SCOTIA GROUP JAMAICA LIMITED

FINANCIAL STATEMENTS

OCTOBER 31, 2022

KPMG
Chartered Accountants
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# INDEPENDENT AUDITORS' REPORT

To the Members of
SCOTIA GROUP JAMAICA LIMITED

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Scotia Group Jamaica Limited ("the Company") comprising the separate financial statements of the Company and the consolidated financial statements of the Company and its subsidiaries ("the Group"), set out on pages 11 to 95, which comprise the Group's and Company's statements of financial position as at October 31, 2022, 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, 2022, 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 International Code of Ethics for Professional Accountants including International Independence Standards (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
SCOTIA GROUP JAMAICA LIMITED

**Report on the Audit of the Financial Statements (continued)**

*Key Audit Matters*

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

1. Expected credit losses

| *The key audit matter* | *How the matter was addressed in our audit* |
|---|---|
| Loans, net of allowance for expected credit losses, represent 40% or $238 billion of the Group's total assets and financial investments subject to credit losses represent 27% or $162 billion of the Group's total assets. Allowance for credit losses on loans of $6 billion and a charge of $3 billion have been recognised by the Group.<br><br>The Group applies a three-stage approach to measure the allowance for credit losses, using an Expected Credit Loss (ECL) approach as required under IFRS 9 *Financial Instruments*. The Group's allowance for credit losses are outputs of complex models and there is a high degree of measurement uncertainty due to significant judgements inherent in the Group's methodology such as judgements about forward-looking information. These judgements impact certain inputs, assumptions, qualitative adjustments or overlays, and the determination of when there has been a significant increase in credit risk.<br><br>*[see notes 2(o), 3(i) and 23 of the financial statements]* | Our procedures in this area included the following:<br><br>• Testing the Group's controls related to data flows between source systems and the ECL models with the assistance of our Information Technology Specialists.<br><br>• With the assistance of our Financial Risk Management Specialists:<br>- Testing model validation and/or performance monitoring controls to ensure key parameters [Probability of default (PD); Loss Given Default (LGD); Exposure at Default (EAD) and Significant Increase in Credit Risk (SIR)] used in the models are appropriate and reasonable.<br>- Testing management's control over the selection of macro-economic variables and assessing the reasonableness of these variables.<br>- Recalculating a sample of ECL calculations for each model. |

**Report on the Audit of the Financial Statements (continued)**

*Key Audit Matters (continued)*

1. Expected credit losses (continued)

| *The key audit matter (continued)* | *How the matter was addressed in our audit (continued)* |
|---|---|
| | Our procedures in this area included the following (continued):<br>• With the assistance of our Financial Risk Management Specialists (continued):<br>- Reviewing, assessing and evaluating limitations of the models used.<br>- Assessing the appropriateness of inclusion of the methodology to calculate management's qualitative adjustment overlay.<br>- Testing controls over management's evaluation of actual ECL results.<br>• Assessing whether disclosures in the financial statements are adequate in respect of the Group's exposure to credit risk and measurement of allowance for expected credit losses. |

**Report on the Audit of the Financial Statements (continued)**

*Key Audit Matters (continued)*

2. Fair value of investments

| *The key audit matter* | *How the matter was addressed in our audit* |
|---|---|
| Investment securities measured at fair value represent 28% 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.<br><br>Management used valuation techniques which require inputs such as market yields obtained from established yield curves.<br><br>*[see notes 2(l), 3(ii), 20, 24 and 47 of the financial statements]* | Our procedures in this area included the following:<br>• Assessing and testing the design and operating effectiveness of the Group's controls over the determination and computation of fair values.<br>• Challenging the reasonableness of the Group's yield curve by comparing yields/prices to independent third-party pricing sources.<br>• Involving our own Financial Risk Management Specialists to determine or obtain yields or prices of specific securities and comparing these to management's estimates.<br>• Assessing the adequacy of the disclosures, including the degree of estimation involved in determining fair values. |

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
SCOTIA GROUP JAMAICA LIMITED

**Report on the Audit of the Financial Statements (continued)**

*Key Audit Matters (continued)*

3. Valuation of policyholders' liabilities

| *The key audit matter* | *How the matter was addressed in our audit* |
|---|---|
| Policyholders' liabilities represent 10% or $46 billion of the Group's total liabilities.<br><br>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.<br><br>The combination of assumptions and judgements increases the risk that management's estimate could be materially misstated.<br><br>*[see notes 2(j), 3(iii), 37, and 46(e), of the financial statements]* | Our procedures in this area included the following:<br><br>• Assessing and testing the design and operating effectiveness of the Group's controls over the initiation of insurance products and disbursements.<br><br>• Involving our own Information Risk Management Specialists to assess and test the controls related to the data file provided by management to the actuarial expert.<br><br>• Selecting a sample of contracts and agreeing the terms to the data file provided by management to the actuarial expert.<br><br>• 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.<br><br>• Assessing whether disclosures in the financial statements are adequate in respect of the Group's exposure to insurance risk. |

## Report on the Audit of the Financial Statements (continued)

*Key Audit Matters (continued)*

4. Valuation of retirement benefits asset and obligations

| *The key audit matter* | *How the matter was addressed in our audit* |
|---|---|
| The Group operates a defined benefit retirement scheme and provides other unfunded retirement benefits. Significant estimates are made in valuing the Group's retirement benefits asset and obligations.<br><br>The valuations are considered to be a significant risk, as given the size of the asset 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 asset and liabilities are discount rates, inflation and future increases in salaries and pensions.<br><br>The use of significant assumptions increases the risk that management's estimate can be materially misstated.<br><br>*[see notes 2(u), 3(iv) and 29 of the financial statements]* | Our procedures in this area included the following:<br>• Comparing the discount and the inflation rates used to independent sources.<br>• Recomputing interest income and costs associated with retirement benefits.<br>• Testing the fair value computation of a sample of the scheme's assets.<br>• Testing a sample of employee data provided by management to the actuarial expert.<br>• Assessing the objectivity, qualification, and experience of management's actuarial expert.<br>• Involving our own Actuarial Specialist to review assumptions used by management's actuarial expert.<br>• Assessing whether disclosures in the financial statements are appropriate in respect of the Group's retirement benefit arrangements. |

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.

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 Cynthia Lawrence.

KPMG

Chartered Accountants
Kingston, Jamaica

December 20, 2022

**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.

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, actions taken to eliminate threats or safeguards applied.

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, 2022**
(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

| | Notes | 2022 | 2021 Restated* |
|---|---|---|---|
| **Net interest income and other revenue** | | | |
| **Net interest income calculated using the effective interest method** | | | |
| Interest from loans and deposits with banks | | 24,041,563 | 20,652,591 |
| Interest from securities | | 6,114,361 | 3,643,598 |
| | | 30,155,924 | 24,296,189 |
| Interest income on securities at fair value through profit and loss | | 242,885 | 271,635 |
| Total interest income | | 30,398,809 | 24,567,824 |
| Interest expense | 6 | ( 1,779,472) | ( 1,856,335) |
| Net interest income | 6 | 28,619,337 | 22,711,489 |
| Expected credit losses | | ( 3,057,324) | ( 2,809,239) |
| Net interest income after expected credit losses | | 25,562,013 | 19,902,250 |
| **Other revenue** | | | |
| Fee and commission income | 7 | 19,509,388 | 15,612,562 |
| Fee and commission expense | 7 | (13,333,060) | ( 9,524,242) |
| | 7 | 6,176,328 | 6,088,320 |
| Net gains on foreign currency activities | 8(a) | 7,210,517 | 7,556,774 |
| Net (losses)/gains on financial assets | 8(b) | ( 141,278) | 604,430 |
| Insurance revenue | 9 | 3,035,990 | 2,633,082 |
| Other revenue | 10 | 950,666 | 1,023,004 |
| Total other revenue | | 17,232,223 | 17,905,610 |
| | | 42,794,236 | 37,807,860 |
| **Expenses** | | | |
| Salaries, pensions and other staff benefits | 11 | 10,307,104 | 9,475,842 |
| Property expenses, including depreciation | | 2,510,371 | 2,331,915 |
| Amortisation of intangible assets | 28 | 119,654 | 97,672 |
| Asset tax | | 1,316,085 | 1,217,783 |
| Other operating expenses | | 11,336,958 | 12,015,469 |
| | 12 | 25,590,172 | 25,138,681 |
| **Profit before taxation** | 13 | 17,204,064 | 12,669,179 |
| **Taxation** | 14 | ( 5,524,166) | ( 4,030,327) |
| **Profit for the year attributable to stockholders of the Company** | | 11,679,898 | 8,638,852 |
| **EARNINGS PER STOCK UNIT** (expressed in $) **attributable to stockholders of the Company** | 15 | 3.75 | 2.78 |

*See note 54
The accompanying notes form an integral part of the financial statements.

**SCOTIA GROUP JAMAICA LIMITED**

**Consolidated Statement of Comprehensive Income**
**Year ended October 31, 2022**
(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

| | Notes | 2022 | 2021 Restated* |
|---|---|---|---|
| **Profit for the year** | | 11,679,898 | 8,638,852 |
| **Other comprehensive loss:** | | | |
| Items that will not be reclassified to profit or loss: | | | |
| Remeasurement of retirement benefits plan asset and obligations | 29(c) | ( 8,463,456) | 1,042,798 |
| Taxation | 36(a) | 2,821,152 | ( 347,600) |
| | | ( 5,642,304) | 695,198 |
| Items that are or will be reclassified subsequently to profit or loss: | | | |
| Unrealised losses on investment securities | | ( 7,013,781) | (2,058,859) |
| Realised gains on investment securities | | 86,101 | 41,377 |
| Foreign operations – foreign currency translation | | ( 3,770) | 32,091 |
| Expected credit losses on investment securities | | 30,685 | 4,811 |
| | | ( 6,900,765) | (1,980,580) |
| Taxation | 36(a) | 2,075,001 | 545,523 |
| | | ( 4,825,764) | (1,435,057) |
| Other comprehensive loss, net of tax | | (10,468,068) | ( 739,859) |
| **Total comprehensive income attributable to stockholders of the Company** | | 1,211,830 | 7,898,993 |

*See note 54
The accompanying notes form an integral part of the financial statements.

**SCOTIA GROUP JAMAICA LIMITED**

**Consolidated Statement of Financial Position**
**October 31, 2022**
(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

| | Notes | 2022 | 2021 Restated* | 2020 Restated* |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Cash resources** | | | | |
| Cash and balances at Bank of Jamaica | 16 | 84,652,650 | 101,249,141 | 68,539,905 |
| Government and bank notes other than Jamaican | 19 | 7,126,960 | 2,416,012 | 1,634,969 |
| Due from other banks | 17 | 21,049,363 | 35,342,911 | 43,513,493 |
| Accounts with parent and fellow subsidiaries | 18 | 36,163,211 | 29,667,548 | 27,568,399 |
| | 19 | 148,992,184 | 168,675,612 | 141,256,766 |
| **Financial assets at fair value through profit or loss** | 20 | 3,035,413 | 3,703,002 | 3,685,340 |
| **Pledged assets** | 21 | 15,598,720 | 15,639,678 | 17,179,792 |
| **Loans, net of allowance for credit losses** | 22 | 237,786,054 | 208,523,054 | 220,726,834 |
| **Investment securities** | 24 | 148,846,066 | 141,625,200 | 116,397,816 |
| **Government securities purchased under resale agreements** | 25 | 751,427 | - | 1,100,871 |
| **Other assets** | | | | |
| Taxation recoverable | | 2,591,341 | 2,262,233 | 2,675,632 |
| Other assets | 26 | 3,128,904 | 4,036,354 | 2,597,940 |
| Property and equipment | 27 | 9,311,741 | 8,851,961 | 8,558,323 |
| Goodwill and intangible assets | 28 | 552,036 | 570,421 | 668,093 |
| Retirement benefits asset | 29(a) | 23,561,041 | 31,254,250 | 28,242,497 |
| Deferred tax assets | 36(b) | 1,443,296 | 441,444 | 236,112 |
| | | 40,588,359 | 47,416,663 | 42,978,597 |
| | | 595,598,223 | 585,583,209 | 543,326,016 |

*See note 54
The accompanying notes form an integral part of the financial statements.

**SCOTIA GROUP JAMAICA LIMITED**

**Consolidated Statement of Financial Position (Continued)**
**October 31, 2022**
(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

| | Notes | 2022 | 2021 Restated* | 2020 Restated* |
|---|---|---|---|---|
| **LIABILITIES** | | | | |
| Deposits by the public | 30 | 397,176,483 | 378,473,110 | 336,660,438 |
| Due to other banks and financial institutions | 31 | 1,047,139 | 1,283,410 | 3,567,722 |
| Due to ultimate parent company | 32 | 14,458 | 311,274 | 881,034 |
| Due to fellow subsidiaries | 33 | 499,535 | 363,132 | 264,384 |
| | | 398,737,615 | 380,430,926 | 341,373,578 |
| **Other liabilities** | | | | |
| Cheques and other instruments in transit | 19 | 3,546,806 | 3,155,909 | 2,957,038 |
| Capital management and government securities funds | 34 | 14,128,403 | 18,808,108 | 19,157,775 |
| Other liabilities | 35 | 11,058,328 | 10,135,723 | 11,406,127 |
| Taxation payable | | 2,932,202 | 445,460 | 710,833 |
| Deferred tax liabilities | 36(b) | 3,501,883 | 7,508,730 | 6,960,013 |
| Retirement benefits obligations | 29(b)(i) | 4,557,782 | 5,237,873 | 4,541,887 |
| | | 39,725,404 | 45,291,803 | 45,733,673 |
| **Policyholders' liabilities** | 37 | 46,284,431 | 45,865,307 | 45,299,616 |
| **EQUITY** | | | | |
| Share capital | 38 | 6,569,810 | 6,569,810 | 6,569,810 |
| Reserve fund | 39 | 3,249,976 | 3,249,976 | 3,249,976 |
| Retained earnings reserve | 40 | 45,891,770 | 45,891,770 | 45,891,770 |
| Capital reserve | 41 | 11,340 | 11,340 | 11,340 |
| Cumulative remeasurement result from investment securities | 42 | (5,431,669) | (609,675) | 857,473 |
| Loan loss reserve | 43 | 361,367 | 334,797 | 220,791 |
| Other reserves | 44 | 9,964 | 9,964 | 9,964 |
| Translation reserve | | 34,935 | 38,705 | 6,614 |
| Unappropriated profits | | 60,153,280 | 58,498,486 | 54,101,411 |
| **Total equity** | | 110,850,773 | 113,995,173 | 110,919,149 |
| **Total liabilities and equity** | | 595,598,223 | 585,583,209 | 543,326,016 |

The financial statements on pages 11 to 95 were approved for issue by the Board of Directors and signed on its behalf on December 20, 2022 by:

