869

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

	2018		
	Individual life	Group life	Total
Insurance risk reserve:			
At beginning of year	(6,905,597)	518,210	(6,387,387)
Changes in assumptions	(791,222)	(430)	(791,652)
Normal changes	79,663	62,931	142,594
At end of year	(7,617,156)	580,711	(7,036,445)

40. Share capital

	Number of Units ('000)		Carrying value	
	2019	2018	2019	2018
Authorised:				
Ordinary shares of no par value	10,000,000	10,000,000		
Issued and fully paid:				
Ordinary stock units	3,111,573	3,111,573	6,569,810	6,569,810

40. Share capital (continued)

Under the provisions of the Companies Act 2004 (the Act), the shares have no par value. The holders of the ordinary stock units are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

41. Reserve fund

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

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

42. Retained earnings reserve

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

43. Capital reserve

Capital reserve arose on the liquidation of Scotia Jamaica General Insurance Brokers Limited.

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

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

45. Loan loss reserve

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

46. Other reserves

This represents reserves arising on consolidation of subsidiaries.

47. Related party transactions and balances

The Group is a 71.78% subsidiary of Scotiabank Caribbean Holdings Limited, which is incorporated and domiciled in Barbados. The Bank of Nova Scotia, which is incorporated and domiciled in Canada is the ultimate parent company. The remaining 28.22% of the stock units are widely held.

Parties are considered to be related if one party has the ability to control or exercise significant influence over, or be controlled or 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, including companies connected by virtue of common directorships in the normal course of business. These include loans, deposits, investment management services and foreign currency transactions.

Related party transactions with the parent company include the payment of dividends. Related party transactions with the ultimate parent company comprise the payment of dividends, management fees, guarantee fees, centralised computing and other service fees. There was no balance due to the ultimate parent company, other than the loans payable as set out in note 33.

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

47. Related party transactions and balances (continued)

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

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

	The Group					
	Ultimate parent	Fellow subsidiaries	Directors and key management personnel	Connected companies	Total 2019	Total 2018
Loans						
Balance at October 31	-	-	491,498	8,087,576	8,579,074	7,285,347
Interest income earned	-	-	32,636	582,819	615,455	758,061
Deposit liabilities						
Balance at October 31	2,014,202	334,678	271,298	4,249,910	6,870,088	8,217,212
Interest expense on deposits	144,397	788	289	8,444	153,918	205,532
Investments/repurchase agreements						
Other investments	-	342,748	(123,927)	192,944	411,765	539,394
Interest earned/(paid) on other investments	-	44,593	(138)	11,145	55,600	17,697
Deposits with banks						
Due from banks and other financial institutions	323,937	28,032,704	-	-	28,356,641	35,221,037
Interest earned from banks and other financial institutions	148	821,606	-	-	821,754	744,898
Other						
Fees and commission earned	-	-	459	13	472	488
Insurance products	-	-	13,494	-	13,494	11,002
Technical fees paid, net	(2,197,989)	-	-	-	(2,197,989)	(1,571,093)
Other operating expense, net	(1,199,006)	(1,260,704)	-	(9,291)	(2,469,001)	(1,827,483)

	The Group 2019	The Group 2018
Key management compensation		
Salaries and other short term benefits	862,213	922,147
Post-employment benefits	(163,224)	(197,611)
	698,989	724,536

48. Financial risk management

(a) Overview and risk management framework

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

- extensive risk management policies define the Group's risk appetite, set the limits and controls within which the Group operates, and reflect the requirements of regulatory authorities. These policies are approved by the Group's Board of Directors, either directly or through the Executive and Enterprise Risk Committee.
- guidelines are developed to clarify risk limits and conditions under which the Group's risk policies are implemented.

48. Financial risk management (continued)

(a) Overview and risk management framework (continued)

- processes are implemented to identify, evaluate, document, report and control risk.
- compliance with risk policies, limits and guidelines is measured, monitored and reported to ensure consistency against desired goals.

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

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

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

(i) Board Audit Committee

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

(ii) Executive and Enterprise Risk Committee

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

(iii) Asset and Liability Committee

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

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

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

(b) Credit risk

(i) Credit Risk Management

At a strategic level, the Group manages the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to any one borrower or groups of borrowers, and industry segments. Credit risk limits are approved by the Board of Directors. The exposure to any one borrower, including banks and brokers, is further restricted by sub-limits covering on and off-balance sheet exposures. Actual exposures against limits are monitored daily.

48. Financial risk management (continued)

(b) Credit risk (continued)

(i) Credit Risk Management (continued)

Operationally, exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by restructuring loans where appropriate. Exposure to credit risk is also managed in part by obtaining collateral, corporate and personal guarantees.

In addition, the Group seeks additional collateral from a counterparty as soon as a significant increase in credit risk observed for the relevant individual loan.

The Group's policy requires the review of individual financial assets that are above materiality thresholds annually or more regularly when individual circumstances require. Allowances for expected credit losses are consistent with the policies outlined in note 3(o).

