



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

INDEPENDENT AUDITORS' REPORT

To the Members of
SCOTIA GROUP JAMAICA LIMITED

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 11 to 101, 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.

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

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



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

<i>The key audit matter</i>	<i>How the matter was addressed in our audit</i>
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.	<p>Our procedures in this area included the following:</p> <ul style="list-style-type: none">• Testing controls over the Group's impairment process, such as:<ul style="list-style-type: none">(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)

<i>The key audit matter (continued)</i>	<i>How the matter was addressed in our audit (continued)</i>
<p>The combination of estimates and judgements increases the risk that management's estimate could be materially misstated.</p> <p><i>[see notes 3(o) and 24 of the financial statements]</i></p>	<p>Our procedures in this area included the following (continued):</p> <ul style="list-style-type: none">• 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

<i>The key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>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.</p> <p>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.</p> <p><i>[see notes 3, 21, 25 and 49 of the financial statements]</i></p>	<p>Our procedures in this area included the following:</p> <ul style="list-style-type: none">• 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

<i>The key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>Policyholders' liabilities represent 11% of the Group's total liabilities.</p> <p>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.</p> <p>The combination of assumptions and judgements increases the risk that management's estimate could be materially misstated.</p> <p><i>[see notes 3(j), 4, 39, and 48(e), of the financial statements]</i></p>	<p>Our procedures in this area included the following:</p> <ul style="list-style-type: none"> • 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

<i>The key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>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.</p> <p>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.</p> <p>The use of significant assumptions increases the risk that management's estimate can be materially misstated.</p> <p><i>[see notes 3(u) and 30 of the financial statements]</i></p>	<p>Our procedures in this area included the following:</p> <ul style="list-style-type: none">• 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.



Page 7

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.



Page 8

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 9-10, 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.

A handwritten signature in blue ink that reads 'KPMG'.

Chartered Accountants
Kingston, Jamaica

December 10, 2019



Page 9

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.



Page 10

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.

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

	Notes	2019	2018
Net interest income and other revenue			
Net interest income, calculated using the effective interest method			
Interest from loans and deposits with banks		23,203,128	22,352,770
Interest from securities		<u>4,525,460</u>	<u>6,058,328</u>
Total interest income	7	27,728,588	28,411,098
Interest expense	7	<u>(2,609,532)</u>	<u>(3,203,320)</u>
Net interest income		25,119,056	25,207,778
Expected credit losses		<u>(2,595,985)</u>	<u>(1,917,989)</u>
Net interest income after expected credit losses		<u>22,523,071</u>	<u>23,289,789</u>
Other revenue			
Fee and commission income	8	16,033,300	14,894,138
Fee and commission expense	8	<u>(7,928,559)</u>	<u>(6,767,110)</u>
		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	<u>220,891</u>	<u>29,297</u>
Total other revenue		<u>20,058,370</u>	<u>17,003,471</u>
		<u>42,581,441</u>	<u>40,293,260</u>
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		<u>9,534,744</u>	<u>8,169,243</u>
	13	<u>24,098,717</u>	<u>22,000,632</u>
Profit before taxation	14	18,482,724	18,292,628
Taxation	15	<u>(5,292,670)</u>	<u>(5,521,712)</u>
Profit for the year attributable to stockholders of the Company		<u>13,190,054</u>	<u>12,770,916</u>
EARNINGS PER STOCK UNIT (expressed in \$)			
attributable to stockholders of the Company	16	<u>4.24</u>	<u>4.10</u>

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

SCOTIA GROUP JAMAICA LIMITED**Consolidated Statement of Comprehensive Income****Year ended October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2019	2018
Profit for the year		<u>13,190,054</u>	<u>12,770,916</u>
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)	<u>(2,712,266)</u>	<u>(2,545,628)</u>
		<u>5,424,533</u>	<u>5,091,257</u>
Items that are or may be reclassified to profit or loss:			
Unrealised gains on investment securities		174,167	2,214,797
Realised gains on investment securities		<u>(697,931)</u>	<u>(514,087)</u>
Foreign operations – foreign currency translation		18,341	<u>(11,166)</u>
Expected credit losses on investment securities		<u>(87,963)</u>	<u>-</u>
		<u>(593,386)</u>	1,689,544
Taxation	37	<u>82,589</u>	<u>(361,294)</u>
		<u>(510,797)</u>	<u>1,328,250</u>
Other comprehensive income, net of tax		<u>4,913,736</u>	<u>6,419,507</u>
Total comprehensive income attributable to stockholders of the Company		<u>18,103,790</u>	<u>19,190,423</u>

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

SCOTIA GROUP JAMAICA LIMITED**Consolidated Statement of Financial Position****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2019	2018
ASSETS			
Cash resources			
Cash and balances at Bank of Jamaica	17	70,052,340	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	<u>26,442,800</u>	<u>35,221,037</u>
	20	<u>134,999,146</u>	<u>122,762,983</u>
Financial assets at fair value through profit or loss	21	<u>3,261,577</u>	<u>24,175</u>
Pledged assets	22	<u>15,670,497</u>	<u>21,433,179</u>
Loans, net of allowance for credit losses	23	<u>205,625,384</u>	<u>182,607,258</u>
Investment securities	25	<u>119,465,785</u>	<u>134,732,786</u>
Government securities purchased under resale agreements	26	<u>600,518</u>	<u>300,473</u>
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)	<u>117,518</u>	<u>67,105</u>
		<u>69,378,769</u>	<u>60,001,433</u>
		<u>549,001,676</u>	<u>521,862,287</u>