_________________________ Director
Anya Schnoor

_________________________ Director
Audrey Tugwell Henry

_________________________ Director
Eric Crawford

_________________________ Secretary
Maia Wilson

*See note 54

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, 2022**
(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

| | | Attributable to equity holders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Share capital | Reserve fund | Retained earnings reserve | Capital reserve | Cumulative remeasurement result from investment securities | Loan loss reserve | Other reserves | Translation reserve | Unappropriated profits | Total |
| **Balance as at November 1, 2020, as previously reported** | | 6,569,810 | 3,249,976 | 45,891,770 | 11,340 | 857,473 | 220,791 | 9,964 | 6,614 | 53,937,896 | 110,755,634 |
| Prior year adjustment (note 54) | | - | - | - | - | - | - | - | - | 163,515 | 163,515 |
| **Balance as at November 1, 2020, as restated*** | | 6,569,810 | 3,249,976 | 45,891,770 | 11,340 | 857,473 | 220,791 | 9,964 | 6,614 | 54,101,411 | 110,919,149 |
| Profit for the year, as restated* | | - | - | - | - | - | - | - | - | 8,638,852 | 8,638,852 |
| Other comprehensive income: | | | | | | | | | | | |
| Remeasurement of retirement benefit plan/obligations | | - | - | - | - | - | - | - | - | 695,198 | 695,198 |
| Foreign currency translation | | - | - | - | - | - | - | - | 32,091 | - | 32,091 |
| Unrealised losses on investment securities, net of taxes and provisions | | - | - | - | - | (1,494,525) | - | - | - | - | ( 1,494,525) |
| Realised losses on investment securities, net of taxes | | - | - | - | - | 27,377 | - | - | - | - | 27,377 |
| Total other comprehensive income | | - | - | - | - | (1,467,148) | - | - | 32,091 | 695,198 | ( 739,859) |
| Total comprehensive income | | - | - | - | - | (1,467,148) | - | - | 32,091 | 9,334,050 | 7,898,993 |
| Transfer to loan loss reserve | | - | - | - | - | - | 114,006 | - | - | ( 114,006) | - |
| Transaction with owners of the Company: | | | | | | | | | | | |
| Dividends paid | 52 | - | - | - | - | - | - | - | - | ( 4,822,969) | ( 4,822,969) |
| Net movement for the year | | - | - | - | - | - | 114,006 | - | - | ( 4,936,975) | ( 4,822,969) |
| **Balances at October 31, 2021, as restated*** | | 6,569,810 | 3,249,976 | 45,891,770 | 11,340 | ( 609,675) | 334,797 | 9,964 | 38,705 | 58,498,486 | 113,995,173 |
| Profit for the year | | - | - | - | - | - | - | - | - | 11,679,898 | 11,679,898 |
| Other comprehensive income: | | | | | | | | | | | |
| Remeasurement of retirement benefit plan/obligations | | - | - | - | - | - | - | - | - | ( 5,642,304) | ( 5,642,304) |
| Foreign currency translation | | - | - | - | - | - | - | - | ( 3,770) | - | ( 3,770) |
| Unrealised losses on investment securities, net of taxes and provisions | | - | - | - | - | (4,879,394) | - | - | - | - | ( 4,879,394) |
| Realised losses on investment securities, net of taxes | | - | - | - | - | 57,400 | - | - | - | - | 57,400 |
| Total other comprehensive income | | - | - | - | - | (4,821,994) | - | - | ( 3,770) | ( 5,642,304) | ( 10,468,068) |
| Total comprehensive income | | - | - | - | - | (4,821,994) | - | - | ( 3,770) | 6,037,594 | 1,211,830 |
| Transfer to loan loss reserve | | - | - | - | - | - | 26,570 | - | - | ( 26,570) | - |
| Transaction with owners of the Company: | | | | | | | | | | | |
| Dividends paid | 52 | - | - | - | - | - | - | - | - | ( 4,356,230) | ( 4,356,230) |
| Net movement for the year | | - | - | - | - | - | 26,570 | - | - | ( 4,382,800) | ( 4,356,230) |
| **Balances at October 31, 2022** | | 6,569,810 | 3,249,976 | 45,891,770 | 11,340 | (5,431,669) | 361,367 | 9,964 | 34,935 | 60,153,280 | 110,850,773 |

See note 54
The accompanying notes form an integral part of the financial statements.

**SCOTIA GROUP JAMAICA LIMITED**

**Consolidated Statement of Cash Flows**
**Year ended October 31, 2022**
(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

| | Notes | 2022 | 2021 Restated* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the year | | 11,679,898 | 8,638,852 |
| Adjustments for: | | | |
| Taxation | 14 | 5,524,166 | 4,030,327 |
| Depreciation | 27 | 809,726 | 744,455 |
| Amortisation of right of use assets | 27 | 156,017 | 185,691 |
| Amortisation of intangible assets | 28 | 119,654 | 97,672 |
| Expected credit losses | | 4,499,285 | 3,649,249 |
| Gain on sale of property and equipment | 10 | ( 290,100) | ( 6,505) |
| Impairment of property and equipment | 27 | 11,871 | - |
| Write-off of property and equipment | 27 | - | 18,163 |
| Increase in retirement benefits asset/obligations, net | | ( 1,287,628) | ( 1,149,800) |
| Gain on extinguishment of liability | 10 | ( 629,030) | ( 953,779) |
| | | 20,593,859 | 15,254,325 |
| Interest income | 6 | (30,398,809) | (24,567,824) |
| Interest expense | 6 | 1,779,472 | 1,856,335 |
| | | ( 8,025,478) | ( 7,457,164) |
| Changes in operating assets and liabilities: | | | |
| Loans | | (33,869,877) | 7,814,096 |
| Deposits by the public | | 14,034,127 | 41,475,091 |
| Policyholders' liabilities | | 419,124 | 565,692 |
| Sundry assets, net | | 907,450 | ( 1,436,644) |
| Other liabilities, net | | 802,476 | ( 613,770) |
| Due to parent company and fellow subsidiaries | | ( 156,460) | ( 464,335) |
| Accounts with parent and fellow subsidiaries | | 2,768,534 | ( 5,626,507) |
| Financial assets at fair value through profit or loss | | 669,519 | ( 7,515) |
| Taxation recoverable | | ( 1,000,281) | 1,084,571 |
| Retirement benefits asset/obligations | | ( 162,710) | ( 123,170) |
| Amounts due to other banks and financial institutions | | 392,758 | ( 1,336,613) |
| Statutory reserves at Bank of Jamaica | | ( 2,797,688) | ( 2,960,183) |
| | | (26,018,506) | 30,913,549 |
| Interest received | | 30,167,907 | 25,126,271 |
| Interest paid | | ( 1,762,569) | ( 1,842,890) |
| Taxation paid | | ( 2,479,445) | ( 4,421,284) |
| Net cash(used in)/provided by operating activities (carried forward to page 17) | | ( 92,613) | 49,775,646 |

See note 54
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, 2022**
(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

| | Notes | 2022 | 2021 Restated* |
|---|---|---|---|
| **Cash flows from operating activities** (brought forward from page 16) | | ( 92,613) | 49,775,646 |
| **Cash flows from investing activities** | | | |
| Purchase of investment securities | | ( 85,999,490) | ( 63,113,398) |
| Proceeds from maturity/disposal of investment securities | | 72,070,581 | 36,129,898 |
| Pledged assets | | ( 1,798,011) | 834,634 |
| Proceeds from disposal of property and equipment | | 334,073 | 6,505 |
| Purchase of intangible assets, net | | ( 101,269) | - |
| Purchase of property and equipment | 27 | ( 1,352,599) | ( 1,744,815) |
| Net cash used in investing activities | | ( 16,846,715) | ( 27,887,176) |
| **Cash flows from financing activity** | | | |
| Dividends paid to stockholders | 52 | ( 4,356,230) | ( 4,822,969) |
| Lease payments right of use assets | 35(ii)(d) | ( 166,001) | ( 204,821) |
| Net cash used in financing activities | | ( 4,522,231) | ( 5,027,790) |
| Effect of exchange rate changes on cash and cash equivalents | | ( 2,114,037) | 5,057,398 |
| Net (decrease)/increase in cash and cash equivalents | | ( 23,575,596) | 21,918,078 |
| Cash and cash equivalents at beginning of year | | 127,412,619 | 105,494,541 |
| **Cash and cash equivalents at end of year** | 19 | 103,837,023 | 127,412,619 |

See note 54
The accompanying notes form an integral part of the financial statements.

**SCOTIA GROUP JAMAICA LIMITED**

**Statement of Comprehensive Income**
**Year ended October 31, 2022**
(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

| | Notes | 2022 | 2021 |
|---|---|---|---|
| **Net interest income calculated using the effective interest method** | | | |
| Interest from deposit with banks | 6 | 65,790 | 4,567 |
| Net (losses)/gains on foreign currency activities | | ( 95,053) | 670,273 |
| Dividend income | 45 | 3,677,360 | 3,937,494 |
| | | 3,582,307 | 4,607,767 |
| Total income | | 3,648,097 | 4,612,334 |
| **Expenses** | | | |
| Other operating expenses | 12 | 57,134 | 40,635 |
| Profit before taxation | 13 | 3,590,963 | 4,571,699 |
| Taxation | 14 | ( 12,162) | ( 9,219) |
| **Profit for the year** | | 3,578,801 | 4,562,480 |

See note 54
The accompanying notes form an integral part of the financial statements.

**SCOTIA GROUP JAMAICA LIMITED**

**Statement of Financial Position**
**October 31, 2022**
(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

| | Notes | 2022 | 2021 |
|---|---|---|---|
| **ASSETS** | | | |
| **Cash resources** | | | |
| Accounts with subsidiaries | 18 | 9,128,131 | 9,891,092 |
| **Investment in subsidiaries, at cost** | | 13,029,908 | 13,029,908 |
| **Other assets** | | | |
| Taxation recoverable | | 106,363 | 106,363 |
| | | 22,264,402 | 23,027,363 |
| **LIABILITES** | | | |
| Accrued expenses and other liabilities | | 17,440 | 15,135 |
| Taxation payable | | 7,522 | - |
| Deferred tax liabilities | 36 | 4,694 | 53 |
| | | 29,656 | 15,188 |
| **EQUITY** | | | |
| Share capital | 38 | 6,569,810 | 6,569,810 |
| Unappropriated profits | | 15,664,936 | 16,442,365 |
| **Total stockholders' equity** | | 22,234,746 | 23,012,175 |
| **Total liabilities and equity** | | 22,264,402 | 23,027,363 |

The financial statements on pages 11 to 95 were approved for issue by the Board of Directors and signed on its behalf on December 20, 2022 by:

_________________________ Director
Anya Schnoor

_________________________ Director
Audrey Tugwell Henry

_________________________ Director
Eric Crawford

_________________________ Secretary
Maia Wilson

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

**SCOTIA GROUP JAMAICA LIMITED**

**Statement of Changes in Stockholders' Equity**
**Year ended October 31, 2022**
(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

| | Notes | Share capital | Unappropriated profits | Total |
|---|---|---|---|---|
| **Balances at October 31, 2020** | | 6,569,810 | 16,702,854 | 23,272,664 |
| Profit for the year, being total comprehensive income | | - | 4,562,480 | 4,562,480 |
| Transaction with owners: | | | | |
| Dividends paid | 52 | - | ( 4,822,969) | ( 4,822,969) |
| **Balances at October 31, 2021** | | 6,569,810 | 16,442,365 | 23,012,175 |
| Profit for the year, being total comprehensive income | | - | 3,578,801 | 3,578,801 |
| Transaction with owners: | | | | |
| Dividends paid | 52 | - | ( 4,356,230) | ( 4,356,230) |
| **Balances at October 31, 2022** | | 6,569,810 | 15,664,936 | 22,234,746 |

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

**SCOTIA GROUP JAMAICA LIMITED**

**Statement of Cash Flows**
**Year ended October 31, 2022**
(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

| | Notes | 2022 | 2021 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the year | | 3,578,801 | 4,562,480 |
| Adjustments for: | | | |
| Interest income | 6 | ( 65,790) | ( 4,567) |
| Dividend Income | | (3,677,360) | (3,937,494) |
| Taxation | 14 | 12,162 | 9,219 |
| | | ( 152,187) | 629,638 |
| Changes in operating assets and liabilities | | | |
| Other assets, net | | - | 70,650 |
| Accounts with fellow subsidiaries | | 654,496 | ( 569,109) |
| Other liabilities | | 2,308 | (1,384,083) |
| | | 504,617 | (1,252,904) |
| Interest received | | 47,229 | 4,542 |
| Taxation paid | | - | ( 28,499) |
| Net cash provided by/ (used in) operating activities | | 551,846 | (1,276,861) |
| **Cash flows from investing activity** | | | |
| Dividend received, being cash provided by investing activity | 47 | 3,677,360 | 3,937,494 |
| **Cash flows from financing activity** | | | |
| Dividends paid, being cash used in financing activity | 52 | (4,356,230) | (4,822,969) |
| Net decrease in cash and cash equivalents | | ( 127,024) | (2,162,336) |
| Cash and cash equivalents at beginning of year | | 759,545 | 2,921,881 |
| **Cash and cash equivalents at end of year** | 19 | 632,521 | 759,545 |

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

**SCOTIA GROUP JAMAICA LIMITED**

**Notes to the Financial Statements**
**October 31, 2022**
(*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:

| | | Holding by | | |
|---|---|---|---|---|
| **Subsidiaries** | **Principal Activities** | **Company** | **Subsidiary** | **Financial Year-End** |
| The Bank of Nova Scotia Jamaica Limited 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 General Insurance Agency | General Insurance | | 100% | October 31** |
| Scotia Investments Jamaica Limited and its subsidiaries: | Investment Banking | 100% | | October 31 |
| Scotia Asset Management (Barbados) 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 (Barbados) Inc. which is incorporated in Barbados.

*The statements included in the consolidation are financial statements as at and for the year ended October 31, 2022.

**Scotia General Insurance Agency was incorporated on December 30, 2021.

## 2. 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").

**Amended standards that became effective during the year:**

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

## 2. Summary of significant accounting policies (continued)

### (a) Basis of preparation (continued)

**Amended standards that became effective during the year (continued):**

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

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

(ii) Amendments to IFRS 16 *Leases* are effective for annual periods beginning on or after April 1, 2021, early adoption is permitted. The amendments extend the practical expedient by 12 months – i.e. allowing lessees to apply it to rent concessions for which any reduction in lease payments affect only payments originally due on or before 30 June 2022.

The 2021 amendments are applied retrospectively with the cumulative effect of initially applying it being recognised in opening retained earnings. The disclosure requirements of paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* do not apply on initial application.

These amendments did not have a significant impact on the Group's financial statements.

**New and amended standards and interpretations that are not yet effective:**

At the date of authorisation of these financial statements, certain new and amended standards and interpretations have been issued which were not effective for the current year and which the Group has not early-adopted. The Group has assessed them with respect to its operations and has determined that the following are relevant:

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

The amendments clarify that the 'costs of fulfilling a contract' comprise both the incremental costs – e.g. direct labour and materials; and an allocation of other direct costs – e.g. an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract. This clarification will require entities that apply the 'incremental cost' approach to recognise bigger and potentially more provisions. At the date of initial application, the cumulative effect of applying the amendments is recognised as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives are not restated.

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

(ii) Annual Improvements to IFRS Standards 2018-2020 cycle contain amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS *9 Financial Instruments,* IFRS 16 *Leases*, IAS 41 *Agriculture*, and are effective for annual periods beginning on or after January 1, 2022.

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

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

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

## 2. Summary of significant accounting policies (continued)

### (a) Basis of preparation (continued)

**New and amended standards and interpretations that are not yet effective (continued):**

(iii) IFRS 17 *Insurance Contracts*, effective for annual reporting periods beginning on or after January 1, 2023 replaces IFRS 4 *Insurance Contracts* and provides a comprehensive principle-based framework for recognition, measurement, presentation and disclosure of insurance contracts. The standard provides three models to apply to all insurance contracts: the general measurement 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.