(ii) Credit-related commitments

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

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

(iii) Credit quality

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

Commercial loans: In measuring credit risk of commercial loans at the counterparty level, the Group assesses the probability of default of individual counterparties using internal rating tools. They have been developed internally and combine statistical analysis with credit officer judgment and are validated, where appropriate, by comparison with externally available data. Internal grades (IG) are used to differentiate the risk of default of the borrower. The following table cross references the Bank's internal borrower grades with equivalent rating category used by Standard and Poor's.:

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

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(b) Credit risk (continued)

(iii) Credit quality (continued)

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

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

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

Retail Loans including all credit card segments:

	The Group			
	2019			
Category of PD Grade	Stage 1	Stage 2	Stage 3	Total
Very Low	1,823,000	-	-	1,823,000
Low	45,740,407	75,196	-	45,815,603
Medium	49,823,086	395,992	-	50,219,078
High	17,284,054	3,663,147	-	20,947,201
Very High	12,987	2,918,976	8,662	2,940,625
Subtotal: PD Grades (Advanced Models)	114,683,534	7,053,311	8,662	121,745,507
Loans not graded (Intermediate or simplified or gross-up)	3,148,381	212,406	-	3,360,787
Default	-	-	3,056,558	3,056,558
Total	117,831,915	7,265,717	3,065,220	128,162,852
Expected credit loss allowance	(1,149,893)	(1,135,571)	(1,252,566)	(3,538,030)
Carrying Amounts	116,682,022	6,130,146	1,812,654	124,624,822

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(b) Credit risk (continued)

(iii) Credit quality (continued)

Commercial Loans excluding all credit card segments:

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

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

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

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

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

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

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

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(b) Credit risk (continued)

(iii) Credit quality (continued)

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

	The Group	
	2019	2018
	%	%
Standard	84.5	91.7
Special Mention	13.7	6.5
Sub-Standard	1.1	0.8
Doubtful	0.4	0.3
Loss	0.3	0.7
	100.0	100.0

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

Debt securities:

	The Group		
	2019		2018
	Stage 1	Total	Total
AAA to AA+	31,945,169	31,945,169	33,484,714
AA to A+	2,286,281	2,286,281	8,342,365
A to A-	-	-	4,799,336
BBB+ to BB+	-	-	1,289,967
BB to B-	98,585,599	98,585,599	122,135,485
Lower than B-	-	-	74
Unrated	1,438,854	1,438,854	1,769,663
Allowance	134,255,903	134,255,903	171,821,604

Classified as follows:

	The Group	
	2019	2018
Amortised cost (2018: Held-to-maturity)	5,552,088	25,396,077
Fair value through OCI (2018: Available-for-sale)	119,413,155	134,428,898
Fair value through profit or loss	2,918,829	24,176
Pledged Assets:		
Amortised cost (2018: Held-to-maturity)	281,845	529,133
Fair value through OCI (2018: Available-for-sale)	6,089,986	11,443,320
	134,255,903	171,821,604

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(b) Credit risk (continued)

(iv) Maximum exposure to credit risk

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

Collateral and other credit enhancements held against loans

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

The Group holds collateral against credits to borrowers primarily in the form of cash, motor vehicles, real estate, charges over business assets such as premises, inventory and accounts receivable, and charges over financial instruments such as debt securities and equities. Estimates of fair values are based on the value of collateral assessed at the time of borrowing and are generally not updated except when credits to borrowers are individually assessed as impaired.

The estimated fair value of the collateral with enforceable legal right pursuant to the agreements for outstanding loans and guarantees is $147,539,959 (2018: $141,902,321) for the Group.

(v) Concentration of exposure to credit risk

(1) Loans and customer liabilities under acceptances, guarantees and letters of credit

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

	The Group			
	Loans and leases	Acceptances, guarantees and letters of credit	Total 2019	Total 2018
Agriculture, fishing and mining	989,169	13,757	1,002,926	1,412,243
Construction and real estate	6,056,846	311,378	6,368,224	5,583,538
Distribution	18,672,938	53,234	18,726,172	16,461,090
Financial institutions	7,453,805	1,868,968	9,322,773	7,201,546
Government and public entities	11,683,273	112,839	11,796,112	12,971,886
Manufacturing	10,640,956	30,526	10,671,482	8,279,756
Transportation, electricity, water and other	13,798,883	1,645,856	15,444,739	9,361,287
Personal	125,860,218	6,275,235	132,135,453	115,881,415
Professional and other services	9,545,826	3,276,129	12,821,955	9,850,163
Tourism and entertainment	3,975,635	18,796	3,994,431	10,059,456
Interest receivable	1,097,775	-	1,097,775	992,937
Total	209,775,324	13,606,718	223,382,042	198,055,317
Total allowance for credit losses			(4,262,520)	(2,215,663)
			219,119,522	195,839,654

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(b) Credit risk (continued)

(v) Concentration of exposure to credit risk (continued)

(2) Debt securities and amounts due from other banks

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

	The Group		The Company	
	2019	2018	2019	2018
Government of Jamaica	125,187,219	126,547,113	-	-
Bank of Jamaica	36,537,389	63,281,723	-	-
Financial institutions	69,777,962	59,497,899	11,079,375	15,646,295
Corporates and other	3,906,869	19,878,457	-	-
	235,409,439	269,205,192	11,079,375	15,646,295

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

(c) Market risk

Market risk arises from changes in market prices and rates (including interest rates, credit spreads, equity prices and foreign exchange rates), correlations between them, and their levels of volatility. Market risk is subject to extensive risk management controls, and is managed within the framework of market risk policies and limits approved by the Board. The Executive and Enterprise Risk Committee oversee the application of the framework set by the Board, and monitor the Bank's market risk exposures and the activities that give rise to these exposures.