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

SCOTIA GROUP JAMAICA LIMITED**Consolidated Statement of Financial Position (Continued)**
October 31, 2019*(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2019	2018
LIABILITIES			
Deposits by the public	31	312,968,147	287,948,379
Due to other banks and financial institutions	32	7,127,995	6,823,007
Due to ultimate parent company	33	2,014,202	3,311,000
Due to fellow subsidiaries	34	<u>334,678</u>	<u>178,642</u>
		<u>322,445,022</u>	<u>298,261,028</u>
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)	<u>4,646,759</u>	<u>4,727,215</u>
		<u>63,302,535</u>	<u>62,661,200</u>
Policyholders' liabilities	39	<u>45,140,043</u>	<u>45,292,329</u>
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		<u>59,165,577</u>	<u>63,657,691</u>
Total equity		<u>118,114,076</u>	<u>115,647,730</u>
Total equity and liabilities		<u>549,001,676</u>	<u>521,862,287</u>

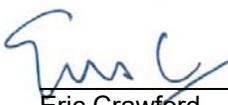
The financial statements on pages 11 to 101 were approved for issue by the Board of Directors and signed on its behalf on December 6, 2019 by:



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)

	Notes	Attributable to equity holders of the Company									Total
		Share capital	Reserve fund	Retained earnings reserve	Capital reserve	Cumulative remeasurement result from investment securities	Loan loss reserve	Other reserves	Translation reserves	Unappropriated profits	
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

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

	Notes	2019	2018
Cash flows from operating activities			
Profit for the year		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	<u>2,609,532</u>	<u>3,203,320</u>
		(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 17)		<u>11,331,478</u>	<u>(1,982,117)</u>

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

SCOTIA GROUP JAMAICA LIMITED**Consolidated Statement of Cash Flows (Continued)****Year ended October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

	Notes	2019	2018
Cash flows from operating activities			
(brought forward from page 16)		<u>11,331,478</u>	<u>(1,982,117)</u>
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)	<u>-</u>	<u>1,194,767</u>
Net cash provided by investing activities		<u>21,066,938</u>	<u>4,445,573</u>
Cash flows from financing activity			
Dividends paid to stockholders, being net cash used in financing activity	54	<u>(14,686,719)</u>	<u>(5,974,259)</u>
Effect of exchange rate changes on cash and cash equivalents		<u>4,884,146</u>	<u>329,260</u>
Net increase/(decrease) in cash and cash equivalents		22,595,843	(3,181,543)
Cash and cash equivalents at beginning of year		<u>70,854,714</u>	<u>74,036,257</u>
Cash and cash equivalents at end of year	20	<u>93,450,557</u>	<u>70,854,714</u>

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

SCOTIA GROUP JAMAICA LIMITED**Statement of Comprehensive Income
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	<u>280,932</u>	<u>212,986</u>
Net gains on foreign currency activities		1,261,747	63,568
Gain on sale of subsidiary	38(b)	-	1,075,750
Dividend income		<u>8,620,487</u>	<u>12,467,088</u>
		<u>9,882,234</u>	<u>13,606,406</u>
Total income		<u>10,163,166</u>	<u>13,819,392</u>
Expenses			
Asset tax		200	200
Other operating expenses		<u>46,616</u>	<u>44,616</u>
	13	<u>46,816</u>	<u>44,816</u>
Profit before taxation	14	10,116,350	13,774,576
Taxation	15	(58,579)	(42,048)
Profit for the year		<u>10,057,771</u>	<u>13,732,528</u>

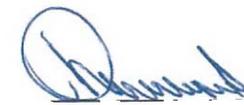
The accompanying notes form an integral part of the financial statements.

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		<u>238,153</u>	<u>272,312</u>
		<u>24,347,436</u>	<u>28,948,515</u>
LIABILITIES			
Accrued expenses and other liabilities		12,220	8,770
Taxation payable		61,139	34,160
Deferred tax liabilities	37	<u>8,559</u>	<u>11,119</u>
		<u>81,918</u>	<u>54,049</u>
EQUITY			
Share capital	40	6,569,810	6,569,810
Unappropriated profits		<u>17,695,708</u>	<u>22,324,656</u>
Total stockholders' equity		<u>24,265,518</u>	<u>28,894,466</u>
Total liabilities and equity		<u>24,347,436</u>	<u>28,948,515</u>

The financial statements on pages 11 to 101 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

SCOTIA GROUP JAMAICA LIMITED**Statement of Changes in Stockholders' Equity****Year ended October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)*

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

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

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

	Notes	2019	2018
Cash flows from operating activities			
Profit for the year		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	<u>58,579</u>	<u>42,048</u>
		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		<u>3,451</u>	<u>437</u>
		12,689,605	6,706,491
Interest received		291,174	181,422
Taxation paid		<u>(34,160)</u>	<u>(36,180)</u>
Net cash provided by operating activities		<u>12,946,619</u>	<u>6,851,733</u>
Cash flow from investing activity			
Net proceeds from sale of subsidiary		<u>-</u>	<u>1,275,750</u>
Cash flows from financing activity			
Dividends paid, being cash used in financing activity	54	<u>(14,686,719)</u>	<u>(5,974,259)</u>
Net (decrease)/increase in cash and cash equivalents		(1,740,100)	2,153,224
Cash and cash equivalents at beginning of year		<u>3,327,996</u>	<u>1,174,772</u>
Cash and cash equivalents at end of year	20	<u>1,587,896</u>	<u>3,327,996</u>