- 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); and

b) an amount representing the unearned profit in the group of contracts (the contractual service margin).

- Recognises the profit from a group of insurance contracts over the period the entity provides insurance cover, and as the entity is released from risk. If a group of insurance contracts is or becomes loss making, an entity recognises the loss immediately.

- Presents separately insurance revenue (that excludes the receipt or repayment of any investment component) and insurance 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 kept in IFRS 17. The general measurement 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 project has an established governance structure led by the Executive Steering and Project Operations Committees assisted by a Project Management Office. The committees are comprised of representatives from Finance, Insurance Actuarial Services, Technology and the Insurance Business Operations. The project involves technology implementation, policy and process changes to support the IFRS 17 processes. The Group continues to assess and formulate the actuarial and accounting policies under IFRS 17 to quantify the impact of adopting the new standard, including quantification.

**2. Summary of significant accounting policies (continued)**

**(a) Basis of preparation (continued)**

**New and amended standards and interpretations that are not yet effective (continued):**

(iv) Amendments to IFRS 17 *Insurance Contracts,* effective for annual reporting periods beginning on or after January 1, 2023 and provides for the following amendments to the standard:

- Most companies that issue credit cards and similar products that provide insurance coverage will be able to continue with their existing accounting, unless the insurance coverage is a contractual feature, thereby easing implementation for non-insurers.

- Companies that issue loan contracts that meet the definition of insurance but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract have an option to apply IFRS 9 or IFRS 17, thus reducing the impact of IFRS 17 for non-insurers.

In measuring the contractual service margin; companies will choose to apply either a 'period-to-period' or 'year-to-date' approach, allowing greater opportunity for consistency with current practice and for subsidiaries to align reporting with their parent. Revenue and profit emergence will better reflect performance of the wide range of insurance products and the services they provide to customers. Allocating insurance acquisition cash flows to future renewal groups reduces the risk of groups becoming onerous solely from acquisition expenses paid relating to future renewals. The allocation is revised at each reporting period to reflect any changes in assumptions that determine the inputs to the method of allocation used. Companies will also need to assess each period the recoverability of insurance acquisition cash flow assets on a more granular level than is performed today.

- Upon transition, companies may be able to account for acquired contracts before the transition date as liabilities for incurred claims. In many cases, companies will be required to identify and recognise an asset for insurance acquisition cash flows incurred prior to transition. Companies are not required to perform a recoverability assessment for periods prior to transition.

- In accounting for direct participating contracts, risk mitigation option was expanded to non-derivative assets at FVTPL and reinsurance contracts held to provide relief prospectively from the transition date. If a company meets the risk mitigation option criteria before transition, it can now apply the fair value approach to the related contracts at transition. Companies applying both OCI and risk mitigation options together will be able to achieve better matching in the income statement.

- For reinsurance contracts, companies will be able to offset losses on initial recognition of direct insurance contracts based on a prescribed formula if they are covered by reinsurance contracts held, reducing accounting mismatches.

- There is relief for companies to present (re)insurance contract assets and liabilities at a portfolio level, instead of group level in the statement of financial position and income taxes specifically charged to policyholders may now be included in fulfilment cash flows, better reflecting local practice in certain jurisdictions.

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

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

Under existing IAS 1 requirements, companies classify a liability as current when they do not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. As part of its amendments, the requirement for a right to be unconditional has been removed and instead, now requires that a right to defer settlement must have substance and exist at the end of the reporting period. A company classifies a liability as non-current if it has a right to defer settlement for at least twelve months after the reporting period. It has now been clarified that a right to defer exists only if the company complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date.

## 2. Summary of significant accounting policies (continued)

### (a) Basis of preparation (continued)

**New and amended standards and interpretations that are not yet effective (continued):**

(v) Amendments to IAS 1 *Presentation of Financial Statements*, (continued)

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

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

(vi) Amendments to IAS 1 *Presentation of Financial Statements* are effective for annual periods beginning on or after January 1, 2023 and may be applied earlier. The amendments help companies provide useful accounting policy disclosures.

The key amendments to IAS 1 include:

- requiring companies to disclose their material accounting policy information rather than their significant accounting policies;
- clarifying that accounting policy information related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
- clarifying that not all accounting policy information that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

The amendments are consistent with the refined definition of material:

*"Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements".*

The Group is assessing the impact that the amendment will have on its 2024 financial statements.

(vii) Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* are effective for periods beginning on or after January 1, 2023, with early adoption permitted. The amendments introduce a new definition for accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty.

The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

Developing an accounting estimate includes both:

- selecting a measurement technique (estimation or valuation technique) – e.g. an estimation technique used to measure a loss allowance for expected credit losses when applying IFRS 9 *Financial Instruments*; and
- choosing the inputs to be used when applying the chosen measurement technique – e.g. the expected cash outflows for determining a provision for warranty obligations when applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

The effects of changes in such inputs or measurement techniques are changes in accounting estimates, unless they result from the correction of prior period errors.

The Group is assessing the impact that the amendment will have on its 2024 financial statements.

## 2. Summary of significant accounting policies (continued)

### (a) Basis of preparation (continued)

**New and amended standards and interpretations that are not yet effective (continued):**

(viii) Amendments to IAS 12 *Income Taxes* are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted. The amendments clarify how companies should account for deferred tax on certain transactions – e.g. leases and decommissioning provisions.

The amendments narrow the scope of the initial recognition exemption (IRE) so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognise a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision.

For leases and decommissioning liabilities, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other component of equity at that date. If a company previously accounted for deferred tax on leases and decommissioning liabilities under the net approach, then the impact on transition is likely to be limited to the separate presentation of the deferred tax asset and the deferred tax liability.

The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented.

The Group is assessing the impact that the amendment will have on its 2024 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 when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group. In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs. The Group has an option to apply a ‘concentration test’ that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. 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.

## 2. 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*

Interest income is recognised in the statement of revenue and expenses using the effective interest method. The "effective interest rate" is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the gross carrying amount of the financial asset or financial liability.

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

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

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

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

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

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.

## 2. Summary of significant accounting policies (continued)

### (e) Revenue recognition (continued)

*Fee and commission income*

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Group recognises revenue 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.

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* |
|---|---|---|
| Banking services | The Group provides banking related services, including execution of customers' transactions and maintenance of customers' investment 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 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. |

*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.

## 2. Summary of significant accounting policies (continued)

### (f) Interest expense

Interest expense is recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments 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.

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

Insurance contract liabilities are determined by an independent actuary using the Policy Premium Method of valuation as summarised in note 2(j). These liabilities are adjusted through profit or loss to reflect any changes in the valuation of the liabilities.

### (h) Claims

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

### (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.

## 2. Summary of significant accounting policies (continued)

### (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 37(a)].

### (k) Taxation

Taxation on the profit or loss for the year comprises current and deferred income taxes. Current and deferred income taxes are recognised as tax expense or benefit in the statement of revenue and expenses, 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.

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 and initial measurement*

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 are initially recognised on the trade date. A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

**SCOTIA GROUP JAMAICA LIMITED**

**Notes to the Financial Statements (Continued)**
**October 31, 2022**
(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

**2. Summary of significant accounting policies (continued)**

**(l) Financial assets and liabilities (continued)**

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

**Classification and measurement**

*Classification and measurement of financial assets*

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

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

Financial assets include both debt and equity instruments.

*Debt instruments*

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

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

Classification of debt instruments is determined based on:

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

Business model assessment

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

- 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 the business model at a portfolio level reflective of how groups of assets are managed together to achieve a particular business objective. When assessing the 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.

## 2. Summary of significant accounting policies (continued)

### (l) Financial assets and liabilities (continued)

*Contractual cash flow characteristics assessment*

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

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

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

If the 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 the 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.

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 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 the 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.

## 2. Summary of significant accounting policies (continued)

### (l) Financial assets and liabilities (continued)

Debt *instruments measured at FVTPL*

Debt instruments are measured at FVTPL if assets:

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

These instruments are measured at fair value in the consolidated statement of financial position, with transaction costs recognised immediately 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 revenue and expenses.

*Equity instruments*

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

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

*Equity instruments measured at FVTPL*

Equity instruments are measured at FVTPL, unless an election is made to designate them at FVOCI upon purchase, with transaction costs recognised immediately in the consolidated statement of 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 irrevocable and 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.

## 2. Summary of significant accounting policies (continued)

### (l) Financial assets and liabilities (continued)

*Classification and measurement of financial liabilities*

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

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

*Financial liabilities measured at FVTPL*

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

*Financial liabilities measured at amortised cost*

Deposits and securities sold under repurchase agreements 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.

*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 maximises 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 the 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.

**SCOTIA GROUP JAMAICA LIMITED**

**Notes to the Financial Statements (Continued)**
**October 31, 2022**
(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

## 2. Summary of significant accounting policies (continued)

### (l) Financial assets and liabilities (continued)

Derecognition of financial assets and liabilities

*Derecognition of financial assets*

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

A financial asset is derecognised when the contractual rights to the cash flows from the asset has expired; or the 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.

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

### (m) Embedded derivatives

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

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

## 2. Summary of significant accounting policies (continued)

### (n) Cash and cash equivalents

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

### (o) Allowance for expected credit losses

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

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

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.

The impairment models measure 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 the financial instrument. The expected credit loss is computed using the probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, the probability of default corresponding to the 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 losses 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.

**2. Summary of significant accounting policies (continued)**

**(o) Allowance for expected credit losses (continued)**

*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.

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 instrument, 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.

## 2. Summary of significant accounting policies (continued)

### (o) Allowance for expected credit losses (continued)

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

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 losses, the Group considers the maximum contractual period over which the Group is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment, 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 separately in 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.

*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 revenue and expenses.

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

## 2. Summary of significant accounting policies (continued)

### (o) Allowance for expected credit losses (continued)

*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 re-organisation;
- measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan.

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

*Write-off policy*

The Group writes off an impaired financial asset (and the related impairment allowance), either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, write-off is generally after receipt of any proceeds from realisation of the 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.

### (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

A financial guarantee is a contract that contingently requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor failed to make payment when due in accordance with the original or modified terms of a debt instrument. Guarantees include standby letters of credit, letters of guarantee, indemnifications or other similar contracts.

Financial guarantees are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 [note 2(o)] and the amount initially recognised, less where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15. Management has determined that the amount initially recognised is immaterial to the financial statements. The Group's commitments under acceptances, guarantees and letters of credit as at October 31, 2022 total $20,700,537 (2021: $16,820,638). In the event of a call on these commitments, the Group has equal and offsetting claims against its customers.

## 2. Summary of significant accounting policies (continued)

### (r) Property and equipment

Land is measured at historical cost. All other property 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 an expense in profit or loss during the financial period in which it is incurred.

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

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

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

Property 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 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.

## 2. Summary of significant accounting policies (continued)

### (t) Goodwill and intangible assets (continued)

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 of impairment . 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 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.

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.

## 2. Summary of significant accounting policies (continued)

### (t) Goodwill and intangible assets (continued)

*Licences*

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

*Computer software*

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

### (u) Employee benefits

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

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

*Pension obligations*

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

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

The pension costs are assessed using the Projected Unit Credit Method. Under this method, the cost of providing pensions is charged as an expense in such a manner as to spread the regular cost over the service lives of the employees in accordance with the advice of the actuaries, who carry out a full valuation of the plan every year in accordance with IAS 19 *Employee Benefits*. Remeasurements comprising actuarial gains and losses and changes in the effect of the 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.

## 2. Summary of significant accounting policies (continued)

### (u) Employee benefits (continued)

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.

*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 the statement of revenue and expenses.

The amount contributed to the ESOP trust (note 53) 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.

**2. Summary of significant accounting policies (continued)**

**(v) Borrowings**

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

**(w) Share capital**

*Classification*

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

*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 are recognised in stockholder's equity in the period in which they are approved by the Board of Directors, thereby becoming irrevocably payable.

**(x) Leases**

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

*As a lessee*

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

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

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

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

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

## 2. Summary of significant accounting policies (continued)

### (x) Leases (continued)

*As a lessee (continued)*

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

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

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

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

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

Short-term leases and leases of low-value assets

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

### (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.

## 2. Summary of significant accounting policies (continued)

### (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.

## 3. 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.

*Estimates*

*i. Expected credit losses (ECL)*

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and fair value through other comprehensive income (FVOCI) is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in notes 23 and 46(b), which also set out key sensitivities of the ECL to changes in these elements.

*ii. 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.

iii. *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 2(j).

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

These estimates are more fully described in note 37.

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

*Estimates (continued)*

iv. Pension and other post-employment benefits

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

The Group determines the appropriate discount rate at the end of each year; such rate represents the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension and post-retirement benefit obligations. In determining the appropriate discount rate, the Group considers interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liabilities.

The expected rate of increase of medical costs has been determined by comparing the historical relationship of the actual medical cost increases with the rate of inflation. Past experience has shown that the actual medical costs have increased on average by the rate of inflation. Other key assumptions for the pension and other post-employment benefit cost and credit are based, in part, on current market conditions.

v. *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.

*Judgements*

*i. Expected credit losses (ECL)*

A number of significant judgements are required in applying the accounting requirements for measuring expected credit losses, 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.

*ii. Valuation of financial instruments*

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.

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

v. *Recognition and measurement of intangible assets (continued)*

*Judgements (continued)*

iii. *Income taxes*

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.

## 4. Responsibilities of the appointed actuary

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 using the policy premium method, 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.

## 5. 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 and mortgages.

(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 – this 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.

(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

## 5. Segmental financial information (continued)

| | The Group 2022 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Banking | | | | | | | |
| | Retail | Corporate and Commercial | Treasury | Investment Management Services | Insurance Services | Other | Eliminations | Group |
| Net external revenues | 18,912,028 | 11,270,646 | 7,698,272 | 2,806,972 | 5,192,903 | (29,261) | - | 45,851,560 |
| Revenue from other segments | 1,082,677 | 3,417,952 | (4,713,841) | 209,757 | 11,969 | - | (8,514) | - |
| **Total revenues** | 19,994,705 | 14,688,598 | 2,984,431 | 3,016,729 | 5,204,872 | (29,261) | (8,514) | 45,851,560 |
| Total expenses and credit losses | (17,044,885) | (7,555,199) | (935,854) | (1,540,801) | (1,471,074) | (57,136) | (42,547) | (28,647,496) |
| Profit before tax | 2,949,820 | 7,133,399 | 2,048,577 | 1,475,928 | 3,733,798 | (86,397) | (51,061) | 17,204,064 |
| Taxation | | | | | | | | (5,524,166) |
| **Profit for the year** | | | | | | | | **11,679,898** |
| Segment assets | 166,557,815 | 97,050,128 | 224,971,268 | 25,718,097 | 63,242,961 | 22,264,401 | (31,196,966) | 568,607,704 |
| Unallocated assets | | | | | | | | 26,990,519 |
| **Total assets** | | | | | | | | **595,598,223** |
| Segment liabilities | 217,139,551 | 199,138,624 | 1,700,279 | 16,108,749 | 46,671,066 | 29,655 | (15,694,338) | 465,093,586 |
| Unallocated liabilities | | | | | | | | 19,653,864 |
| **Total liabilities** | | | | | | | | **484,747,450** |
| Other segment items: | | | | | | | | |
| Net interest income | 15,767,450 | 8,875,271 | 1,144,976 | 636,031 | 2,084,160 | 65,790 | 45,659 | 28,619,337 |
| Capital expenditure | 1,027,177 | 361,226 | - | 64,802 | 663 | - | - | 1,453,868 |
| Expected credit losses | 2,832,771 | 66,363 | 166,713 | (27,366) | 18,843 | - | - | 3,057,324 |
| Depreciation and amortisation | 630,769 | 320,719 | 7,424 | 121,634 | 4,851 | - | - | 1,085,397 |

Capital expenditure comprises additions to property and equipment excluding right-of-use assets (note 27) and intangible assets (note 28).