The Group uses various metrics and models to measure and control market risk exposures. The measurements used are selected based on an assessment of the nature of risks in a particular activity.

The principal measurement techniques are Value at Risk (VaR), stress testing, sensitivity analysis, simulation modeling and gap analysis. The Board reviews results from these metrics quarterly.

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

(i) Interest rate risk

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

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

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

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

	The Group						
	2019						
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Cash resources	43,813,353	27,666,666	9,165,535	-	-	54,353,592	134,999,146
Financial assets at fair value through profit or loss	-	-	-	2,334,331	584,498	342,748	3,261,577
Pledged assets	-	9,004,880	187,861	3,322,644	3,155,112	-	15,670,497
Loans (1)	73,843,892	24,264,348	23,640,493	79,699,364	2,820,391	1,356,896	205,625,384
Investment securities (2)	-	69,019,519	13,373,168	26,433,203	10,078,286	561,609	119,465,785
Securities purchased under resale agreements	-	600,000	-	-	-	518	600,518
Other assets	-	-	-	-	-	69,378,769	69,378,769
Total assets	117,657,245	130,555,413	46,367,057	111,789,542	16,638,287	125,994,132	549,001,676
Deposits, due to banks, parent company and fellow subsidiaries (3)	301,860,195	10,906,993	7,736,436	1,941,398	-	-	322,445,022
Capital Management and Government Securities funds	20,291,757	-	-	-	-	-	20,291,757
Policyholders' liabilities	40,032,119	2,779,382	9,838,860	-	-	(7,510,318)	45,140,043
Other liabilities	-	-	-	-	-	43,010,778	43,010,778
Stockholders' equity	-	-	-	-	-	118,114,076	118,114,076
Total liabilities and stockholders' equity	362,184,071	13,686,375	17,575,296	1,941,398	-	153,614,536	549,001,676
Total interest rate sensitivity gap	(244,526,826)	116,869,038	28,791,761	109,848,144	16,638,287	(27,620,404)	-
Cumulative gap	(244,526,826)	(127,657,788)	(98,866,027)	10,982,117	27,620,404	-	
	2018						
Total assets	81,289,607	155,155,129	60,188,392	91,603,580	18,756,300	114,869,279	521,862,287
Total liabilities and stockholders' equity	338,126,215	11,183,501	19,844,214	5,277,269	-	147,431,088	521,862,287
Total interest rate sensitivity gap	(256,836,608)	143,971,628	40,344,178	86,326,311	18,756,300	(32,561,809)	-
Cumulative gap	(256,836,608)	(112,864,980)	(72,520,802)	13,805,509	32,561,809	-	

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

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

	The Group					
	2019					
	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Weighted average %
ASSETS						
Cash resources	0.50	1.24	1.81	-	-	0.89
Securities purchased under resale agreements	-	1.40	-	-	-	1.40
Financial assets at fair value through profit or loss	-	-	-	1.88	5.24	2.55
Loans (1)	14.45	13.62	9.93	9.71	7.58	11.89
Investment securities (2)	-	2.14	2.34	4.63	5.43	2.99
Pledged assets	-	3.03	0.17	6.49	2.56	3.64
LIABILITIES						
Deposits (3)	0.28	1.66	1.99	3.08	-	0.39
Capital Management and Government Securities funds	0.07	-	-	-	-	0.07
Policyholders' liabilities	2.46	2.95	2.56	-	-	2.50

	2018					
	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Weighted average %
ASSETS						
Cash resources	1.85	2.32	2.33	-	-	2.14
Securities purchased under resale agreements	-	2.40	-	-	-	2.40
Financial assets at fair value through profit or loss	-	-	-	-	7.02	7.02
Loans (1)	9.21	17.50	11.05	11.03	7.37	12.35
Investment securities (2)	-	2.07	4.23	3.74	8.47	3.43
Pledged assets	-	1.02	1.70	5.94	7.98	2.91
LIABILITIES						
Deposits (3)	0.30	1.21	1.85	5.06	-	0.46
Securities sold under repurchase agreements	-	3.00	-	-	-	3.00
Capital Management and Government Securities funds	0.16	-	-	-	-	0.16
Policyholders' liabilities	2.71	2.95	3.00	-	-	2.78

(1) Yields are based on book values, net of expected credit losses and contractual interest rates.

(2) Yields are based on book values and contractual interest adjusted for amortisation of premiums and discounts. Yields on tax-exempt investments have not been computed on a taxable equivalent basis.

(3) Yields are based on contractual interest rates.