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

SCOTIA GROUP JAMAICA LIMITED

Notes to 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 		Financial Year-End
		Company	Subsidiary	
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)]

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***2. Changes in significant accounting policies***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:

	<u>The Group</u>
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	<u>401,766</u>
	(<u>493,768</u>)
Opening balance under IFRS 9 as at November 1, 2018	<u>63,163,923</u>

Cumulative remeasurement on investment securities:

	<u>The Group</u>
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	(<u>46,668</u>)
	(<u>456,957</u>)
Opening balance under IFRS 9 as at November 1, 2018	<u>1,445,804</u>

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

(b) Classification and measurement of financial instruments

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.

SCOTIA GROUP JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

2. Changes in significant accounting policies (continued)

IFRS 9 Financial Instruments (continued)

(b) Classification and measurement of financial instruments

Note	IAS 39 Classification	IFRS 9 Classification	IAS 39 carrying amount 31 October 2018 \$'000	Reclassification \$'000	Remeasurement \$'000	IFRS 9 carrying amount at 1 Nov 2018 \$'000
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	<u>13,232,396</u>	<u>-</u>	<u>(86,160)</u>	<u>13,146,236</u>
Total financial assets			<u>475,093,250</u>	<u>-</u>	<u>(1,352,491)</u>	<u>473,740,759</u>
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	<u>13,232,396</u>	<u>-</u>	<u>-</u>	<u>13,232,396</u>
Total financial liabilities			<u>314,502,338</u>	<u>-</u>	<u>-</u>	<u>314,502,338</u>

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

(c) Impairment of financial assets

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

Transition

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	-	<u>86,160</u>	<u>86,160</u>
Total	<u>2,215,663</u>	<u>1,460,022</u>	<u>3,675,685</u>

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.

SCOTIA GROUP JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

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;

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***3. Summary of significant accounting policies (continued)****(a) Basis of preparation (continued)****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).

The key principles in IFRS 17 are that an entity:

- 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.

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***3. Summary of significant accounting policies (continued)****(a) Basis of preparation (continued)****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.

SCOTIA GROUP JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

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.

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

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***3. Summary of significant accounting policies (continued)****(f) Revenue recognition***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.

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***3. Summary of significant accounting policies (continued)****(e) Revenue recognition (continued)***Fee and commission income (continued)**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.

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

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

SCOTIA GROUP JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(I) Financial assets and liabilities (continued)

Applicable from November 1, 2018 (continued)

Business model assessment

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.

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

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

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***3. Summary of significant accounting policies (continued)****(I) Financial assets and liabilities (continued)**

Applicable from November 1, 2018 (continued)

Financial liabilities designated at FVTPL (continued)

Financial liabilities 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.

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***3. Summary of significant accounting policies (continued)****(I) Financial assets and liabilities (continued)**

Applicable from November 1, 2018 (continued)

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.

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

SCOTIA GROUP JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(m) Embedded derivatives (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.

SCOTIA GROUP JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(o) Allowance for 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.

SCOTIA GROUP JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

3. Summary of significant accounting policies (continued)

(o) Allowance for 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.

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***3. Summary of significant accounting policies (continued)****(o) Allowance for 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.

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***3. Summary of significant accounting policies (continued)****(o) Allowance for 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.

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***3. Summary of significant accounting policies (continued)****(o) Allowance for 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

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

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***3. Summary of significant accounting policies (continued)****(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-employment 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.

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

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

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

SCOTIA GROUP JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

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

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

Expected credit losses

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.

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

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

SCOTIA GROUP JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

6. Segmental financial information (continued)

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

SCOTIA GROUP JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

6. Segmental financial information (continued)

	The Group							
	2018							
	Banking			Investment Management Services	Insurance Services	Other	Eliminations	Group
	Retail	Corporate and Commercial	Treasury					
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	<u>405,571</u>	<u>1,634,393</u>	<u>(2,347,057)</u>	<u>249,262</u>	<u>56,243</u>	<u>1,295</u>	<u>293</u>	<u>-</u>
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	<u>(13,803,172)</u>	<u>(6,673,444)</u>	<u>(586,333)</u>	<u>(1,506,962)</u>	<u>(1,228,131)</u>	<u>(44,816)</u>	<u>(75,763)</u>	<u>(23,918,621)</u>
Profit before tax	<u>4,880,419</u>	<u>2,753,963</u>	<u>4,103,839</u>	<u>1,837,000</u>	<u>3,807,993</u>	<u>984,884</u>	<u>(75,470)</u>	18,292,628
Taxation								<u>(5,521,712)</u>
Profit for the year								<u>12,770,916</u>
Segment assets	<u>120,517,664</u>	<u>82,562,123</u>	<u>177,823,742</u>	<u>37,606,313</u>	<u>60,359,317</u>	<u>28,948,515</u>	<u>(23,077,411)</u>	484,740,263
Unallocated assets								<u>37,122,024</u>
Total assets								<u>521,862,287</u>
Segment liabilities	<u>161,421,613</u>	<u>159,070,223</u>	<u>-</u>	<u>29,281,828</u>	<u>46,297,163</u>	<u>54,049</u>	<u>(10,411,625)</u>	385,713,251
Unallocated liabilities								<u>20,501,306</u>
Total liabilities								<u>406,214,557</u>
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	<u>387,412</u>	<u>196,496</u>	<u>-</u>	<u>133,322</u>	<u>4,970</u>	<u>-</u>	<u>-</u>	<u>722,200</u>