(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

## 5. Segmental financial information (continued)

| | The Group 2021 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Banking | | | | | | | |
| | Retail | Corporate and Commercial | Treasury | Investment Management Services | Insurance Services | Other | Eliminations | Group |
| Net external revenues | 17,887,713 | 10,704,665 | 3,841,712 | 3,333,458 | 4,174,709 | 674,842 | - | 40,617,099 |
| Revenue from other segments | 279,052 | 954,682 | ( 1,393,830) | 211,423 | ( 14,782) | - | ( 36,545) | - |
| **Total revenues** | 18,166,765 | 11,659,347 | 2,447,882 | 3,544,881 | 4,159,927 | 674,842 | ( 36,545) | 40,617,099 |
| Total expenses and credit losses | ( 17,128,047) | ( 7,144,839) | ( 670,674) | ( 1,554,083) | ( 1,395,798) | ( 40,637) | ( 13,842) | ( 27,947,920) |
| Profit before tax | 1,038,718 | 4,514,508 | 1,777,208 | 1,990,798 | 2,764,129 | 634,205 | ( 50,387) | 12,669,179 |
| Taxation | | | | | | | | ( 4,030,327) |
| **Profit for the year** | | | | | | | | **8,638,852** |
| Segment assets | 140,983,282 | 92,342,024 | 227,235,904 | 30,560,080 | 59,744,266 | 23,027,363 | (23,365,363) | 550,527,556 |
| Unallocated assets | | | | | | | | 35,055,653 |
| **Total assets** | | | | | | | | **585,583,209** |
| Segment liabilities | 210,149,858 | 184,034,764 | - | 20,447,632 | 46,314,506 | 15,188 | (10,418,794) | 450,543,154 |
| Unallocated liabilities | | | | | | | | 21,044,882 |
| **Total liabilities** | | | | | | | | **471,588,036** |
| Other segment items: | | | | | | | | |
| Net interest income | 14,134,477 | 6,590,775 | 204,076 | 522,848 | 1,194,929 | 4,567 | 59,817 | 22,711,489 |
| Capital expenditure | 1,098,196 | 637,741 | - | 8,878 | - | - | - | 1,744,815 |
| Expected credit losses | 2,927,698 | ( 145,416) | 20,578 | 4,406 | 1,973 | - | - | 2,809,239 |
| Depreciation and amortisation | 585,312 | 297,305 | 6,020 | 131,396 | 7,785 | - | - | 1,027,818 |

Capital expenditure comprises additions to property and equipment excluding right-of-use assets (note 27) and intangible assets (note 28).

**SCOTIA GROUP JAMAICA LIMITED**

**Notes to the Financial Statements (Continued)**
**October 31, 2022**
(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

## 6. Net interest income

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Interest income calculated using the effective interest method: | | | | |
| Deposits with banks and other financial institutions | 3,277,900 | 331,068 | 65,790 | 4,567 |
| Investment securities | 6,055,220 | 3,617,665 | - | - |
| Reverse repurchase agreements | 59,141 | 25,933 | - | - |
| Loans and advances | 20,763,663 | 20,321,523 | - | - |
| | 30,155,924 | 24,296,189 | 65,790 | 4,567 |
| Interest income on financial assets at fair value through profit or loss | 242,885 | 271,635 | - | - |
| Total interest income | 30,398,809 | 24,567,824 | 65,790 | 4,567 |
| Interest expense measured on the effective interest method: | | | | |
| Banks and customers | 502,915 | 634,022 | - | - |
| Repurchase agreements | 342 | 701 | - | - |
| Policyholders' liabilities | 1,199,681 | 1,172,454 | - | - |
| Other | 76,534 | 49,158 | - | - |
| | 1,779,472 | 1,856,335 | - | - |
| Net interest income | 28,619,337 | 22,711,489 | 65,790 | 4,567 |

## 7. Net fee and commission income

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Fee and commission income: | | |
| Retail banking fees | 7,982,998 | 6,387,406 |
| Credit related fees | 1,277,113 | 865,019 |
| Commercial and depository fees | 7,981,941 | 6,042,588 |
| Insurance related fees | 303,431 | 287,149 |
| Trust and other fiduciary fees | 40,005 | 45,538 |
| Asset management and related fees | 1,923,900 | 1,984,862 |
| | 19,509,388 | 15,612,562 |
| Fee and commission expense | (13,333,060) | ( 9,524,242) |
| | 6,176,328 | 6,088,320 |

Total fee and commission income and expenses relate to financial assets and liabilities not measured at FVTPL.

## 8. Net gains/(losses) 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 (losses)/gains on financial assets:

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| (Losses)/gains on securities held for trading | (102,579) | 464,871 |
| (Losses)/gains on securities at FVOCI | ( 38,699) | 139,559 |
| | (141,278) | 604,430 |

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(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

## 9. Insurance revenue

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Gross premiums | | |
| Individual life | 1,218,553 | 1,146,452 |
| Group life | 1,471,222 | 971,122 |
| | 2,689,775 | 2,117,574 |
| Reinsurance ceded | ( 259) | ( 53) |
| | 2,689,516 | 2,117,521 |
| Changes in actuarial reserves | 346,474 | 515,561 |
| | 3,035,990 | 2,633,082 |

## 10. Other revenue

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Gain on sale of property and equipment | 290,100 | 6,505 | - | - |
| Gain on extinguishment of liability* | 629,030 | 953,779 | - | - |
| Dividend and other income | 31,536 | 62,720 | 3,677,360 | 3,937,494 |
| | 950,666 | 1,023,004 | 3,677,360 | 3,937,494 |

*Other revenue includes one-off gain of $629,030 (2021: $953,779) representing the settlement of outstanding liability with another financial institution.

## 11. Salaries, pensions and other staff benefits

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Wages and salaries | 9,066,548 | 8,545,648 |
| Statutory payroll contributions | 789,220 | 754,473 |
| Other staff benefits | 1,738,964 | 1,325,521 |
| | 11,594,732 | 10,625,642 |
| Post-employment benefits: | | |
| Credit on defined benefit plan [note 29(a)(v)] | ( 1,923,757) | ( 1,701,664) |
| Other post-retirement benefits [note 29(b)(ii)] | 636,129 | 551,864 |
| | ( 1,287,628) | ( 1,149,800) |
| Total (note 12) | 10,307,104 | 9,475,842 |

## 12. Expenses by nature

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Salaries, pension and other staff benefits (note 11) | 10,307,104 | 9,475,842 | - | - |
| Technical and support services | 4,696,540 | 5,066,899 | - | - |
| Property expenses, including depreciation | 2,510,371 | 2,331,915 | - | - |
| Systems related expenses | 1,958,091 | 2,320,942 | - | - |
| Transportation and communication | 1,476,012 | 1,283,054 | 2,194 | 3,000 |
| Asset tax | 1,316,085 | 1,217,783 | - | - |
| Deposit insurance | 596,598 | 534,226 | - | - |
| Professional, legal and consultancy fees | 581,072 | 362,210 | 46,175 | 42,164 |
| Marketing and advertising | 482,451 | 319,198 | - | - |
| Stationery | 298,796 | 411,437 | 3,217 | 2,035 |
| Insurance claims and benefits | 275,800 | 315,993 | - | - |
| Licensing and other regulatory fees | 193,816 | 427,847 | 5,145 | - |
| Amortisation of intangible assets (note 28) | 119,654 | 97,672 | - | - |
| Other operating expenses | 777,782 | 973,663 | 403 | ( 6,564) |
| | 25,590,172 | 25,138,681 | 57,134 | 40,635 |

(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

## 13. Profit before taxation

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

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Auditors' remuneration | 75,156 | 72,109 | 9,159 | 9,394 |
| Depreciation of property and equipment (note 27) | 809,726 | 744,455 | - | - |
| Amortisation of right-of-use-assets (note 27) | 156,017 | 185,691 | - | - |
| Amortisation of intangible assets (note 28) | 119,654 | 97,672 | - | - |
| Directors' emoluments: | | | | |
| Fees | 31,106 | 30,482 | 16,827 | 16,428 |
| Management remuneration | 74,911 | 54,883 | - | - |

## 14. Taxation

(a) Taxation charge

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

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2022 | 2021 Restated* | 2022 | 2021 |
| Current income tax: | | | | |
| Income tax at 33⅓% | 4,209,712 | 2,056,513 | - | - |
| Income tax at 30% | 433,008 | 630,854 | - | - |
| Income tax 25% | 995,144 | 702,475 | 7,521 | - |
| Other tax rates (1% to 5.5%) | 7,983 | 5,702 | - | - |
| Adjustment for (over)/under-provision of prior year's charge | ( 8,487) | 89,194 | - | 9,213 |
| Deferred income tax [note 36(a)] | ( 113,194) | 545,589 | 4,641 | 6 |
| | 5,524,166 | 4,030,327 | 12,162 | 9,219 |

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

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2022 | 2021 Restated* | 2022 | 2021 |
| Profit before taxation | 17,204,064 | 12,669,179 | 3,590,963 | 4,571,699 |
| Tax calculated at 33⅓% | 4,361,974 | 2,871,681 | - | - |
| Tax calculated at 30% | 438,569 | 513,073 | - | - |
| Tax calculated at 25% | 1,831,807 | 2,005,611 | 897,741 | 1,142,925 |
| Other tax rates (1% to 5.5%) | 7,983 | 5,702 | - | - |
| Income not subject to tax | ( 1,504,393) | ( 1,760,589) | ( 919,340) | (1,151,942) |
| Expenses not deductible for tax purposes | 146,921 | 37,537 | 9,998 | 7,191 |
| Asset tax expense not deductible for tax purposes | 425,581 | 392,742 | - | - |
| Prior period under provision | ( 8,487) | 89,194 | - | 9,213 |
| Other charges and allowances | ( 175,789) | ( 124,624) | 23,763 | 1,832 |
| | 5,524,166 | 4,030,327 | 12,162 | 9,219 |
| Effective tax rate | 32.11% | 31.81% | 0.34% | 0.20% |

* See note 54

(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

## 15. 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.

| | 2022 | 2021 Restated* |
|---|---|---|
| Consolidated profit for the year attributable to stockholders of the Company | 11,679,898 | 8,638,852 |
| Weighted average number of ordinary stock units in issue ('000) | 3,111,573 | 3,111,573 |
| Earnings per stock unit (expressed in $) | 3.75 | 2.78 |

## 16. Cash and balances at Bank of Jamaica

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Statutory reserves – non-interest bearing (note 19) | 34,437,473 | 31,639,786 |
| Cash in hand and other balances at Bank of Jamaica | 50,215,177 | 69,609,355 |
| | 84,652,650 | 101,249,141 |

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

| Relevant legislation | Entity | Reserve percentage | | | |
|---|---|---|---|---|---|
| | | Jamaican | | Foreign currency | |
| | | 2022 | 2021 | 2022 | 2021 |
| Banking Services Act, Section 14(i) | BNSJ | 5% | 5% | 13% | 13% |
| Building Society Regulations, Section 31 | SJBS | 1% | 1% | 1% | 1% |

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

## 17. Due from other banks

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Items in course of collection from other banks | 51,201 | 441,963 |
| Placements with other banks | 20,998,162 | 34,900,948 |
| | 21,049,363 | 35,342,911 |

## 18. Accounts with parent and fellow subsidiaries

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

*See note 54

**SCOTIA GROUP JAMAICA LIMITED**

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## 19. Cash and cash equivalents

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Cash resources | 148,992,184 | 168,675,612 | 9,128,131 | 9,891,092 |
| Less amounts not considered cash and cash equivalents: | | | | |
| Statutory reserves (note 16) | ( 34,437,473) | ( 31,639,786) | - | - |
| Cheques and other instruments in transit | ( 3,546,806) | ( 3,155,909) | - | - |
| Accounts with parent and fellow subsidiaries greater than ninety days | ( 8,476,834) | ( 9,131,331) | (8,476,834) | (9,131,331) |
| Expected credit losses | 5,673 | 1,991 | - | - |
| Accrued interest | ( 216,621) | ( 20,629) | ( 18,776) | ( 216) |
| | 102,320,123 | 124,729,948 | 632,521 | 759,545 |
| Add other cash equivalent balances: | | | | |
| Reverse repurchase agreements less than ninety days (note 25) | 750,000 | - | - | - |
| Pledged assets less than ninety days (note 21) | 766,900 | 2,682,671 | - | - |
| | 103,837,023 | 127,412,619 | 632,521 | 759,545 |
| Cash and cash equivalents is comprised of: | | | | |
| Cash and balances with Bank of Jamaica other than statutory reserves | 50,220,683 | 69,611,000 | - | - |
| Government and bank notes other than Jamaican | 7,126,960 | 2,416,012 | - | - |
| Amounts due from other banks | 21,049,530 | 35,343,257 | - | - |
| Accounts with parent and fellow subsidiaries | 27,686,377 | 20,536,217 | 651,297 | 759,761 |
| Reverse repurchase agreements | 750,000 | - | - | - |
| Pledged assets (note 21) | 766,900 | 2,682,671 | - | - |
| Accrued interest | ( 216,621) | ( 20,629) | ( 18,776) | ( 216) |
| | 107,383,829 | 130,568,528 | 632,521 | 759,545 |
| Cheques and other instruments in transit | ( 3,546,806) | ( 3,155,909) | - | - |
| | 103,837,023 | 127,412,619 | 632,521 | 759,545 |

## 20. Financial assets at fair value through profit or loss

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Government of Jamaica securities | 2,668,484 | 3,339,807 |
| Unit trusts | 315,791 | 329,873 |
| | 2,984,275 | 3,669,680 |
| Accrued interest | 51,138 | 33,322 |
| | 3,035,413 | 3,703,002 |

## 21. 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.

(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

## 21. Pledged assets (continued)

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Capital management and government securities funds | 13,710,609 | 13,810,407 |
| Securities with regulators, clearing houses and other financial institutions | 1,888,111 | 1,829,271 |
| | 15,598,720 | 15,639,678 |

Included in pledged assets are the following categories of assets:

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Deposits with financial institutions | 768,107 | 2,476,189 |
| Government issued securities: | | |
| Fair value through OCI | 12,279,063 | 9,982,255 |
| Amortised cost | 281,761 | 281,676 |
| Loans | 707,289 | 749,863 |
| Unitised funds: | | |
| ` Fair value through profit or loss | 1,562,500 | 2,149,695 |
| | 15,598,720 | 15,639,678 |

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 | |
|---|---|---|
| | 2022 | 2021 |
| Debt securities and other investments with an original maturity of less than ninety days (note 19) | 766,900 | 2,682,671 |

## 22. Loans, net of allowance for credit losses

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Business and Government | 94,544,025 | 88,199,603 |
| Personal and credit cards | 86,243,095 | 76,653,883 |
| Residential mortgages | 61,662,749 | 48,351,793 |
| Interest receivable | 1,234,301 | 1,555,100 |
| | 243,684,170 | 214,760,379 |
| Less: Allowance for expected credit losses (note 23) | ( 5,898,116) | ( 6,237,325) |
| | 237,786,054 | 208,523,054 |

(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

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

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

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Neither past due nor impaired | 228,040,878 | 188,508,316 |
| Past due but not impaired | | |
| Past due 1-30 days | 8,036,912 | 15,799,813 |
| Past due 31-60 days | 1,441,152 | 1,722,442 |
| Past due 61-90 days | 914,817 | 1,145,096 |
| | 10,392,881 | 18,667,351 |
| Impaired: | | |
| Past due more than 90 days | 4,016,110 | 6,029,612 |
| Interest receivable | 1,234,301 | 1,555,100 |
| Gross loan portfolio | 243,684,170 | 214,760,379 |
| Less: Allowance for credit losses | ( 5,898,116) | ( 6,237,325) |
| Loans, net of allowance for credit losses | 237,786,054 | 208,523,054 |

(ii) Repossessed collateral

In the normal course of business, the security documentation which governs the collateral charged to secure loans gives the Group express authority to repossess the collateral in the event of default. Repossessed collateral is sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed collateral is only recognised on the statement of financial position when all the risks and rewards are transferred to the Group.