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

	The Company 2019					
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Non-rate sensitive	Total
Cash resources	1,913,840	-	9,165,535	-	-	11,079,375
Investment in subsidiaries	-	-	-	-	13,029,908	13,029,908
Other assets	-	-	-	-	238,153	238,153
Total assets	1,913,840	-	9,165,535	-	13,268,061	24,347,436
Other liabilities	-	-	-	-	81,918	81,918
Stockholders' equity	-	-	-	-	24,265,518	24,265,518
Total liabilities and stockholders' equity	-	-	-	-	24,347,436	24,347,436
Total interest rate sensitivity gap	1,913,840	-	9,165,535	-	(11,079,375)	-
Cumulative gap	1,913,840	1,913,840	11,079,375	11,079,375	-	
	2018					
Total assets	3,327,996	-	12,273,822	-	13,346,697	28,948,515
Total liabilities and stockholders' equity	-	-	-	-	28,948,515	28,948,515
Total interest rate sensitivity gap	3,327,996	-	12,273,822	-	(15,601,818)	-
Cumulative gap	3,327,996	3,327,996	15,601,818	15,601,818	-	

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

	The Company 2019					
	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Weighted average %
ASSETS						
Cash resources	0.50	-	1.81	-	-	1.58

	2018					
	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Weighted average %
ASSETS						
Cash resources	-	-	2.33	-	-	1.84

(1) Yields are based on book values, net of allowance for credit losses and contractual interest rates.

Sensitivity to interest rate movements

- The following shows the sensitivity to interest rate movements using scenarios that are based on recently observed market movements. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis is performed on the same basis as for 2018.

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

Sensitivity to interest rate movements (continued)

	The Group	
	2019	2018
	Increase/decrease	Increase/decrease
JMD Interest rates	by 225 bps	by 450 bps
USD Interest rates	by 225 bps	by 125 bps

	The Group		The Company	
	2019	2018	2019	2018
Effect on profit or loss	2,625,302	3,168,043	204,556	200,480
Effect on stockholders' equity	9,700,142	11,792,960	67,597	37,453

(ii) Currency risk

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

The tables below summarise the Group's exposure to relevant currencies:

JMD Equivalent

	The Group 2019						
	JMD	USD	CAD	GBP	EUR	Other	Total
ASSETS							
Cash resources	51,566,633	72,876,103	3,775,746	5,822,373	682,123	276,168	134,999,146
Financial assets at fair value through profit or loss	2,724,603	536,974	-	-	-	-	3,261,577
Pledged assets	5,307,961	10,274,291	-	88,245	-	-	15,670,497
Loans	179,448,788	26,176,700	(110)	3	3	-	205,625,384
Investment securities	86,728,061	32,449,943	287,781	-	-	-	119,465,785
Government securities	600,518	-	-	-	-	-	600,518
Other assets	61,815,266	7,443,610	8,571	1,172	110,150	-	69,378,769
	388,191,830	149,757,621	4,071,988	5,911,793	792,276	276,168	549,001,676
LIABILITIES							
Deposits	198,864,165	114,360,005	3,583,275	4,893,823	743,424	330	322,445,022
Capital Management and Government Securities Funds	3,229,768	15,413,364	253,589	1,299,157	95,879	-	20,291,757
Other liabilities	34,351,829	8,175,176	106,218	74,522	112,906	190,127	43,010,778
Policy holders' liabilities	45,140,043	-	-	-	-	-	45,140,043
	281,585,805	137,948,545	3,943,082	6,267,502	952,209	190,457	430,887,600
NET POSITION	**106,606,025**	**11,809,076**	**128,906**	**(355,709)**	**(159,933)**	**85,711**	**118,114,076**

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(c) Market risk (continued)

(ii) Currency risk (continued)

JMD Equivalent

	The Group						
	2018						
	JMD	USD	CAD	GBP	EUR	Other	Total
ASSETS							
Cash resources	51,841,890	62,549,711	2,312,087	4,919,487	871,969	267,839	122,762,983
Financial assets at fair value through profit or loss	-	24,175	-	-	-	-	24,175
Pledged assets	4,744,836	16,688,343	-	-	-	-	21,433,179
Loans	153,583,502	28,533,774	470,934	19,045	3	-	182,607,258
Investment securities	91,820,940	41,651,915	1,259,931	-	-	-	134,732,786
Government securities	300,473	-	-	-	-	-	300,473
Other assets	52,380,371	7,223,158	9,109	2,732	507,811	(121,748)	60,001,433
	354,672,012	156,671,076	4,052,061	4,941,264	1,379,783	146,091	521,862,287
LIABILITIES							
Deposits	175,128,393	114,528,040	3,536,984	4,594,790	472,568	253	298,261,028
Other liabilities	29,048,307	9,036,608	180,186	35,195	506,197	25,630	38,832,123
Policy holders' liabilities	45,292,329	-	-	-	-	-	45,292,329
Securities sold under repurchase agreements	31,152	-	-	-	-	-	31,152
Capital Management and Government Securities Funds	5,321,356	17,249,469	204,562	908,860	113,678	-	23,797,925
	254,821,537	140,814,117	3,921,732	5,538,845	1,092,443	25,883	406,214,557
NET POSITION	**99,850,475**	**15,856,959**	**130,329**	**(597,581)**	**287,340**	**120,208**	**115,647,730**

The following significant exchange rates were applied during the period:

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

Sensitivity to foreign exchange rate movements

A weakening of the JMD against the above currencies at October 31 would have increased/(decreased) equity and profit by the amounts shown. This analysis is performed on the same basis as 2018. The strengthening of the JMD against the same currencies at October 31 would have had an equal but opposite effect on the amounts shown, assuming that all other variables remain constant.