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

	<u>The Group</u>		<u>The Company</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
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	<u>21,588,387</u>	<u>20,717,231</u>	<u>-</u>	<u>5,279</u>
	<u>27,728,588</u>	<u>28,411,098</u>	<u>280,932</u>	<u>212,986</u>
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	-	-
	<u>2,609,532</u>	<u>3,203,320</u>	<u>-</u>	<u>-</u>
Net interest income	<u>25,119,056</u>	<u>25,207,778</u>	<u>280,932</u>	<u>212,986</u>

8. Net fee and commission income

	<u>The Group</u>	
	<u>2019</u>	<u>2018</u>
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	<u>1,768,073</u>	<u>1,494,678</u>
	16,033,300	14,894,138
Fee and commission expenses	<u>(7,928,559)</u>	<u>(6,767,110)</u>
	<u>8,104,741</u>	<u>8,127,028</u>

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:

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

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***10. Insurance revenue**

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

11. Other revenue

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

12. Salaries, pensions and other staff benefits

	<u>The Group</u>	
	<u>2019</u>	<u>2018</u>
Wages and salaries	9,692,602	9,001,681
Statutory payroll contributions	801,027	801,081
Other staff benefits	<u>1,667,128</u>	<u>1,533,737</u>
	<u>12,160,757</u>	<u>11,336,499</u>
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)]	<u>542,989</u>	<u>555,889</u>
	(1,016,854)	(889,679)
Total (note 13)	<u>11,143,903</u>	<u>10,446,820</u>

13. Expenses by nature

	<u>The Group</u>		<u>The Company</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
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	<u>787,948</u>	<u>739,679</u>	<u>3,546</u>	<u>2,240</u>
	<u>24,098,717</u>	<u>22,000,632</u>	<u>46,816</u>	<u>44,816</u>

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)**
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:

	<u>The Group</u>		<u>The Company</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
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	<u>430,750</u>	<u>451,624</u>	<u>-</u>	<u>-</u>

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

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

	<u>The Group</u>		<u>The Company</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Current income tax:				
Income tax at 33½%	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)]	<u>13,741</u>	<u>193,498</u>	<u>(2,560)</u>	<u>7,888</u>
	<u>5,292,670</u>	<u>5,521,712</u>	<u>58,579</u>	<u>42,048</u>

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

	<u>The Group</u>		<u>The Company</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Profit before taxation	<u>18,482,724</u>	<u>18,292,628</u>	<u>10,116,350</u>	<u>13,774,576</u>
Tax calculated at 25%	-	-	2,529,089	3,443,644
Tax calculated at 33½%	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	<u>(151,524)</u>	<u>138</u>	<u>(315,437)</u>	<u>(284,889)</u>
	<u>5,292,670</u>	<u>5,521,712</u>	<u>58,579</u>	<u>42,048</u>
Effective tax rate	<u>28.64%</u>	<u>30.19%</u>	<u>0.58%</u>	<u>0.31%</u>

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****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.

	<u>2019</u>	<u>2018</u>
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)	<u>3,111,573</u>	<u>3,111,573</u>
Earnings per stock unit (expressed in \$)	<u>4.24</u>	<u>4.10</u>

17. Cash and balances at Bank of Jamaica

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

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

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

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

18. Due from other banks

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

19. Accounts with parent and fellow subsidiaries

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

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)**
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	-	-
	<u>93,450,557</u>	<u>70,854,714</u>	<u>1,587,896</u>	<u>3,327,996</u>

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)	-	-
	<u>93,450,557</u>	<u>70,854,714</u>	<u>1,587,896</u>	<u>3,327,996</u>

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
	<u>3,261,577</u>	<u>24,175</u>

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.

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***22. Pledged assets (continued)**

	The Group	
	<u>2019</u>	<u>2018</u>
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	<u>1,666,966</u>	<u>1,554,672</u>
	<u>15,670,497</u>	<u>21,433,179</u>

Included in pledged assets are the following categories of assets:

	The Group	
	<u>2019</u>	<u>2018</u>
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)	<u>-</u>	<u>6,336,643</u>
	<u>15,670,497</u>	<u>21,433,179</u>

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

23. Loans, net of allowance for credit losses

	The Group	
	<u>2019</u>	<u>2018</u>
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	<u>1,097,773</u>	<u>1,020,983</u>
	209,775,324	184,822,921
Less: Allowance for expected credit losses (note 24)	<u>(4,149,940)</u>	<u>(2,215,663)</u>
	<u>205,625,384</u>	<u>182,607,258</u>

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

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

	The Group	
	<u>2019</u>	<u>2018</u>
Neither past due nor impaired	<u>192,215,332</u>	<u>170,589,863</u>
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	<u>1,250,537</u>	<u>861,830</u>
	<u>12,738,948</u>	<u>9,524,103</u>
Impaired:		
Past due more than 90 days	<u>3,723,273</u>	<u>3,687,971</u>
Interest receivable	<u>1,097,771</u>	<u>1,020,984</u>
Gross loan portfolio	209,775,324	184,822,921
Less: expected credit loss (2018: allowance for impairment losses)	<u>(4,149,940)</u>	<u>(2,215,663)</u>
Loans, net of allowance for credit losses	<u>205,625,384</u>	<u>182,607,258</u>

(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.