## 23. 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 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 among the three stages which can result from changes to any of the above inputs and assumptions.

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## 23. Expected credit losses on loans (continued)

| | The Group | | | |
|---|---|---|---|---|
| | 2022 | | | |
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Allowance at beginning of year | 1,330,637 | 1,700,660 | 3,206,028 | 6,237,325 |
| Provided during the year | 368,382 | ( 69,476) | 4,042,088 | 4,340,994 |
| Bad debts written off | - | - | (4,678,915) | (4,678,915) |
| Foreign exchange movement | ( 696,904) | 834,927 | ( 139,311) | ( 1,288) |
| Transfer to/(from) stages | | | | |
| Stage 1 | 1,002,276 | ( 848,849) | ( 153,427) | - |
| Stage 2 | ( 218,313) | 583,521 | ( 365,208) | - |
| Stage 3 | ( 15,962) | ( 436,160) | 452,122 | - |
| Allowance at end of year (note 22) | 1,770,116 | 1,764,623 | 2,363,377 | 5,898,116 |
| The charge for expected credit losses recognised for the year comprises: | | | | |
| Provided during the year | 368,382 | ( 69,476) | 4,042,088 | 4,340,994 |
| Recoveries of bad debts | - | - | (1,441,961) | (1,441,961) |
| Expected credit losses reported in profit for the year | 368,382 | ( 69,476) | 2,600,127 | 2,899,033 |

| | The Group | | | |
|---|---|---|---|---|
| | 2021 | | | |
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Allowance at beginning of year | 3,521,638 | 2,256,866 | 2,197,779 | 7,976,283 |
| Provided during the year | (2,282,844) | ( 192,939) | 6,099,629 | 3,623,846 |
| Bad debts written off | - | - | (5,374,790) | (5,374,790) |
| Foreign exchange movement | ( 147,505) | 347,228 | ( 187,737) | 11,986 |
| Transfer to/(from) stages | | | | |
| Stage 1 | 631,289 | ( 439,490) | ( 191,799) | - |
| Stage 2 | ( 363,511) | 560,951 | ( 197,440) | - |
| Stage 3 | ( 28,430) | ( 831,956) | 860,386 | - |
| Allowance at end of year (note 22) | 1,330,637 | 1,700,660 | 3,206,028 | 6,237,325 |
| The charge for expected credit losses recognised for the year comprises: | | | | |
| Provided during the year | (2,282,844) | ( 192,939) | 6,099,629 | 3,623,846 |
| Recoveries of bad debts | - | - | ( 840,010) | ( 840,010) |
| Expected credit losses reported in profit for the year | (2,282,844) | ( 192,939) | 5,259,619 | 2,783,836 |

Uncollected interest not accrued on loans in default is estimated at $938,914 (2021:$1,344,810) for the Group.

(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

## 23. Expected credit losses on loans (continued)

The allowance for expected credit losses is as follows:

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Allowance based on IFRS | 5,898,116 | 6,237,325 |
| Additional allowance based on Bank of Jamaica (BOJ) regulations | 361,367 | 334,797 |
| | 6,259,483 | 6,572,122 |

## 24. Investment securities

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Fair value through other comprehensive income: | | |
| Unquoted shares | 5,105 | 5,105 |
| Government securities | 134,345,694 | 130,398,436 |
| Bank of Jamaica securities | 6,252,161 | 7,733,602 |
| Treasury bills | 5,684,786 | 1,264,054 |
| Corporate bonds | 1,328,729 | 1,198,763 |
| Interest receivable | 1,229,591 | 1,025,240 |
| | 148,846,066 | 141,625,200 |

Included in investment securities are Government of Jamaica Benchmark Investment Notes with a book value of $90,000 (2021: $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.

## 25. Government securities purchased under resale agreements

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

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Reverse repurchase agreements with an original maturity of less than 90 days (note 19) | 750,000 | - |
| Interest receivable | 1,427 | - |
| | 751,427 | - |

The fair value of collateral held pursuant to reverse repurchase agreements is $719,404 (2021: Nil).

## 26. Other assets

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Accounts receivable and prepayments | 427,480 | 1,701,357 |
| Deferred charges | 1,669,774 | 1,309,435 |
| Investment property | 1,016 | - |
| Other | 1,030,634 | 1,025,562 |
| | 3,128,904 | 4,036,354 |

(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

## 27. Property and equipment

| | The Group | | | | | |
|---|---|---|---|---|---|---|
| | Right-of-use on leasehold properties | Freehold land and buildings | Leasehold improvements | Furniture, fixtures, motor vehicles & equipment | Capital work-in-progress | Total |
| Cost: | | | | | | |
| October 31, 2020 | 1,440,074 | 5,134,318 | 617,060 | 8,052,345 | 1,772,625 | 17,016,422 |
| Additions | 178,323 | 1,065,137 | 137,095 | 148,374 | 394,209 | 1,923,138 |
| Disposals | ( 161,331) | - | - | ( 21,958) | - | ( 183,289) |
| Transfers | - | 106,088 | 58,936 | 897,362 | (1,062,386) | - |
| Translation adjustment | 37,189 | - | - | - | - | 37,189 |
| Write-offs/reversals | - | - | - | - | ( 637,198) | ( 637,198) |
| October 31, 2021 | 1,494,255 | 6,305,543 | 813,091 | 9,076,123 | 467,250 | 18,156,262 |
| Additions | 224,015 | 139,942 | 37,849 | 86,149 | 1,088,659 | 1,576,614 |
| Disposals | - | ( 50,812) | ( 534) | ( 173,086) | - | ( 224,432) |
| Transfers | - | 404,022 | 124,975 | 564,000 | (1,092,997) | - |
| Transfer to investment property | - | ( 3,146) | - | - | - | ( 3,146) |
| Translation adjustment | ( 7,272) | - | - | - | - | ( 7,272) |
| Write-offs/reversals | - | - | - | ( 926) | ( 88,820) | ( 89,746) |
| October 31, 2022 | 1,710,998 | 6,795,549 | 975,381 | 9,552,260 | 374,092 | 19,408,280 |
| Depreciation: | | | | | | |
| October 31, 2020 | 184,176 | 1,142,724 | 542,239 | 6,588,960 | - | 8,458,099 |
| Charge for the year | 185,691 | 140,985 | 65,000 | 538,470 | - | 930,146 |
| Eliminated on disposals | ( 67,507) | - | - | ( 21,466) | - | ( 88,973) |
| Translation adjustment | 5,029 | - | - | - | - | 5,029 |
| October 31, 2021 | 307,389 | 1,283,709 | 607,239 | 7,105,964 | - | 9,304,301 |
| Charge for the year | 156,017 | 152,957 | 85,393 | 571,376 | - | 965,743 |
| Eliminated on disposals | - | ( 16,593) | ( 534) | ( 163,332) | - | ( 180,459) |
| Translation adjustment | ( 1,861) | - | - | - | - | ( 1,861) |
| Transfer to Investment property | - | ( 2,130) | - | - | - | ( 2,130) |
| Impairment | - | 7,241 | - | 4,630 | - | 11,871 |
| Write-offs | - | - | - | ( 926) | - | ( 926) |
| October 31, 2022 | 461,545 | 1,425,184 | 692,098 | 7,517,712 | - | 10,096,539 |
| Net book values: | | | | | | |
| October 31, 2022 | 1,249,453 | 5,370,365 | 283,283 | 2,034,548 | 374,092 | 9,311,741 |
| October 31, 2021 | 1,186,866 | 5,021,834 | 205,852 | 1,970,159 | 467,250 | 8,851,961 |
| October 31, 2020 | 1,255,898 | 3,991,594 | 74,821 | 1,463,385 | 1,772,625 | 8,558,323 |

## 28. Goodwill and intangible assets

| | The Group | | | | | |
|---|---|---|---|---|---|---|
| | Customer relationships | Contract-based intangibles | License | Goodwill | Computer software | Total |
| Cost: | | | | | | |
| October 31, 2020 and 2021 | 1,382,582 | 348,987 | 49,470 | 136,892 | 476,574 | 2,394,505 |
| Addition | - | - | - | - | 101,269 | 101,269 |
| October 31, 2022 | 1,382,582 | 348,987 | 49,470 | 136,892 | 577,843 | 2,495,774 |
| Amortisation/ impairment: | | | | | | |
| October 31, 2020 | 1,202,667 | 71,574 | 5,333 | 61,724 | 385,114 | 1,726,412 |
| Amortisation for the year | 88,492 | - | - | - | 9,180 | 97,672 |
| October 31, 2021 | 1,291,159 | 71,574 | 5,333 | 61,724 | 394,294 | 1,824,084 |
| Amortisation for the year | 88,492 | - | - | - | 31,162 | 119,654 |
| October 31, 2022 | 1,379,651 | 71,574 | 5,333 | 61,724 | 425,456 | 1,943,738 |

(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

## 28. Goodwill and intangible assets (continued)

| | The Group | | | | | |
|---|---|---|---|---|---|---|
| | Customer relationships | Contract-based intangibles | License | Goodwill | Computer software | Total |
| Net book values: | | | | | | |
| October 31, 2022 | 2,931 | 277,413 | 44,137 | 75,168 | 152,387 | 552,036 |
| October 31, 2021 | 91,423 | 277,413 | 44,137 | 75,168 | 82,280 | 570,421 |
| October 31, 2020 | 179,915 | 277,413 | 44,137 | 75,168 | 91,460 | 668,093 |

## 29. 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 | |
|---|---|---|
| | 2022 | 2021 |
| Defined benefit pension plan (a) | 23,561,041 | 31,254,250 |
| Other post-retirement benefits (b) | ( 4,557,782) | ( 5,237,873) |

(a) Defined benefit pension plan

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

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Present value of funded obligations (iii) | (34,417,876) | (38,963,167) |
| Fair value of plan assets (iv) | 76,762,713 | 80,326,884 |
| | 42,344,837 | 41,363,717 |
| Limitation of economic benefits | (18,783,796) | (10,109,467) |
| Asset in the statement of financial position | 23,561,041 | 31,254,250 |

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

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Balance at beginning of year | 31,254,250 | 28,242,497 |
| Contributions paid | 500 | 500 |
| Pension income recognised in statement of revenue and expenses (v) | 1,923,757 | 1,701,664 |
| Remeasurement recognised in other comprehensive income (vi) | ( 9,617,466) | 1,309,589 |
| Balance at end of year | 23,561,041 | 31,254,250 |

(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

## 29. Retirement benefits asset/obligations (continued)

(a) Defined benefit pension plan (continued)

(iii) Movement in the present value of obligation:

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Balance at beginning of year | (38,963,167) | (33,924,123) |
| Current service costs | ( 733,491) | ( 671,631) |
| Interest cost | ( 3,431,346) | ( 2,987,998) |
| Employees' contribution | ( 647,254) | ( 581,804) |
| Benefits paid | 1,832,079 | 1,921,594 |
| Actuarial gains arising from: | | |
| Experience adjustments | 268,394 | 55,693 |
| Changes in financial assumptions | 7,256,909 | ( 2,774,898) |
| Balance at end of year | (34,417,876) | (38,963,167) |

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

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Fair value of plan assets at beginning of year | 80,326,884 | 76,713,352 |
| Contributions | 647,754 | 582,304 |
| Benefits paid | ( 1,832,079) | ( 1,921,594) |
| Interest income on plan assets | 7,172,352 | 6,858,560 |
| Administrative fees | ( 167,118) | ( 164,062) |
| Remeasurement loss on plan assets included in other comprehensive income | ( 9,385,080) | ( 1,741,676) |
| Fair value of plan assets at end of year | 76,762,713 | 80,326,884 |

Plan assets consist of the following:

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Government stocks and bonds | 43,189,692 | 47,878,994 |
| Quoted equities | 22,240,986 | 24,238,953 |
| Reverse repurchase agreements | 2,130,414 | 1,051,141 |
| Certificates of deposit | 3,647,155 | 2,448,521 |
| Real estate | 4,475,957 | 3,907,868 |
| Net current assets | 1,078,509 | 801,407 |
| | 76,762,713 | 80,326,884 |

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

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Current service costs | 733,491 | 671,631 |
| Interest cost on obligation | 3,431,346 | 2,987,998 |
| Interest income on plan assets | (7,172,352) | (6,858,560) |
| Interest on effect of asset celling | 909,852 | 1,309,206 |
| Administrative fees | 173,906 | 188,061 |
| | (1,923,757) | (1,701,664) |

(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

**29. Retirement benefits asset/obligations (continued)**

(a) Defined benefit pension plan (continued)

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

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Remeasurement of defined benefit obligations | (7,525,303) | 2,719,205 |
| Remeasurement of plan assets | 9,378,292 | 1,717,677 |
| Change in effect on asset ceiling | 7,764,477 | (5,746,471) |
| | 9,617,466 | (1,309,589) |

(vii) Sensitivity analysis:

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 | | | |
|---|---|---|---|---|
| | 2022 | | 2021 | |
| | 1% Increase | 1 % Decrease | 1 % Increase | 1% Decrease |
| Discount rate | (3,863,000) | 4,784,000 | (4,965,000) | 6,277,000 |
| Future pension increases | 3,262,000 | (2,761,000) | 4,352,000 | (3,620,000) |
| Future salary increases | 998,000 | ( 901,000) | 1,190,000 | (1,072,000) |

(viii) Liability duration

The average liability duration is as follows:

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Active members and all participants (years) | 13.9 | 15.6 |

(ix) The estimated pension contributions to be paid into the defined benefit and contribution plans during the next financial year is $500 (2021: $500).