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(c) Market risk (continued)

(ii) Currency risk (continued)

Sensitivity to foreign exchange movements:

	The Group	
	2019 Increase/decrease	2018 Increase/decrease
USD	by 8.25%	by 8.75%
CAD	by 4.50%	by 9.00%
GBP	by 2.95%	by 8.25%
EUR	by 4.00%	by 9.00%

	2019	2018
Effect on profit and stockholders' equity	425,473	480,053

(iii) Equity price risk

Equity price risk arises out of price fluctuations in equity prices. The risk arises from holding positions in either individual stocks (idiosyncratic risk) or in the market as a whole (systemic risk). The goal is to earn dividend income and realise capital gains sufficient to offset the interest foregone in holding such long-term positions.

The Board sets limits on the level of exposure, and diversification is a key strategy employed to reduce the impact on the portfolio which may result from the non-performance of a specific class of assets. Given the potential volatility in the value of equities and the non-interest bearing characteristic of these instruments, the Group limits the amount invested in them.

At the reporting date, the Group did not have investments in equities.

(d) Liquidity risk

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

The Group's liquidity management process includes:

(i) Monitoring future cash flows and liquidity on a daily basis;

(ii) Maintaining a portfolio of highly marketable assets that can be liquidated quickly as protection against any unforeseen interruption of cash flow;

(iii) Monitoring the liquidity ratios of the Group against internal and regulatory requirements;

(iv) Managing the concentration and profile of debt maturities, as well as undrawn lending commitments; and

(v) Liquidity stress testing and contingency planning.

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(d) Liquidity risk (continued)

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

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

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

Financial liabilities cash flows

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

	The Group					
	2019					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total	Carrying amounts
Financial liabilities						
Deposits, due to financial institutions, parent company and fellow subsidiaries	305,676,595	8,105,284	3,951,465	5,392,905	323,126,249	322,445,022
Capital Management and Government Securities Funds	20,291,757	-	-	-	20,291,757	20,291,757
Other liabilities	12,933,421	2,214,724	160,693	1,840,508	17,149,346	17,149,346
Policyholders' liabilities	42,041,730	10,130,857	-	-	52,172,587	45,140,043
Total liabilities	380,943,503	20,450,865	4,112,158	7,233,413	412,739,939	405,026,168

	2018					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total	Carrying amounts
Financial liabilities						
Deposits, due to financial institutions, parent company and fellow subsidiaries	280,100,245	10,526,507	4,655,739	5,923,044	301,205,535	298,261,028
Securities sold under repurchase agreements	-	31,435	-	-	31,435	31,152
Capital Management and Government Securities Funds	23,797,925	-	-	-	23,797,925	23,797,925
Other liabilities	10,924,788	2,146,716	1,059,635	2,110,171	16,241,310	16,241,310
Policyholders' liabilities	41,914,328	10,611,428	-	-	52,525,756	45,292,329
Total liabilities	356,737,286	23,316,086	5,715,374	8,033,215	393,801,961	383,623,744

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(e) Insurance risk

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

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

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

Two key matters affecting insurance risk are discussed below:

(i) Long-term insurance contracts

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

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

Frequency and severity of claims

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

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

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

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

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(e) Insurance risk (continued)

(i) Long-term insurance contracts (continued)

Frequency and severity of claims (continued)

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

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

Sources of uncertainty in the estimation of future benefit payments and premiums

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

Estimates are made of the expected number of deaths for each of the years in which the Group is exposed to risk. The Group bases these estimates on standard industry and international mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the Group's own experience.

Process used in deriving assumptions

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

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

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

(ii) Reinsurance risk

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

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(e) Insurance risk (continued)

(ii) Reinsurance risk (continued)

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

Type of insurance contract	**Retention**
Group creditor life contracts	maximum retention of $42,000 per insured
Individual Universal Life	maximum retention of $15,000 per insured

(iii) Sensitivity analysis of actuarial liabilities

Sensitivity arising from the valuation of life insurance contracts

The determination of actuarial liabilities is sensitive to a number of assumptions, and changes in these assumptions could have a significant effect on the valuation results.