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

	The Group				2018 Total \$
	2019	2019	2019	2019	
	Stage 1	Stage 2	Stage 3	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)	<u>1,382,194</u>	<u>1,311,518</u>	<u>1,456,228</u>	<u>4,149,940</u>	<u>2,215,663</u>

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

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	<u>325,902</u>	<u>480,768</u>	<u>1,880,220</u>	<u>2,686,890</u>	<u>1,917,989</u>

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	<u>1,218,062</u>
Allowance as at November 1, 2018	<u>3,433,725</u>

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]	<u>2,304,057</u>	<u>2,377,843</u>
	<u>6,453,997</u>	<u>4,593,506</u>

(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).

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***25. Investment securities**

	<u>The Group</u>	
	<u>2019</u>	<u>2018</u>
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	<u>668,800</u>	<u>900,024</u>
	<u>119,465,785</u>	<u>134,732,786</u>

Included in investment securities are Government of Jamaica Benchmark Investment Notes with a book value of \$90,000 (2018: \$90,000) which have been deposited by one of the 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.

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

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

27. Sundry assets

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

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

	The Group				
	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	<u>39,918</u>	<u>9,752</u>	<u>452,587</u>	<u>(502,257)</u>	<u>-</u>
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	<u>89,846</u>	<u>64,337</u>	<u>257,818</u>	<u>(412,001)</u>	<u>-</u>
October 31, 2019	<u>4,460,135</u>	<u>549,082</u>	<u>7,575,976</u>	<u>810,034</u>	<u>13,395,227</u>
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	<u>-</u>	<u>-</u>	<u>(32,213)</u>	<u>-</u>	<u>(32,213)</u>
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	<u>-</u>	<u>-</u>	<u>(8,641)</u>	<u>-</u>	<u>(8,641)</u>
October 31, 2019	<u>1,031,705</u>	<u>510,110</u>	<u>6,025,568</u>	<u>-</u>	<u>7,567,383</u>
Net book values:					
October 31, 2019	<u>3,428,430</u>	<u>38,972</u>	<u>1,550,408</u>	<u>810,034</u>	<u>5,827,844</u>
October 31, 2018	<u>3,419,219</u>	<u>34,168</u>	<u>1,594,712</u>	<u>255,799</u>	<u>5,303,898</u>
October 31, 2017	<u>3,457,937</u>	<u>36,611</u>	<u>1,547,601</u>	<u>280,006</u>	<u>5,322,155</u>

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	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,323</u>	<u>22,323</u>
October 31, 2018 and 2019	<u>1,382,582</u>	<u>348,987</u>	<u>49,470</u>	<u>136,892</u>	<u>476,574</u>	<u>2,394,505</u>
Amortisation:						
October 31, 2017	937,191	71,574	5,333	40,229	223,712	1,278,039
Amortisation for the year	<u>88,492</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>66,060</u>	<u>154,552</u>
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	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,495</u>	<u>-</u>	<u>21,495</u>
October 31, 2019	<u>1,114,175</u>	<u>71,574</u>	<u>5,333</u>	<u>61,724</u>	<u>356,044</u>	<u>1,608,850</u>

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***29. Goodwill and intangible assets (continued)**

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

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)
	<u>39,057,891</u>	<u>29,789,872</u>

(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)	<u>81,759,728</u>	<u>70,550,611</u>
Asset in the statement of financial position	<u>43,704,650</u>	<u>34,517,087</u>

(ii) Movement in the 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)	<u>7,627,220</u>	<u>8,050,094</u>
Balance at end of year	<u>43,704,650</u>	<u>34,517,087</u>

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****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	<u>(38,055,078)</u>	<u>(36,033,524)</u>

(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	<u>6,926,239</u>	<u>5,404,457</u>
Fair value of plan assets at end of year	<u>81,759,728</u>	<u>70,550,611</u>

Plan assets consist of the following:

	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	<u>1,603,084</u>	<u>224,236</u>
	<u>81,759,728</u>	<u>70,550,611</u>

(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	<u>145,001</u>	<u>94,060</u>
	<u>(1,559,843)</u>	<u>(1,445,568)</u>

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****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	<u>-</u>	<u>(4,038,086)</u>
	<u>(7,627,220)</u>	<u>(8,050,094)</u>

(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 % <u>Increase</u>	1 % <u>Decrease</u>	1 % <u>Increase</u>	1 % <u>Decrease</u>
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	<u>1,415,000</u>	<u>(1,267,000)</u>	<u>1,458,000</u>	<u>(1,305,000)</u>

(viii) Liability duration

The average liability duration is as follows:

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

(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	<u>2.25%</u>	<u>3.50%</u>

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****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	
	<u>2019</u>	<u>2018</u>
Balance at beginning of year	(4,727,215)	(3,884,186)
Current service costs	(192,670)	(211,193)
Interest cost	(350,319)	(344,696)
Benefits paid	113,866	126,069
Actuarial gains arising from:		
Experience adjustments	65,690	77,624
Changes in financial assumptions	318,825	(758,912)
Changes in demographic assumptions	<u>125,064</u>	<u>268,079</u>
Balance at end of year	<u>(4,646,759)</u>	<u>(4,727,215)</u>