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

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Discount rate | 11.50% | 9.00% |
| Future salary increases | 9.50% | 7.00% |
| Future pension increases | 5.25% | 4.50% |

**SCOTIA GROUP JAMAICA LIMITED**

**Notes to the Financial Statements (Continued)**
**October 31, 2022**
(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

**29. 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 | |
|---|---|---|
| | 2022 | 2021 |
| Balance at beginning of year | (5,237,873) | (4,541,887) |
| Current service costs | ( 171,094) | ( 149,295) |
| Interest cost | ( 465,035) | ( 402,569) |
| Benefits paid | 162,210 | 122,669 |
| Actuarial gains arising from: | | |
| Experience adjustments | 22,787 | 126,739 |
| Changes in financial assumptions | 1,204,021 | ( 731,003) |
| Changes in demographic assumptions | ( 72,798) | 337,473 |
| Balance at end of year | (4,557,782) | (5,237,873) |

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

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Current service costs | 171,094 | 149,295 |
| Interest on obligation | 465,035 | 402,569 |
| | 636,129 | 551,864 |

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

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Experience adjustments | ( 22,787) | (126,739) |
| Changes in financial and demographic assumptions | (1,131,223) | 393,530 |
| | (1,154,010) | 266,791 |

(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 8.50% (2021: 7.5% ) 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 | | | |
|---|---|---|---|---|
| | 2022 | | 2021 | |
| | 1% Increase | 1% Decrease | 1% Increase | 1% Decrease |
| Discount rate | (587,000) | 735,000 | (775,000) | 995,000 |
| Future pension increases | 696,000 | (564,000) | 923,000 | (731,000) |
| Future salary increases | 8,000 | ( 7,000) | 10,000 | ( 9,000) |

**SCOTIA GROUP JAMAICA LIMITED**

**Notes to the Financial Statements (Continued)**
**October 31, 2022**
(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

## 29. Retirement benefits asset/obligations (continued)

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

(vi) Liability duration

The average liability duration is as follows:

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Active members and all participants (years) | 16.0 | 18.2 |

(c) Charge/(credit) recognised in other comprehensive income:

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Retirement benefit pension plan [note 29(a)(vi)] | 9,617,466 | (1,309,589) |
| Medical and group life obligation [note 29(b)(iii)] | (1,154,010) | 266,791 |
| | 8,463,456 | (1,042,798) |

## 30. Deposits by the public

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Personal | 215,459,672 | 207,540,110 |
| Business | 181,700,261 | 170,906,425 |
| Interest payable | 16,550 | 26,575 |
| | 397,176,483 | 378,473,110 |

Deposits include $2,184,976 (2021: $1,436,224) held as collateral for irrevocable commitments under letters of credit. Deposits by the public are distinguished by customer segment and include deposits payable on demand which are generally savings and chequing accounts for which we do not have the right to notice of withdrawal. Deposit balances also include amounts which mature on a specified date, and are generally call and term deposits.

## 31. 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.

## 32. Due to ultimate parent company

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| The Bank of Nova Scotia Loan | | |
| Facility | - | 304,694 |
| Interest payable | - | 3,878 |
| | - | 308,572 |
| Deposits held with Bank | 14,458 | 2,702 |
| | 14,458 | 311,274 |

The Facility is a USD denominated fourteen (14) year non-revolving loan from the ultimate parent company for on-lending. The principal was fully repaid in February 2022 and was subject to a fixed interest rate of 5.95%.

The above loan facility was insured by the Multilateral Investment Guarantee Agency.

(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

## 33. Due to fellow subsidiaries

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

## 34. 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.

## 35. Other liabilities

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Accrued staff benefits | 2,081,467 | 2,309,843 |
| Prepaid letters of credit | 597,277 | - |
| Provisions [note 35(i)] | 126,564 | 803,458 |
| Other payables | 291,395 | 386,989 |
| Expected credit losses on guarantees and letters of credit | 208,160 | 54,593 |
| Lease liabilities [note 35(ii)(b)] | 1,284,969 | 1,210,369 |
| Accrued liabilities | 6,468,496 | 5,370,471 |
| | 11,058,328 | 10,135,723 |

### (i) Provisions

The following table sets out the movement in provisions:

| | The Group | | |
|---|---|---|---|
| | Restructuring | Other | Total |
| Balance at 1 November 2021 | 547,859 | 255,599 | 803,458 |
| Provisions made during the year | - | 50,955 | 50,955 |
| Provisions used during the year | (472,250) | (255,599) | (727,849) |
| Balance at 31 October 2022 | 75,609 | 50,955 | 126,564 |
| Current | 75,609 | 50,955 | 126,564 |

Other provisions

Other provisions primarily relate to transition costs which were utilised as at October 31, 2022.

### (ii) Leases

Leases as lessee

The Group leases properties. The leases for the Group typically run for periods of 3 years with an option to renew the lease after that date. Lease payments are renegotiated at the time of lease renewal to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices.

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

(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

## 35. Other liabilities (continued)

### (ii) Leases (continued)

Leases as lessee (continued)

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

(a) Right-of-use assets

Right of use on leasehold properties are presented in property and equipment (note 27).

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| (b) Lease liabilities | | |
| Lease liabilities included in the statements of financial position | 1,284,969 | 1,210,369 |
| Lease liabilities are classified as follows: | | |
| Current | 148,263 | 136,450 |
| Non-current | 1,136,706 | 1,073,919 |
| | 1,284,969 | 1,210,369 |
| Maturity analysis of contractual undiscounted cash flows: | | |
| Less than one year | 172,425 | 159,566 |
| One to five years | 628,123 | 560,478 |
| Over five years | 624,877 | 626,470 |
| | 1,425,425 | 1,346,514 |

(c) Amounts recognised in profit or loss:

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Interest expense on lease liabilities | 31,727 | 26,203 |
| Depreciation on right-of-use assets (note 27) | 156,017 | 185,691 |
| Expenses related to short-term leases | 43,220 | 31,953 |

(d) Amounts recognised in statement of cash flows:

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Total cash outflow for leases | 166,001 | 204,821 |

(e) Extension options

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

The Group has estimated that the potential future lease payments, should it exercise the extension option, would result in an increase in lease liabilities of $351,237 (2021: $371,794).

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### 36. Deferred tax assets and liabilities

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

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

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

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2022 | 2021 Restated* | 2022 | 2021 |
| At beginning of year | (7,067,286) | (6,723,901) | ( 53) | (47) |
| Exchange rate adjustment | ( 648) | 4,281 | - | - |
| Recognised in the profit for the year [note 14(a)] | 113,194 | ( 545,589) | (4,641) | ( 6) |
| Recognised in other comprehensive income: | | | | |
| Remeasurement of retirement benefits asset/obligations | 2,821,152 | ( 347,600) | - | - |
| Fair value through OCI: | | | | |
| -fair value remeasurement | 2,097,735 | 546,431 | - | - |
| -transfer to profit | ( 22,734) | ( 908) | - | - |
| | 2,075,001 | 545,523 | - | - |
| | 4,896,153 | 197,923 | - | - |
| At end of year | (2,058,587) | (7,067,286) | (4,694) | (53) |

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

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2022 | 2021 Restated* | 2022 | 2021 |
| Pension benefits | (7,854,015) | (10,418,083) | - | - |
| Other post-retirement benefits | 1,519,261 | 1,745,958 | - | - |
| Investment securities | 2,218,731 | 5,416 | - | - |
| Vacation accrued | 197,075 | 185,453 | - | - |
| Accelerated tax depreciation | 11,551 | 26,121 | - | - |
| Allowances for expected credit losses | 1,276,460 | 1,091,300 | - | - |
| Interest receivable | ( 218,839) | ( 183,789) | (4,694) | (53) |
| Unrealised foreign exchange gains | ( 26,395) | ( 59,685) | - | - |
| Unrealised premiums/discounts on investment securities | 869,926 | 585,858 | - | - |
| Unrealised trading gains on securities | ( 52,993) | ( 44,915) | - | - |
| Exchange rate adjustments on expected credit losses | ( 11,140) | - | - | - |
| Other | 11,791 | ( 920) | - | - |
| Net deferred income tax liability | (2,058,587) | ( 7,067,286) | (4,694) | (53) |

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2022 | 2021 Restated* | 2022 | 2021 |
| This is comprised of: | | | | |
| Deferred income tax asset | 1,443,296 | 441,444 | - | - |
| Deferred income tax liability | (3,501,883) | (7,508,730) | (4,694) | (53) |
| | (2,058,587) | (7,067,286) | (4,694) | (53) |

*See note 54

(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

## 36. Deferred tax assets and liabilities (continued)

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

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2022 | 2021 Restated* | 2022 | 2021 |
| Accelerated tax depreciation | 14,570 | 32,906 | - | - |
| Pensions and other post-retirement benefits | 483,782 | 424,307 | - | - |
| Allowances for expected credit losses | (193,939) | 368,476 | - | - |
| Vacation accrued | ( 11,622) | ( 18,058) | - | - |
| Interest receivable | 35,051 | 25,567 | 4,641 | 6 |
| Trading assets | 8,046 | 22,898 | - | - |
| Unrealised foreign exchange gains | ( 33,290) | ( 56,318) | - | - |
| Investment securities | (422,515) | (301,803) | - | - |
| Other | 6,723 | 47,614 | - | - |
| | (113,194) | 545,589 | 4,641 | 6 |

## 37. Policyholders' liabilities

(a) Composition of policyholders' liabilities:

| | | The Group | |
|---|---|---|---|
| | | 2022 | 2021 |
| Policyholders' fund | | 53,929,191 | 53,308,449 |
| Benefits and claims payable | | 282,926 | 337,664 |
| Unprocessed premiums | | 28,200 | 38,267 |
| Annuity fund | | 1,091,652 | 880,799 |
| Insurance risk reserve | - Individual life | (10,570,228) | (10,030,838) |
| | - Individual accident and sickness | 794,829 | 624,671 |
| | - Whole life | 205,951 | 184,606 |
| | - Group life | 521,910 | 521,689 |
| | | 46,284,431 | 45,865,307 |

(b) Movement in policyholders' liabilities:

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Policyholders' fund: | | |
| At beginning of year | 53,308,449 | 52,384,076 |
| Gross premium | 5,179,273 | 5,129,716 |
| Disbursements | ( 5,758,213) | ( 5,377,797) |
| Interest credited | 1,199,682 | 1,172,454 |
| At end of year | 53,929,191 | 53,308,449 |

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Benefits and claims payable: | | |
| At beginning of year | 337,664 | 333,220 |
| New claims and benefits made during the year | 221,061 | 318,096 |
| Benefits and claims paid | (275,799) | (313,652) |
| At end of year | 282,926 | 337,664 |

* See note 54

(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

## 37. Policyholders' liabilities (continued)

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

(i) The policyholders' liabilities are calculated using the Policy Premium Method (PPM) of valuation. Under this method the premiums, benefits and expenses for each policy are projected and the resultant cash flows are discounted to the valuation date. The fair value is considered to approximate the carrying value.

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Unprocessed premiums: | | |
| At beginning of year | 38,267 | 18,798 |
| Premiums received | 7,964,454 | 7,414,168 |
| Premiums applied | (7,974,521) | (7,394,699) |
| At end of year | 28,200 | 38,267 |

| | The Group | |
|---|---|---|
| Annuity fund: | | |
| At beginning of year | 880,799 | 745,074 |
| Issue of new annuities | 253,950 | 175,840 |
| Payments | ( 72,101) | ( 63,071) |
| Interest credited | 29,004 | 22,956 |
| At end of year | 1,091,652 | 880,799 |

| | The Group | | |
|---|---|---|---|
| | 2022 | | |
| | Individual life | Group life | Total |
| Insurance risk reserve: | | | |
| At beginning of year | (9,221,561) | 521,689 | (8,699,872) |
| Changes in assumptions | ( 123,898) | ( 1,381) | ( 125,279) |
| Normal changes | ( 223,989) | 1,602 | ( 222,387) |
| At end of year | (9,569,448) | 521,910 | (9,047,538) |

| | 2021 | | |
|---|---|---|---|
| | Individual life | Group life | Total |
| Insurance risk reserve: | | | |
| At beginning of year | (8,909,726) | 728,174 | (8,181,552) |
| Changes in assumptions | ( 12,108) | 612 | ( 11,496) |
| Normal changes | ( 299,727) | (207,097) | ( 506,824) |
| At end of year | (9,221,561) | 521,689 | (8,699,872) |

## 38. Share capital

| | Number of Units ('000) | | Carrying value | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Authorised: | | | | |
| Ordinary stock units of no par value | 10,000,000 | 10,000,000 | - | - |
| Issued and fully paid: | | | | |
| Ordinary stock units | 3,111,573 | 3,111,573 | 6,569,810 | 6,569,810 |

Under the provisions of the Companies Act 2004 (the Act), the stock units 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 stock unit at meetings of the Company.

## 39. Reserve fund

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

## 40. Retained earnings reserve

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

## 41. Capital reserve

This represents the gain on liquidation of Scotia Jamaica General Insurance Brokers Limited.

## 42. Cumulative remeasurement result from investment securities

This represents the unrealised surplus or deficit on the revaluation of investment securities measured at FVOCI. This amount is increased by the amount of loss allowances on debt securities measured at FVOCI.

## 43. Loan loss reserve

This is a non-distributable loan loss reserve which represents the excess of the regulatory loan loss provisions over the expected credit losses as determined under IFRS requirements (note 23).

## 44. Other reserves

This represents reserves arising on consolidation of subsidiaries.

## 45. 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 management fees, guarantee fees, centralised computing and other service fees. There were no other balances due to the ultimate parent company, outside of those balances set out in note 32.

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## 45. Related party transactions and balances (continued)

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

| | The Group | | | | | |
|---|---|---|---|---|---|---|
| | Ultimate parent | Fellow subsidiaries | Directors and key management personnel | Connected companies | Total 2022 | Total 2021 |
| **Loans** | | | | | | |
| Balance at October 31 | - | - | 1,191,253 | 7,314,008 | 8,505,261 | 8,128,420 |
| Interest income earned | - | - | 79,183 | 336,338 | 415,521 | 483,648 |
| **Deposit liabilities** | | | | | | |
| Balance at October 31 | ( 14,458) | (499,535) | ( 902,626) | (4,963,642) | (6,380,261) | ( 5,695,981) |
| Interest expense on deposits | ( 2,992) | ( 124) | ( 775) | ( 2,503) | ( 6,394) | ( 41,014) |
| **Investments/repurchase agreements** | | | | | | |
| Other investments | 766,900 | 315,791 | ( 16,756) | - | 1,065,935 | 196,004 |
| Interest earned/(paid) on other investments | 13,260 | 71,852 | ( 2) | - | 85,110 | 61,135 |
| **Deposits with banks** | | | | | | |
| Due from banks and other financial institutions | 818,498 | 35,344,713 | - | - | 36,163,211 | 29,667,548 |
| Interest earned from banks and other financial institutions | - | 252,556 | - | - | 252,556 | 9,514 |
| **Other** | | | | | | |
| Fees and commission, net | - | - | ( 106,417) | - | ( 106,417) | ( 84,876) |
| Insurance products | - | - | 32,215 | - | 32,215 | 31,876 |
| Technical fees paid, net | (1,987,662) | - | - | - | ( 1,987,662) | ( 2,542,414) |
| Other operating expenses, net | (1,178,025) | ( 1,670,682) | - | - | ( 2,848,707) | ( 3,141,175) |

| | The Group 2022 | The Group 2021 |
|---|---|---|
| **Key management compensation** | | |
| Salaries and other short-term benefits | 966,259 | 849,829 |
| Post-employment benefits | (107,930) | 204,572 |
| | 858,329 | 1,054,401 |

### Transactions/balances with the Company

As at October 31, 2022, the Company held deposits in the normal course of business with a subsidiary of $632,520 (2021: $759,546) and a fellow subsidiary of $8,495,611 (2021: $9,131,546), (note18). Interest earned on the deposits with a fellow subsidiary is $65,790 (2021: $4,567). Other transactions include dividend income from subsidiaries of $3,677,360 (2021: $3,937,494) and directors' emoluments paid of $16,827 (2021: $16,428) (note 13).

## 46. 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.

## 46. 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 are 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, market risk, liquidity risk, insurance risk and operational risk. Market risk includes currency risk, interest rate risk and 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.