In summary, the valuation of actuarial liabilities of life insurance contracts is sensitive to:

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

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

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

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

- operating expenses and taxes
- lapse
- mortality and morbidity

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

	The Group	
	2019	2018
Interest rates increase by 1%	49,960	25,269
Interest rates decrease by 1%	(1,634)	(25,055)
Mortality increases by 10%	453,164	496,742
Mortality decreases by 10%	(471,754)	(513,746)
Expenses increase by 10%	452,613	514,898
Expenses decrease by 10%	(448,942)	(509,248)
Lapses and withdrawals increase by 10%	382,366	331,011
Lapses and withdrawals decrease by 10%	(413,889)	(357,962)
Morbidity increase by 10%	126,398	-
Morbidity decrease by 10%	(127,649)	-
Premium persistency increase by 10%	(13,406)	-
Premium persistency decrease by 10%	13,353	-

49. Fair value of financial instruments

Determination of fair value

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

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

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

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

Fair value hierarchy

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

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

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

Basis of valuation

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

(i) financial instruments classified as fair value through OCI (2018: available-for-sale) are measured at fair value by reference to quoted market prices where available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques which include utilising recent transaction prices or broker quotes.

(ii) financial instruments classified as fair value through profit or loss: fair value is estimated by reference to quoted market prices where available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows. Fair value is equal to the carrying amount for these investments.

(iii) the fair values of liquid assets and other assets maturing within one year are considered to approximate their carrying amount. This assumption is applied to liquid assets and the short-term elements of all other financial assets and liabilities;

(iv) the fair values of demand deposits and savings accounts with no specific maturity are considered to be the amount payable on demand at the reporting date; the fair values of fixed-term interest bearing deposits are based on discounted cash flows using interest rates for new deposits;

(v) the fair values of variable rate financial instruments are considered to approximate their carrying amounts as they are frequently repriced to current market rates; and

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

49. Fair value of financial instruments (continued)

Basis of valuation (continued)

(vi) the fair value of fixed rate loans is estimated by comparing actual interest rates on the loans to current market rates offered on similar loans. For match-funded loans the fair value is assumed to be equal to their carrying value, as gains and losses offset each other. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amount of the allowance for credit losses from both book and fair values.

(vii) the fair values of quoted equity investments are based on quoted market bid prices. Equity securities for which fair values cannot be measured reliably are recognised at cost less allowance for credit losses.

Accounting classifications and fair values:

The following table shows the carrying amounts and fair values of financial assets and liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	The Group 2019							
	Carrying amount				Fair value			
	Amortised cost	Fair value through OCI	Fair value through profit or and loss	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Unquoted shares	-	5,105	-	5,105	-	-	5,105	5,105
Quoted shares	-	-	47,525	47,525	47,525	-	-	47,525
Government securities	-	113,883,543	2,871,304	116,754,847	-	116,754,847	-	116,754,847
Treasury bills	-	1,670,268	-	1,670,268	-	1,670,268	-	1,670,268
Corporate bonds	-	3,906,869	-	3,906,869	-	3,906,869	-	3,906,869
Unitised funds	-	-	342,748	342,748	-	342,748	-	342,748
	-	119,465,785	3,261,577	122,727,362	47,525	122,674,732	5,105	122,727,362
Pledged assets measured at fair value								
Government securities	-	6,089,986	-	6,089,986	-	6,089,986	-	6,089,986
Unitised funds	-	-	2,030,079	2,030,079	-	2,030,079	-	2,030,079
	-	6,089,986	2,030,079	8,120,065	-	8,120,065	-	8,120,065
Financial assets not measured at fair value								
Loans and receivables	69,289,475	-	-	69,289,475	-	-	72,156,422	72,156,422
Pledged assets not measured at fair value								
Government securities	-	281,845	-	281,845	-	360,390	-	360,390

	The Group 2018								
	Carrying amount					Fair value			
	Amortised cost	Held-to maturity	Available-for-sale	Fair value through profit or and loss	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value									
Unquoted shares	-	-	5,105	-	5,105	-	-	5,105	5,105
Government securities	-	-	115,928,217	24,175	115,952,392	-	115,952,392	-	115,952,392
Treasury bills	-	-	5,067,101	-	5,067,101	-	5,067,101	-	5,067,101
Corporate bonds	-	-	13,433,623	-	13,433,623	-	13,433,623	-	13,433,623
Unitised funds	-	-	298,740	-	298,740	-	298,740	-	298,740
	-	-	134,732,786	24,175	134,756,961	-	134,751,856	5,105	134,756,961

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

49. Fair value of financial instruments (continued)

Basis of valuation (continued)

Accounting classifications and fair values (continued):

	The Group								
	2018								
	Carrying amount					Fair value			
	Amortised cost	Held-to maturity	Available-for-sale	Fair value through profit or and loss	Total	Level 1	Level 2	Level 3	Total
Pledged assets measured at fair value									
Government securities	-	-	5,106,678	-	5,106,678	-	5,106,678	-	5,106,678
Corporate bonds	-	-	6,336,643	-	6,336,643	-	6,336,643	-	6,336,643
Unitised funds	-	-	1,749,483	-	1,749,483	-	1,749,483	-	1,749,483
	-	-	13,192,804	-	13,192,804	-	13,192,804	-	13,192,804
Financial assets not measured at fair value									
Loans and receivables	62,907,759	-	-	-	62,907,759	-	-	65,618,133	65,618,133
Pledged assets not measured at fair value									
Government securities	-	529,133	-	-	529,133	-	632,086	-	632,086

Valuation technique

All Government of Jamaica securities and international bonds are valued using the bid price from Bloomberg to estimate the fair value.