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

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

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

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

(iv) Principal actuarial assumptions:

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

(v) Sensitivity analysis on projected benefits obligation

The calculation of the projected 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			
	<u>2019</u>		<u>2018</u>	
	1% <u>Increase</u>	1% <u>Decrease</u>	1% <u>Increase</u>	1% <u>Decrease</u>
Discount rate	(703,000)	909,000	(736,000)	953,000
Future pension increases	803,000	(634,000)	861,000	(678,000)
Future salary increases	<u>17,000</u>	<u>(15,000)</u>	<u>15,000</u>	<u>(13,000)</u>

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****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:

	<u>The Group</u>	
	<u>2019</u>	<u>2018</u>
Active members and all participants (years)	<u>17.6</u>	<u>18.3</u>

31. Deposits by the public

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

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

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

(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.

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****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	
	<u>2019</u>	<u>2018</u>
Accrued staff benefits	2,700,320	2,216,051
Prepaid letters of credit	32,929	695,383
Provisions	434,369	404,942
Accrued liabilities	<u>3,671,781</u>	<u>3,120,401</u>
	<u>6,839,399</u>	<u>6,436,777</u>

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 33 $\frac{1}{3}$ %;
- Scotia Investments Jamaica Limited at 33 $\frac{1}{3}$ %;
- 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	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Balance as at beginning of year	(10,722,922)	(7,624,624)	(11,119)	(3,231)
Cumulative effect of adopting IFRS 9	<u>401,766</u>	<u>-</u>	<u>-</u>	<u>-</u>
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)	<u>2,560</u>	(7,888)
Recognised in other comprehensive income				
Remeasurement of defined benefits asset/obligations	(2,712,266)	(2,545,628)	<u>-</u>	<u>-</u>
Fair value through OCI (2018: Available-for-sale investments)				
- fair value remeasurement	(129,543)	(255,300)	<u>-</u>	<u>-</u>
- transfer to profit	<u>212,132</u>	(105,994)	<u>-</u>	<u>-</u>
	<u>82,589</u>	<u>361,294</u>	<u>-</u>	<u>-</u>
Other	(2,629,677)	(2,906,922)	<u>-</u>	<u>-</u>
	<u>-</u>	<u>2,122</u>	<u>-</u>	<u>-</u>
Balances at end of year	<u>(12,964,574)</u>	<u>(10,722,922)</u>	<u>(8,559)</u>	<u>(11,119)</u>

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****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:

	<u>The Group</u>		<u>The Company</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
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	<u>(12,964,574)</u>	<u>(10,722,922)</u>	<u>(8,559)</u>	<u>(11,119)</u>
	<u>The Group</u>		<u>The Company</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
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)
	<u>(12,964,574)</u>	<u>(10,722,922)</u>	<u>(8,559)</u>	<u>(11,119)</u>

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

	<u>The Group</u>		<u>The Company</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
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	-	-
	<u>13,741</u>	<u>193,498</u>	<u>(2,560)</u>	<u>7,888</u>

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.

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****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:

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

(b) Gain on sale of subsidiary:

	<u>2018</u>	
	<u>The Group</u>	<u>The Company</u>
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	<u>(74,250)</u>	<u>(74,250)</u>
Gain on sale of subsidiary	<u>753,145</u>	<u>1,075,750</u>

39. Policyholders' liabilities

(a) Composition of policyholders' liabilities:

	<u>The Group</u>	
	<u>2019</u>	<u>2018</u>
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	<u>844,546</u>	<u>580,711</u>
	<u>45,140,043</u>	<u>45,292,329</u>

(b) Movement in policyholders' liabilities:

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

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***39. Policyholders' liabilities (continued)**

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

	<u>The Group</u>		
	<u>2019</u>	<u>2018</u>	
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	<u>233,934</u>	<u>181,629</u>	
	<u>The Group</u>		
	<u>2019</u>	<u>2018</u>	
Unprocessed premiums:			
At beginning of year	12,639	14,902	
Premiums received	7,854,752	7,536,105	
Premiums applied	(7,845,885)	(7,538,368)	
At end of year	<u>21,506</u>	<u>12,639</u>	
Annuity fund:			
At beginning of year	539,869	493,549	
Issue of new annuities	72,574	62,483	
Payments	(38,706)	(35,660)	
Interest credited	19,078	19,497	
At end of year	<u>592,815</u>	<u>539,869</u>	
	<u>The Group</u>		
	<u>2019</u>		
	<u>Individual life</u>	<u>Group life</u>	<u>Total</u>
Insurance risk reserve:			
At beginning of year	(7,617,156)	580,711	(7,036,445)
Changes in assumptions	(372,760)	621	(372,139)
Normal changes	(364,949)	263,214	(101,735)
At end of year	<u>(8,354,865)</u>	<u>844,546</u>	<u>(7,510,319)</u>
	<u>2018</u>		
	<u>Individual life</u>	<u>Group life</u>	<u>Total</u>
Insurance risk reserve:			
At beginning of year	(6,905,597)	518,210	(6,387,387)
Changes in assumptions	(791,222)	(430)	(791,652)
Normal changes	79,663	62,931	142,594
At end of year	<u>(7,617,156)</u>	<u>580,711</u>	<u>(7,036,445)</u>

40. Share capital

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

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

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****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					Total	
	Ultimate parent	Fellow subsidiaries	Directors and key management personnel	Connected companies	2019	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	2018
Key management compensation		
Salaries and other short term benefits	862,213	922,147
Post-employment benefits	(163,224)	(197,611)
	<u>698,989</u>	<u>724,536</u>

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.