## 46. 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 2(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 categories 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 |

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**46. 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

**Retail Loans including all credit card segments:**

| The Group | | | | | |
|---|---|---|---|---|---|
| | | 2022 | | | |
| Category of PD Grade | PD Range | Stage 1 | Stage 2 | Stage 3 | Total |
| Very Low | <0.2% | 2,232,951 | - | - | 2,232,951 |
| Low | 0.2% to <1% | 62,834,530 | 56,896 | - | 62,891,426 |
| Medium | 1% to <3% | 52,215,192 | 269,621 | - | 52,484,813 |
| High | 3% to <20% | 23,298,943 | 3,255,857 | - | 26,554,800 |
| Very High | 20% to <99.9% | 53,099 | 2,707,140 | - | 2,760,239 |
| Subtotal: PD Grades (Advanced Models) | | 140,634,715 | 6,289,514 | - | 146,924,229 |
| Loans not graded (Intermediate or simplified or gross-up) | | 280,863 | 8,894 | - | 289,757 |
| Default | | - | - | 3,620,095 | 3,620,095 |
| Total | | 140,915,578 | 6,298,408 | 3,620,095 | 150,834,081 |
| Expected credit loss allowance | | ( 1,677,612) | (1,584,708) | (2,279,706) | ( 5,542,026) |
| Carrying Amounts | | 139,237,966 | 4,713,700 | 1,340,389 | 145,292,055 |

| | | 2021 | | | |
|---|---|---|---|---|---|
| Category of PD Grade | PD Range | Stage 1 | Stage 2 | Stage 3 | Total |
| Very Low | <0.2% | 18,590,139 | 7,478 | - | 18,597,617 |
| Low | 0.2% to <1% | 33,185,258 | 58,447 | - | 33,243,705 |
| Medium | 1% to <3% | 42,409,846 | 1,900,986 | - | 44,310,832 |
| High | 3% to <20% | 16,352,599 | 3,031,003 | - | 19,383,602 |
| Very High | 20% to <99.9% | 61,209 | 3,100,188 | 1,207 | 3,162,604 |
| Subtotal: PD Grades (Advanced Models) | | 110,599,051 | 8,098,102 | 1,207 | 118,698,360 |
| Loans not graded (Intermediate or simplified or gross-up) | | 3,450,336 | 216,484 | - | 3,666,820 |
| Default | | - | - | 5,375,912 | 5,375,912 |
| Total | | 114,049,387 | 8,314,586 | 5,377,119 | 127,741,092 |
| Expected credit loss allowance | | ( 1,236,888) | (1,537,609) | (3,109,480) | ( 5,883,977) |
| Carrying Amounts | | 112,812,499 | 6,776,977 | 2,267,639 | 121,857,115 |

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## 46. Financial risk management (continued)

### (b) Credit risk (continued)

(iii) Credit quality (continued)

**Commercial Loans excluding all credit card segments:**

The Group

2022

| Internal Grade | IG Code | S&P | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|---|---|
| Investment grade | 99-98 | AAA to AA+ | 3,040 | 1,256,018 | - | 1,259,058 |
| | 95 | AA to A+ | - | 415,260 | - | 415,260 |
| | 90 | A to A- | 94,069 | 1,591,773 | - | 1,685,842 |
| | 87 | BBB+ | 454,680 | 6,892 | - | 461,572 |
| | 85 | BBB | 1,463,142 | 2,532,909 | - | 3,996,051 |
| | 83 | BBB- | 8,213,359 | 3,574,431 | - | 11,787,790 |
| Non-investment | 80 | BB+ | 9,540,306 | 2,809,381 | - | 12,349,687 |
| | 77 | BB | 20,251,318 | 529,399 | - | 20,780,717 |
| | 75 | BB- | 24,459,284 | 1,155,393 | - | 25,614,677 |
| | 73 | B+ | 6,355,201 | 314,112 | - | 6,669,313 |
| | 70 | B to B- | 5,313,820 | 909,149 | - | 6,222,969 |
| Watch | 65 | CCC+ | - | 297,328 | - | 297,328 |
| | 60 | CCC | - | 777,389 | - | 777,389 |
| | 40 | CCC- to CC | - | 85,917 | - | 85,917 |
| | 30 | | - | 50,504 | - | 50,504 |
| Default | | | - | - | 396,015 | 396,015 |
| Total | | | 76,148,219 | 16,305,855 | 396,015 | 92,850,089 |
| Expected credit loss allowance | | | ( 92,504) | ( 179,915) | ( 83,671) | ( 356,090) |
| Carrying amount | | | 76,055,715 | 16,125,940 | 312,344 | 92,493,999 |

2021

| Internal Grade | IG Code | S&P | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|---|---|
| Investment grade | 99-98 | AAA to AA+ | 78,955 | 835,801 | - | 914,756 |
| | 95 | AA to A+ | - | 281,893 | - | 281,893 |
| | 90 | A to A- | - | 1,253,306 | - | 1,253,306 |
| | 87 | BBB+ | 6,688 | 7,830 | - | 14,518 |
| | 85 | BBB | 621,772 | 2,220,065 | - | 2,841,837 |
| | 83 | BBB- | 2,228,938 | 3,089,711 | - | 5,318,649 |
| Non-investment | 80 | BB+ | 8,580,879 | 2,416,869 | - | 10,997,748 |
| | 77 | BB | 12,006,065 | 400,292 | - | 12,406,357 |
| | 75 | BB- | 20,747,117 | 1,053,397 | - | 21,800,514 |
| | 73 | B+ | 16,326,030 | 696,519 | - | 17,022,549 |
| | 70 | B to B- | 10,969,709 | 1,061,300 | - | 12,031,009 |
| Watch | 65 | CCC+ | - | 433,015 | - | 433,015 |
| | 60 | CCC | - | 733,130 | - | 733,130 |
| | 30 | CCC | - | 317,513 | - | 317,513 |
| Default | | | - | - | 652,493 | 652,493 |
| Total | | | 71,566,153 | 14,800,641 | 652,493 | 87,019,287 |
| Expected credit loss allowance | | | ( 93,750) | ( 163,050) | ( 96,548) | ( 353,348) |
| Carrying amount | | | 71,472,403 | 14,637,591 | 555,945 | 86,665,939 |

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**46. Financial risk management (continued)**

**(b) Credit risk (continued)**

(iii) Credit quality (continued)

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 | | | |
|---|---|---|---|---|
| | 2022 | | 2021 | |
| | Stage 1 | Total | Stage 1 | Total |
| AAA to AA+ | 44,973,883 | 44,973,883 | 28,592,987 | 28,592,987 |
| AA to A+ | 20,764,431 | 20,764,431 | 17,510,196 | 17,510,196 |
| A to A- | - | - | 4,848,230 | 4,848,230 |
| BBB+ TO BB+ | 1,499,757 | 1,499,757 | 1,937,522 | 1,937,522 |
| BB to B- | 126,384,282 | 126,384,282 | 105,486,117 | 105,486,117 |
| Unrated | 4,457,554 | 4,457,554 | 4,364,772 | 4,364,772 |
| | 198,079,907 | 198,079,907 | 162,739,824 | 162,739,824 |

Classified as follows:

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Amortised cost | 33,958,500 | 7,482,669 |
| Fair value through OCI | 148,840,961 | 141,620,095 |
| Fair value through profit or loss | 2,719,622 | 3,373,129 |
| Pledged Assets: | | |
| Amortised cost | 281,761 | 281,676 |
| Fair value through OCI | 12,279,063 | 9,982,255 |
| | 198,079,907 | 162,739,824 |

Expected credit losses on investment securities carried at amortized cost and fair value through the profit and loss was $31,278 (2021: $4,769).

(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 $183,643,552 (2021: $164,767,272) for the Group.

(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

## 46. Financial risk management (continued)

### (b) Credit risk (continued)

(v) Concentration of exposure to credit risk

The following table summarises credit exposure for loans at their carrying amounts, as categorised by industry sectors. These credit facilities are well diversified across industry sectors, and are primarily extended to customers within Jamaica.

| | The Group | |
|---|---|---|
| | Total 2022 | Total 2021 |
| Agriculture, fishing and mining | 552,537 | 655,687 |
| Construction and real estate | 2,907,211 | 3,582,236 |
| Distribution | 21,058,644 | 16,388,745 |
| Financial institutions | 1,338,982 | 876,072 |
| Government and public entities | 5,090,165 | 9,810,858 |
| Manufacturing | 17,665,356 | 11,354,070 |
| Transportation, electricity, water and other | 20,939,284 | 23,504,834 |
| Personal | 147,905,845 | 125,005,677 |
| Professional and other services | 11,015,546 | 11,641,381 |
| Tourism and entertainment | 13,976,299 | 10,385,719 |
| Interest receivable | 1,234,301 | 1,555,100 |
| Total | 243,684,170 | 214,760,379 |
| Total allowance for credit losses | ( 5,898,116) | ( 6,237,325) |
| | 237,786,054 | 208,523,054 |

### (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 risk – interest rate, currency and price risk are 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.

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## 46. Financial risk management (continued)

### (c) Market risk (continued)

(i) Interest rate risk (continued)

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.

| | The Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2022 | | | | | | |
| | Immediately rate sensitive | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Non-rate sensitive | Total |
| Cash resources | 1,094,371 | 64,208,861 | 8,476,541 | 1,000,000 | - | 74,212,411 | 148,992,184 |
| Securities purchased under resale agreements | - | 751,427 | - | - | - | - | 751,427 |
| Financial assets at fair value through profit or loss | - | - | - | 2,424,674 | 271,626 | 339,113 | 3,035,413 |
| Pledged assets | - | 3,595,897 | 2,146,939 | 7,420,507 | 877,420 | 1,557,957 | 15,598,720 |
| Loans (1) | 150,533,319 | 14,782,320 | 21,014,227 | 38,122,399 | 5,636,035 | 7,697,754 | 237,786,054 |
| Investment securities (2) | - | 12,220,299 | 25,332,163 | 88,081,002 | 21,888,881 | 1,323,721 | 148,846,066 |
| Other assets | - | - | - | - | - | 40,588,359 | 40,588,359 |
| Total assets | 151,627,690 | 95,558,804 | 56,969,870 | 137,048,582 | 28,673,962 | 125,719,315 | 595,598,223 |
| Deposits, due to banks, parent | 383,996,015 | 7,296,985 | 6,656,199 | 781,736 | - | 6,680 | 398,737,615 |
| Capital Management and Government Securities funds | 14,121,515 | - | - | - | - | 6,888 | 14,128,403 |
| Policyholders' liabilities | 44,420,015 | 2,450,305 | 8,461,648 | - | - | ( 9,047,537) | 46,284,431 |
| Other liabilities | - | - | - | - | - | 25,597,001 | 25,597,001 |
| Stockholders' equity | - | - | - | - | - | 110,850,773 | 110,850,773 |
| Total liabilities and stockholders' equity | 442,537,545 | 9,747,290 | 15,117,847 | 781,736 | - | 127,413,805 | 595,598,223 |
| **Total interest rate sensitivity gap** | (290,909,855) | 85,811,514 | 41,852,023 | 136,266,846 | 28,673,962 | ( 1,694,490) | - |
| **Cumulative gap** | (290,909,855) | (205,098,341) | (163,246,318) | ( 26,979,472) | 1,694,490 | - | - |

| | 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Immediately rate sensitive | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Non-rate sensitive | Total |
| Total assets | 156,912,443 | 92,711,484 | 65,409,372 | 120,905,030 | 30,774,067 | 118,870,813 | 585,583,209 |
| Total liabilities and stockholders' equity | 426,798,170 | 10,503,788 | 15,650,686 | 826,206 | - | 131,804,359 | 585,583,209 |
| **Total interest rate sensitivity gap** | (269,885,727) | 82,207,696 | 49,758,686 | 120,078,824 | 30,774,067 | ( 12,933,546) | - |
| **Cumulative gap** | (269,885,727) | (187,678,031) | (137,919,345) | ( 17,840,521) | 12,933,546 | - | - |

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

| | The Group | | | | | |
|---|---|---|---|---|---|---|
| | 2022 | | | | | |
| | Immediately rate sensitive % | Within 3 months % | 3 to 12 months % | 1 to 5 years % | Over 5 years % | Weighted average % |
| **ASSETS** | | | | | | |
| Cash resources | 2.87 | 5.01 | 0.05 | 8.95 | - | 2.24 |
| Securities purchased under resale agreements | - | 8.22 | - | - | - | 8.22 |
| Financial assets at fair value through profit or loss | - | - | - | 8.84 | 4.96 | 7.51 |
| Pledged assets | - | 4.74 | 3.42 | 8.96 | 11.89 | 6.42 |
| Loans (1) | 9.31 | 9.21 | 9.47 | 12.02 | 8.91 | 9.44 |
| Investment securities (2) | - | 5.80 | 4.58 | 5.93 | 5.54 | 5.58 |
| **LIABILITIES** | | | | | | |
| Deposits (3) | 0.10 | 0.24 | 0.33 | 0.44 | - | 0.11 |
| Capital Management and Government Securities funds | 0.18 | - | - | - | - | 0.18 |
| Policyholders' liabilities | 2.21 | 2.31 | 2.39 | - | - | 2.24 |

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## 46. Financial risk management (continued).

### (c) Market risk (continued)

(i) Interest rate risk (continued)

| | 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Immediately rate sensitive | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Weighted average |
| | % | % | % | % | % | % |
| **ASSETS** | | | | | | |
| Cash resources | 1.20 | 1.11 | 0.05 | - | - | 0.68 |
| Financial assets at fair value through profit or loss | - | - | - | 3.18 | 5.45 | 3.37 |
| Pledged assets | - | 1.79 | 1.46 | 2.12 | 4.00 | 1.80 |
| Loans (1) | 10.30 | 6.82 | 8.87 | 9.79 | 7.08 | 9.18 |
| Investment securities (2) | - | 1.57 | 1.74 | 1.93 | 5.40 | 2.25 |
| **LIABILITIES** | | | | | | |
| Deposits (3) | 0.15 | 0.52 | 0.45 | 0.57 | - | 0.16 |
| Capital Management and Government Securities funds | 0.18 | - | - | - | - | 0.18 |
| Policyholders' liabilities | 2.21 | 2.31 | 2.39 | - | - | 2.24 |

(1) Yields are based on book values and contractual interest rates.

(2) Yields are based on book values and contractual interest adjusted for amortisation of premiums and discounts. Yields on tax exempt investments have not been computed on a taxable equivalent basis.