50. Capital risk management

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

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

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

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

Individual banking, investment and insurance subsidiaries are directly regulated by their designated regulator, who sets and monitors capital adequacy requirements. Required capital adequacy information is filed with the regulators at least quarterly.

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

50. Capital risk management (continued)

Banking, mortgage lending and investment management

Capital adequacy is reviewed by executive management, the Audit Committee and the Board of Directors. Based on the guidelines developed by Bank of Jamaica and the Financial Services Commission, each regulated entity is required to:

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

Regulatory capital is divided into two tiers:

1. Tier 1 capital comprises share capital, reserve fund and reserves created by appropriations of retained earnings. The carrying value of goodwill is deducted in arriving at Tier 1 capital; and

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

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

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

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

	Regulated by the BOJ[1]		Regulated by the FSC[2]	
	2019	2018	2019	2018
Tier 1 Capital	53,111,662	45,089,535	8,596,726	7,670,178
Tier 2 Capital	-	1,679,927	464,162	464,162
	53,111,662	46,769,462	9,060,888	8,134,340
Less prescribed deductions	(220,000)	(220,000)	-	-
Total regulatory capital	52,891,662	46,549,462	9,060,888	8,134,340

	Regulated by the BOJ[1]		Regulated by the FSC[2]	
	2019	2018	2019	2018
Risk weighted assets				
On-balance sheet	266,599,176	231,358,004	18,158,976	22,671,031
Off-balance sheet	43,893,751	27,143,489	885,157	800,284
Foreign exchange exposure	542,049	587,741	3,087,034	1,663,923
Total risk weighted assets	311,034,976	259,089,234	22,131,167	25,135,238
Actual regulatory capital to risk weighted assets	17.01%	17.97%	40.94%	32.36%
Regulatory requirement	10.00%	10.00%	10.00%	10.00%

[1] This relates to The Bank of Nova Scotia Jamaica Limited and The Scotia Jamaica Building Society.

[2] This relates to Scotia Investments Jamaica Limited.

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

50. Capital risk management (continued)

Life insurance business

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

	2019	2018
Regulatory capital held	6,753,810	9,978,945
Minimum regulatory capital	1,468,172	1,419,469
Minimum Continuing Capital on Surplus Requirements Ratio	460%	703%

51. Commitments

	The Group	
	2019	2018
(a) Capital expenditure - authorised and contracted	288,352	20,306
(b) Commitments to extend credit:		
Originated term to maturity of more than one year	44,070,237	28,247,570

(c) Operating lease commitments:

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

	The Group	
	2019	2018
Up to one year	158,576	162,132
One to five years	563,001	534,304
Over five years	1,571,109	1,621,684
	2,292,686	2,318,120

52. Fiduciary activities

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties. This involves the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements.

The subsidiary, Scotia Investments Jamaica Limited also manages funds on a non-recourse basis, on behalf of investors. The Group has no legal or equitable right or interest in these funds and accordingly, they have been excluded from the financial statements.

At October 31, 2019, the Group had assets under administration amounting to approximately $242,231,223 (2018: $220,343,952).

53. Litigation and contingent liabilities

The Group 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 Group, and the amount can be reasonably estimated.

October 31, 2019 (Expressed in thousands of Jamaican dollars unless otherwise stated)

53. Litigation and contingent liabilities (continued)

In respect of claims asserted against the Group 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 Group that is immaterial to both its financial position and financial performance.

54. Dividends

(a) Paid to stockholders:

	The Group and Company	
	2019	2018
In respect of 2019	13,099,806	-
In respect of 2018	1,586,913	4,480,694
In respect of 2017	-	1,493,565
	14,686,719	5,974,259

(b) Proposed

At the Board of Directors meeting on December 4, 2019, a dividend in respect of 2019 of $0.55 per share (2018: $0.51 per share) amounting to $1,711,365 (2018: $1,586,913) was proposed. Stockholders' equity for the current financial year does not reflect this resolution, which will be accounted for in stockholders' equity as an appropriation of retained profits in the ensuing financial year.

55. Employee Share Ownership Plan

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

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

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

The amount contributed by the Group to employee share purchase during the year, included in employee compensation, amounted to $43,184 (2018: $41,305).

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

	The Group	
	2019	2018
Number of shares	1,087,268	1,066,513
Fair value of shares $'000	59,745	57,293

Form of Proxy

Scotia Group Jamaica Limited (the "Company")

SCOTIA GROUP JAMAICA LIMITED

I/We..

of...

in the parish of...being a Member of the above Company, hereby appoint the Chairperson of the Meeting or failing him/her

(see Note 1) ....

of ....

or failing them ....

of...

as my/our Proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on the **12th** day of **March 2020** and at any adjournment thereof (the "Meeting").

Please indicate by inserting a cross in the appropriate square how you wish your votes to be cast. Unless otherwise instructed, the Proxy will vote or abstain from voting, at his/her discretion.

Ordinary Business		For	Against
Resolution 1	**Audited Accounts** That the Directors' Report, the Auditor's Report and the Statements of Account of the Company for the year ended October 31, 2019 previously circulated be and are hereby received.		