SCOTIA GROUP JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

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.

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

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****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:

Category of PD Grade	The Group			
	2019			
	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	<u>12,987</u>	<u>2,918,976</u>	<u>8,662</u>	<u>2,940,625</u>
Subtotal: PD Grades (Advanced Models)	<u>114,683,534</u>	<u>7,053,311</u>	<u>8,662</u>	<u>121,745,507</u>
Loans not graded (Intermediate or simplified or gross-up)	3,148,381	212,406	-	3,360,787
Default	<u>-</u>	<u>-</u>	<u>3,056,558</u>	<u>3,056,558</u>
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	<u>116,682,022</u>	<u>6,130,146</u>	<u>1,812,654</u>	<u>124,624,822</u>

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****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			<u>62,954,989</u>	<u>17,999,046</u>	<u>658,437</u>	<u>81,612,472</u>
Expected credit loss allowance			<u>(232,302)</u>	<u>(175,945)</u>	<u>(203,663)</u>	<u>(611,910)</u>
Carrying amount			<u>62,722,687</u>	<u>17,823,101</u>	<u>454,774</u>	<u>81,000,562</u>

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.

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****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	<u>0.3</u>	<u>0.7</u>
	<u>100.0</u>	<u>100.0</u>

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

Debt securities:

	The Group		
	2019		2018
	<u>Stage 1</u>	<u>Total</u>	<u>Total</u>
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	<u>1,438,854</u>	<u>1,438,854</u>	<u>1,769,663</u>
Allowance	<u>134,255,903</u>	<u>134,255,903</u>	<u>171,821,604</u>

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)	<u>6,089,986</u>	<u>11,443,320</u>
	<u>134,255,903</u>	<u>171,821,604</u>

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****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.

(iii) 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	<u>209,775,324</u>	<u>13,606,718</u>	223,382,042	198,055,317
Total allowance for credit losses			(4,262,520)	(2,215,663)
			<u>219,119,522</u>	<u>195,839,654</u>

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****October 31, 2019***(Expressed in thousands of Jamaican dollars unless otherwise stated)***48. Financial risk management (continued)****(b) Credit risk (continued)**

(iii) 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.

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****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						Total
	2019						
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	
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	-	-

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****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	<u>2.46</u>	<u>2.95</u>	<u>2.56</u>	<u>-</u>	<u>-</u>	<u>2.50</u>
2018						
	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Weighted average %
ASSETS						
Cash resources	1.85	2.32	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	<u>2.71</u>	<u>2.95</u>	<u>3.00</u>	<u>-</u>	<u>-</u>	<u>2.78</u>

(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.

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****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.

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****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	
JMD Interest rates	Increase/decrease by 225 bps		Increase/decrease 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	<u>9,700,142</u>	<u>11,792,960</u>	<u>67,597</u>	<u>37,453</u>

(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						Total
	JMD	USD	CAD	GBP	EUR	Other	
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	<u>61,815,266</u>	<u>7,443,610</u>	<u>8,571</u>	<u>1,172</u>	<u>110,150</u>	<u>-</u>	<u>69,378,769</u>
	<u>388,191,830</u>	<u>149,757,621</u>	<u>4,071,988</u>	<u>5,911,793</u>	<u>792,276</u>	<u>276,168</u>	<u>549,001,676</u>
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	<u>45,140,043</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,140,043</u>
	<u>281,585,805</u>	<u>137,948,545</u>	<u>3,943,082</u>	<u>6,267,502</u>	<u>952,209</u>	<u>190,457</u>	<u>430,887,600</u>
NET POSITION	<u>106,606,025</u>	<u>11,809,076</u>	<u>128,906</u>	<u>(355,709)</u>	<u>(159,933)</u>	<u>85,711</u>	<u>118,114,076</u>

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****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						Total
	JMD	USD	CAD	GBP	EUR	Other	
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	<u>52,380,371</u>	<u>7,223,158</u>	<u>9,109</u>	<u>2,732</u>	<u>507,811</u>	<u>(121,748)</u>	<u>60,001,433</u>
	<u>354,672,012</u>	<u>156,671,076</u>	<u>4,052,061</u>	<u>4,941,264</u>	<u>1,379,783</u>	<u>146,091</u>	<u>521,862,287</u>
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	<u>5,321,356</u>	<u>17,249,469</u>	<u>204,562</u>	<u>908,860</u>	<u>113,678</u>	<u>-</u>	<u>23,797,925</u>
	<u>254,821,537</u>	<u>140,814,117</u>	<u>3,921,732</u>	<u>5,538,845</u>	<u>1,092,443</u>	<u>25,883</u>	<u>406,214,557</u>
NET POSITION	<u>99,850,475</u>	<u>15,856,959</u>	<u>130,329</u>	<u>(597,581)</u>	<u>287,340</u>	<u>120,208</u>	<u>115,647,730</u>

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	<u>145.7749</u>	<u>150.2552</u>	<u>152.1042</u>	<u>144.4428</u>

Sensitivity to foreign exchange rate movements

A weakening of the JMD against the 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.