Ordinary Business		For	Against
Resolution 2	**Election of Directors** Article 107 of the Company's Articles of Incorporation provides that at each Annual General Meeting all Directors for the time being shall retire from office. The retiring Directors are: Barbara Alexander, Eric Crawford, Angela Fowler, Jeffrey Hall, Antony Mark Hart, Brendan King, W. David McConnell, David Noel, Leslie Reid, Audrey Richards and Evelyn Smith. The proposed resolutions for election/re-election of Directors proposed by the Board of Directors of the Company are:- a) "That retiring Director Barbara Alexander be and is hereby re-elected a Director of the Company." b) "That retiring Director Eric Crawford be and is hereby re-elected a Director of the Company." c) "That retiring Director Angela Fowler be and is hereby re-elected a Director of the Company." d) "That retiring Director Jeffrey Hall be and is hereby re-elected a Director of the Company." e) "That retiring Director Antony Mark Hart be and is hereby re-elected a Director of the Company." f) "That retiring Director Brendan King be and is hereby re-elected a Director of the Company." g) "That retiring Director W. David McConnell be and is hereby re-elected a Director of the Company." h) "That retiring Director David Noel be and is hereby re-elected a Director of the Company." i) "That retiring Director Leslie Reid be and is hereby re-elected a Director of the Company." j) "That retiring Director Audrey Richards be and is hereby re-elected a Director of the Company." k) "That retiring Director Evelyn Smith be and is hereby re-elected a Director of the Company."		
Resolution 3	**Appointment of Auditors** That KPMG, Chartered Accountants, having agreed to continue in office as Auditors, be and are hereby appointed Auditors of the Company to hold office until the next Annual General Meeting at a remuneration to be fixed by the Directors of the Company.		

As witness my hand this……………………………………………………………day of……………………
……………………………………………………………………………………………2020.

……………………………………………………
Signature

NOTES:

1. If you wish to appoint a proxy other than the Chairperson of the Meeting, please insert the person's name and address and delete (initialing the deletion) "the Chairperson of the Meeting".
2. To be valid, this form of proxy and the power of attorney or other authority (if any) under which it is signed must be lodged at the office of the Secretary of the Company, 9th Floor, Scotiabank Centre, Cnr. Duke & Port Royal Streets, Kingston, at least 48 hours before the time appointed for the holding of the Meeting.
3. To this form must be affixed a $100.00 stamp in payment of stamp duty.
4. In the case of joint shareholders, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority shall be determined by the order in which the names stand in the register of members.
5. To be effective, this form of proxy must be signed by the appointer or his/her attorney, duly authorised in writing or, if the appointer is a corporation, must be under its common seal or be signed by some officer or attorney duly authorised in that behalf.

NOTES

Contact Information

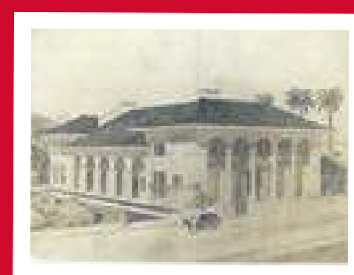
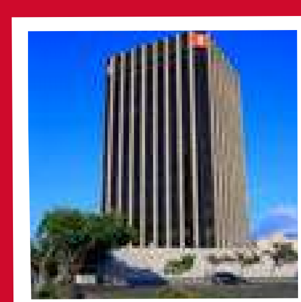
Call us at:
1-888-4-SCOTIA

E-mail general enquiries to:
customercare-jam@scotiabank.com

Visit our website at:
www.jm.scotiabank.com

130 YEARS
IN JAMAICA

On August 24, 2019 Scotiabank celebrated the significant milestone of providing 130 years of service to Jamaica. There is no other bank in Jamaica with that legacy and we are very proud of it. What began as one branch in downtown Kingston is now an islandwide network of 31 branches, 271 ATMs and a state of the art online banking platform. We continue to innovate and to redefine banking in Jamaica by investing in technology but our main strategic priority remains our customers. We look forward to continuing to help our customers achieve their financial goals and to being the Bank of choice for every future.


Left (colour illustration)– Scotiabank Centre branch exterior, 2019
Right – (top) Illustration of Kingston's main branch exterior, 1907 - 1908.
Right (colour photo)– Scotiabank Centre branch exterior, 1975 - Present
Right (bottom) – Montego Bay branch exterior, 1918.

Courtesy of the Scotiabank Archives.

Our Purpose

Scotiabank's purpose is:

for every future

Through our work, we enable futures for:

- Employees
- Customers
- Communities
- And building the future of the Bank, delivering for shareholders.

Why?

We believe banking is a calling. We have seen the positive impact that our Bank has had in communities across our footprint. From the jobs we create, to the investments we make in businesses and communities, to the values we uphold and promote, our Bank continues to serve as an important part of the economic and social fabric of the countries in which we live and work.

As we build a stronger Bank, it's up to each and every one of us to contribute to the legacy of those who have come before us and to continue to build our Bank *for every future*.

Our Values

Respect: Value Every Voice

Integrity: Act with Honour

Passion: Be Your Best

Accountability: Make it Happen

Scotiabank®