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****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	
	<u>2019</u> Increase/decrease	<u>2018</u> Increase/decrease
USD	by 8.25%	by 8.75%
CAD	by 4.50%	by 9.00%
GBP	by 2.95%	by 8.25%
EUR	<u>by 4.00%</u>	<u>by 9.00%</u>
	<u>2019</u>	<u>2018</u>
Effect on profit and stockholders' equity	<u>425,473</u>	<u>480,053</u>

(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.

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****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					Carrying amounts
	2019	2019	2019	2019	2019	
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total	
Financial liabilities						
Deposits, due to financial institutions, parent company and fellow subsidiaries	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	<u>42,041,730</u>	<u>10,130,857</u>	<u>-</u>	<u>-</u>	<u>52,172,587</u>	<u>45,140,043</u>
Total liabilities	<u>380,943,503</u>	<u>20,450,865</u>	<u>4,112,158</u>	<u>7,233,413</u>	<u>412,739,939</u>	<u>405,026,168</u>
	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	<u>41,914,328</u>	<u>10,611,428</u>	<u>-</u>	<u>-</u>	<u>52,525,756</u>	<u>45,292,329</u>
Total liabilities	<u>356,737,286</u>	<u>23,316,086</u>	<u>5,715,374</u>	<u>8,033,215</u>	<u>393,801,961</u>	<u>383,623,744</u>

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****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	<u>25,876,992</u>	<u>42</u>	<u>23,756,314</u>	<u>42</u>
Total	<u>61,456,641</u>	<u>100</u>	<u>56,489,168</u>	<u>100</u>

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)**
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	<u>37,498,338</u>	<u>36</u>	<u>31,452,790</u>	<u>36</u>
Total	<u>104,970,409</u>	<u>100</u>	<u>86,464,588</u>	<u>100</u>

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

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.

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****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%	<u>13,353</u>	<u>-</u>

SCOTIA GROUP JAMAICA LIMITED

Notes to the Financial Statements (Continued)

October 31, 2019

(Expressed in thousands of Jamaican dollars unless otherwise stated)

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

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****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 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
	-	<u>119,465,785</u>	<u>3,261,577</u>	<u>122,727,362</u>	<u>47,525</u>	<u>122,674,732</u>	<u>5,105</u>	<u>122,727,362</u>
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
	-	<u>6,089,986</u>	<u>2,030,079</u>	<u>8,120,065</u>	-	<u>8,120,065</u>	-	<u>8,120,065</u>
Financial assets not measured at fair value								
Loans and receivables	<u>69,289,475</u>	-	-	<u>69,289,475</u>	-	-	<u>72,156,422</u>	<u>72,156,422</u>
Pledged assets not measured at fair value								
Government securities	-	<u>281,845</u>	-	<u>281,845</u>	-	<u>360,390</u>	-	<u>360,390</u>

	The Group								
	2018								
	Carrying amount				Fair value				
Amortised cost	Held-to-maturity	Available-for-sale	Fair value through profit or 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
	-	-	<u>134,732,786</u>	<u>24,175</u>	<u>134,756,961</u>	-	<u>134,751,856</u>	<u>5,105</u>	<u>134,756,961</u>

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****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 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
	<u>-</u>	<u>-</u>	<u>13,192,804</u>	<u>-</u>	<u>13,192,804</u>	<u>-</u>	<u>13,192,804</u>	<u>-</u>	<u>13,192,804</u>
Financial assets not measured at fair value									
Loans and receivables	<u>62,907,759</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>62,907,759</u>	<u>-</u>	<u>-</u>	<u>65,618,133</u>	<u>65,618,133</u>
Pledged assets not measured at fair value									
Government securities	<u>-</u>	<u>529,133</u>	<u>-</u>	<u>-</u>	<u>529,133</u>	<u>-</u>	<u>632,086</u>	<u>-</u>	<u>632,086</u>

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.

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****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:

	<u>2019</u>	<u>2018</u>
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	<u>460%</u>	<u>703%</u>

51. Commitments

	<u>The Group</u>	
	<u>2019</u>	<u>2018</u>
(a) Capital expenditure - authorised and contracted	<u>288,352</u>	<u>20,306</u>
(b) Commitments to extend credit:		
Originated term to maturity of more than one year	<u>44,070,237</u>	<u>28,247,570</u>
(c) Operating lease commitments:		

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

	<u>The Group</u>	
	<u>2019</u>	<u>2018</u>
Up to one year	158,576	162,132
One to five years	563,001	534,304
Over five years	<u>1,571,109</u>	<u>1,621,684</u>
	<u>2,292,686</u>	<u>2,318,120</u>

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.

SCOTIA GROUP JAMAICA LIMITED**Notes to the Financial Statements (Continued)****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:

	<u>The Group and Company</u>	
	<u>2019</u>	<u>2018</u>
In respect of 2019	13,099,806	-
In respect of 2018	1,586,913	4,480,694
In respect of 2017	-	<u>1,493,565</u>
	<u>14,686,719</u>	<u>5,974,259</u>

(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:

	<u>The Group</u>	
	<u>2019</u>	<u>2018</u>
Number of shares	<u>1,087,268</u>	<u>1,066,513</u>
Fair value of shares \$'000	<u>59,745</u>	<u>57,293</u>