(3) Yields are based on contractual interest rates.

| | The Company 2022 | | | | | |
|---|---|---|---|---|---|---|
| | Immediately rate sensitive | Within 3 months | 3 to 12 months | 1 to 5 years | Non-rate sensitive | Total |
| Cash resources | 651,590 | - | 8,476,541 | - | - | 9,128,131 |
| Investment in securities | - | - | - | - | 13,029,908 | 13,029,908 |
| Other assets | - | - | - | - | 106,363 | 106,363 |
| Total assets | 651,590 | - | 8,476,541 | - | 13,136,271 | 22,264,402 |
| Other liabilities | - | - | - | - | 29,656 | 29,656 |
| Stockholders' equity | - | - | - | - | 22,234,746 | 22,234,746 |
| Total liabilities and stockholders' equity | - | - | - | - | 22,264,402 | 22,264,402 |
| **Total interest rate sensitivity gap** | 651,590 | - | 8,476,541 | - | ( 9,128,131) | - |
| **Cumulative gap** | 651,590 | 651,590 | 9,128,131 | 9,128,131 | - | - |

| | 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Immediately rate sensitive | Within 3 months | 3 to 12 months | 1 to 5 years | Non-rate sensitive | Total |
| Total assets | 701,230 | - | 9,189,862 | - | 13,136,271 | 23,027,363 |
| Total liabilities and stockholders' equity | - | - | - | - | 23,027,363 | 23,027,363 |
| **Total interest rate sensitivity gap** | 701,230 | - | 9,189,862 | - | ( 9,891,092) | - |
| **Cumulative gap** | 701,230 | 701,230 | 9,891,092 | 9,891,092 | - | - |

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

| | The Company 2022 | | | | | |
|---|---|---|---|---|---|---|
| | Immediately rate sensitive | Within 3 months | 3 to 12 months | 1 to 5 years | Over 5 years | Weighted average |
| | % | % | % | % | % | % |
| **ASSETS** | | | | | | |
| Cash resources | 0.35 | - | 4.43 | - | - | 4.14 |

(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

## 46. Financial risk management (continued).

### (c) Market risk (continued)

(ii) Interest rate risk (continued)

| | 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Immediately rate sensitive % | Within 3 months % | 3 to 12 months % | 1 to 5 years % | Over 5 years % | Weighted average % |
| **ASSETS** | | | | | | |
| Cash resources | 0.35 | - | 0.05 | - | - | 0.07 |

(1) Yields are based on book values 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 2021.

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| | Increase/decrease | Increase/decrease |
| JMD Interest rates | by 450 bps | by 140 bps |
| USD Interest rates | by 250 bps | by 400 bps |

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Effect on profit or loss | 4,949,757 | 3,700,969 | 182,270 | 143,032 |
| Effect on stockholders' equity | 14,895,020 | 9,064,610 | 98,535 | 71,224 |

(i) 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 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2022 | | | | | | |
| | JMD | USD | CAD | GBP | EUR | Other | Total |
| **ASSETS** | | | | | | | |
| Cash resources | 69,665,354 | 69,661,807 | 3,975,282 | 4,708,437 | 821,321 | 159,983 | 148,992,184 |
| Financial assets at fair value through profit or loss | 2,899,347 | 136,066 | - | - | - | - | 3,035,413 |
| Pledged assets | 6,667,277 | 8,753,953 | 177,482 | 3 | 5 | - | 15,598,720 |
| Loans | 207,122,200 | 30,663,811 | ( 8) | 51 | - | - | 237,786,054 |
| Investment securities | 84,001,240 | 63,724,598 | 1,120,228 | - | - | - | 148,846,066 |
| Government securities under repurchase agreement | 751,427 | - | - | - | - | - | 751,427 |
| Other assets | 39,655,373 | 932,645 | ( 27) | 368 | - | - | 40,588,359 |
| | 410,762,218 | 173,872,880 | 5,272,957 | 4,708,859 | 821,326 | 159,983 | 595,598,223 |
| **LIABILITIES** | | | | | | | |
| Deposits | 233,788,051 | 154,901,060 | 4,941,282 | 4,291,896 | 813,388 | 1,938 | 398,737,615 |
| Other liabilities | 22,296,444 | 3,244,347 | 76,646 | 19,651 | ( 54,404) | 14,317 | 25,597,001 |
| Policyholder liability | 46,284,431 | - | - | - | - | - | 46,284,431 |
| Capital management and government securities funds | 2,307,167 | 10,873,572 | 95,800 | 766,442 | 85,422 | - | 14,128,403 |
| | 304,676,093 | 169,018,979 | 5,113,728 | 5,077,989 | 844,406 | 16,255 | 484,747,450 |
| **NET POSITION** | **106,086,125** | **4,853,901** | **159,229** | **( 369,130)** | **( 23,080)** | **143,728** | **110,850,773** |

(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

## 46. Financial risk management (continued)

### (c) Market risk (continued)

(ii) Currency risk (continued)

JMD Equivalent

| | The Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2021 | | | | | | |
| | JMD | USD | CAD | GBP | EUR | Other | Total |
| **ASSETS** | | | | | | | |
| Cash resources | 85,472,168 | 72,539,201 | 3,963,732 | 6,003,729 | 546,043 | 150,739 | 168,675,612 |
| Financial assets at fair value through profit or loss | 3,066,029 | 636,973 | - | - | - | - | 3,703,002 |
| Pledged assets | 6,001,418 | 9,436,375 | 201,885 | - | - | - | 15,639,678 |
| Loans | 176,976,633 | 31,546,123 | 296 | 2 | - | - | 208,523,054 |
| Investment securities | 89,543,246 | 50,817,900 | 1,264,054 | - | - | - | 141,625,200 |
| Other assets | 45,682,969 | 1,721,653 | 9,231 | 199 | 2,611 | - | 47,416,663 |
| | 406,742,463 | 166,698,225 | 5,439,198 | 6,003,930 | 548,654 | 150,739 | 585,583,209 |
| **LIABILITIES** | | | | | | | |
| Deposits | 227,674,532 | 141,550,428 | 5,102,970 | 5,520,307 | 581,255 | 1,434 | 380,430,926 |
| Capital management and government securities funds | 2,710,910 | 14,202,063 | 172,447 | 1,562,775 | 159,913 | - | 18,808,108 |
| Other liabilities | 24,282,491 | 2,053,492 | 97,674 | 35,141 | 1,936 | 12,961 | 26,483,695 |
| Policyholders' liabilities | 45,865,307 | - | - | - | - | - | 45,865,307 |
| | 300,533,240 | 157,805,983 | 5,373,091 | 7,118,223 | 743,104 | 14,395 | 471,588,036 |
| **NET POSITION** | **106,209,223** | **8,892,242** | **66,107** | **(1,114,293)** | **(194,450)** | **136,344** | **113,995,173** |

The following significant exchange rates were applied during the year:

| | Average rate for the period | | Reporting date spot rate | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| USD | 153.4334 | 149.6036 | 153.1594 | 154.6673 |
| CAD | 119.5382 | 119.3382 | 113.5403 | 126.4370 |
| GBP | 191.3854 | 205.7707 | 175.7410 | 211.4054 |
| EUR | 162.4488 | 178.2695 | 150.8400 | 178.6397 |

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 2021. 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.

Sensitivity to foreign exchange movements:

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| | Increase/decrease | Increase/decrease |
| USD | by 2.86% | by 6.00% |
| CAD | by 7.93% | by 7.25% |
| GBP | by 11.24% | by 8.25% |
| EUR | by 9.82% | by 7.50% |

| | 2022 | 2021 |
|---|---|---|
| Effect on profit and stockholders' equity | 62,315 | 9,421 |

## 46. Financial risk management (continued)

### (c) Market risk (continued)

(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.

The following shows the sensitivity of the unitised funds based on the 3-month price volatility of the Funds' published net asset value /share over a 5-year period within a confidence interval of 99% using historical simulation.

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Effect on profit and stockholders’ equity | (210,961) | (278,648) |

### (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.

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.

(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

## 46. Financial risk management (continued)

### (d) Liquidity risk (continued)

| | The Group | | | | | |
|---|---|---|---|---|---|---|
| | 2022 | | | | | |
| | 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 | 391,006,690 | 6,981,322 | 787,406 | - | 398,775,418 | 398,737,615 |
| Capital management and government securities funds | 14,128,403 | - | - | - | 14,128,403 | 14,128,403 |
| Other liabilities | 3,546,806 | - | - | - | 3,546,806 | 3,546,806 |
| Policyholders' liabilities | 47,579,221 | 6,603,340 | - | - | 54,182,561 | 46,284,431 |
| Total liabilities | 456,261,120 | 13,584,662 | 787,406 | - | 470,633,188 | 462,697,255 |

| | 2021 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | 373,062,230 | 6,409,822 | 839,172 | 777,687 | 381,088,911 | 380,430,926 |
| Capital management and government securities funds | 18,808,108 | - | - | - | 18,808,108 | 18,808,108 |
| Other liabilities | 3,155,909 | - | - | - | 3,155,909 | 3,155,909 |
| Policyholders' liabilities | 44,590,049 | 9,082,820 | - | - | 53,672,869 | 45,865,307 |
| Total liabilities | 439,616,296 | 15,492,642 | 839,172 | 777,687 | 456,725,797 | 448,260,250 |

### (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 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.

**SCOTIA GROUP JAMAICA LIMITED**

**Notes to the Financial Statements (Continued)**
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## 46. Financial risk management (continued)

### (e) Insurance risk (continued)

*Frequency and severity of claims (continued)*

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 | | | |
| | 2022 | | 2021 | |
| | Before and after Reinsurance | % | Before and after Reinsurance | % |
| Individual Life | | | | |
| Benefits assured per life | | | | |
| 0 to 250,000 | 3,823,199 | 6 | 4,094,592 | 6 |
| 250,001 to 500,000 | 3,082,779 | 4 | 3,078,660 | 5 |
| 500,001 to 750,000 | 6,962,605 | 10 | 6,748,109 | 10 |
| 750,001 to 1,000,000 | 3,670,002 | 5 | 3,784,771 | 6 |
| 1,000,001 to 1,500,000 | 12,689,172 | 18 | 12,332,652 | 18 |
| 1,500,001 to 2,000,000 | 7,829,062 | 11 | 7,733,277 | 11 |
| Over 2,000,000 | 32,940,004 | 46 | 29,733,266 | 44 |
| Total | 70,996,823 | 100 | 67,505,327 | 100 |

| | The Group | | | |
|---|---|---|---|---|
| | Total benefits assured | | | |
| | 2022 | | 2021 | |
| | Before and after Reinsurance | % | Before and after Reinsurance | % |
| Group Life | | | | |
| Benefits assured per life | | | | |
| 0 to 250,000 | 13,256,326 | 14 | 11,881,526 | 14 |
| 250,001 to 500,000 | 7,118,751 | 8 | 7,263,771 | 8 |
| 500,001 to 750,000 | 10,033,609 | 11 | 10,276,285 | 12 |
| 750,001 to 1,000,000 | 8,856,417 | 9 | 9,155,998 | 11 |
| 1,000,001 to 1,500,000 | 14,593,846 | 15 | 14,909,669 | 17 |
| 1,500,001 to 2,000,000 | 11,267,054 | 12 | 7,954,216 | 9 |
| Over 2,000,000 | 29,757,253 | 31 | 24,631,885 | 29 |
| Total | 94,883,256 | 100 | 86,073,350 | 100 |

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

*Sources of uncertainty in the estimation of future benefit payments and premiums*

Uncertainty in the estimation of future benefit payments and premium receipts for long term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality and the variability in policyholder behaviour.

Estimates are made of the expected number of deaths for each of the years in which the Group is exposed to risk. The Group bases these estimates on standard industry and international mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the Group’s own experience.

## 46. Financial risk management (continued)

### (e) Insurance risk (continued)

*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 company also limits the probable loss in the event of a single catastrophic occurrence by reinsuring this type of risk with reinsurers.

The Group manages reinsurance risk by selecting reinsurers which have established capability to meet their contractual obligations and which generally have favourable credit ratings as determined by a reputable rating agency.

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

| Type of insurance contract | Retention |
|---|---|
| Individual Universal Life | Maximum retention of $15,000 per insured. |

(ii) Sensitivity analysis of actuarial liabilities

*(1) 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.

(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

## 46. Financial risk management (continued)

### (e) Insurance risk (continued)

(ii) Reinsurance risk (continued)

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

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

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

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Interest rates increase by 1% | 53,278 | 85,126 |
| Interest rates decrease by 1% | 2,045 | ( 38,746) |
| Mortality increase by 10% | 554,648 | 530,021 |
| Mortality decrease by 10% | (578,161) | (552,977) |
| Expenses increase by 10% | 448,020 | 412,530 |
| Expenses decrease by 10% | (445,611) | (410,334) |
| Lapses and withdrawals increase by 10% | 448,347 | 439,561 |
| Lapses and withdrawals decrease by 10% | (489,021) | (479,280) |
| Morbidity increase by 10% | 153,259 | 142,745 |
| Morbidity decrease by 10% | (155,150) | (144,364) |

## 47. 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.

## 47. Fair value of financial instruments (continued)

**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 all significant market observable inputs other than quoted prices included within Level 1 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 significant unobservable inputs for the asset or liability.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has 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 are measured at fair value by reference to quoted market prices where available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques which include utilising recent transaction prices or broker quotes. Investments in unit trust are measured at fair value by reference to prices quoted by the fund managers.

(ii) financial instruments classified as fair value through profit or loss: fair value is estimated by reference to quoted market prices where available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or discounted cash flows. Fair value is equal to the carrying amount for these investments.

(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. These securities are classified at level 2;

(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. These securities are classified at level 2;

(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;

(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 asset based values. Unquoted equities are carried at cost as the fair value cannot be reliably determined. These securities are classified at level 3;

(viii) The fair values of other liabilities due to be settled within one year are considered to approximate their carrying amount. These securities are classified at level 3.

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## 47. Fair value of financial instruments (continued)

### Basis of valuation (continued)

*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 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2022 | | | | | | | |
| | 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 |
| Government securities | - | 134,787,365 | 2,719,622 | 137,506,987 | 34,333,378 | 103,173,609 | - | 137,506,987 |
| Bank of Jamaica securities | - | 7,035,649 | - | 7,035,649 | - | 7,035,649 | - | 7,035,649 |
| Treasury bills | - | 5,684,786 | - | 5,684,786 | 5,671,130 | 13,656 | - | 5,684,786 |
| Corporate bonds | - | 1,333,161 | - | 1,333,161 | - | 1,333,161 | - | 1,333,161 |
| Unitised funds | - | - | 315,791 | 315,791 | - | 315,791 | - | 315,791 |
| | - | 148,846,066 | 3,035,413 | 151,881,479 | 40,004,508 | 111,871,866 | 5,105 | 151,881,479 |
| **Pledged assets measured at fair value** | | | | | | | | |
| Government securities | - | 10,693,978 | - | 10,693,978 | 3,301,711 | 7,392,267 | - | 10,693,978 |
| Bank of Jamaica securities | - | 1,585,085 | - | 1,585,085 | - | 1,585,085 | - | 1,585,085 |
| Unitised funds | - | - | 1,562,500 | 1,562,500 | - | 1,562,500 | - | 1,562,500 |
| | - | 12,279,063 | 1,562,500 | 13,841,563 | 3,301,711 | 10,539,852 | - | 13,841,563 |
| **Financial assets not measured at fair value** | | | | | | | | |
| Loans and receivables | 82,798,077 | - | - | 82,798,077 | - | - | 84,609,477 | 84,609,477 |
| **Pledged assets not measured at fair value** | | | | | | | | |
| Government securities | 281,761 | - | - | 281,761 | - | 299,053 | - | 299,053 |

| | 2021 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 |
| Government securities | - | 131,415,705 | 3,373,129 | 134,788,834 | 18,875,809 | 115,913,025 | - | 134,788,834 |
| Bank of Jamaica securities | - | 7,740,841 | - | 7,740,841 | - | 7,740,841 | - | 7,740,841 |
| Treasury bills | - | 1,264,054 | - | 1,264,054 | 1,264,054 | - | - | 1,264,054 |
| Corporate bonds | - | 1,199,495 | - | 1,199,495 | - | 1,199,495 | - | 1,199,495 |
| Unitised funds | - | - | 329,873 | 329,873 | - | 329,873 | - | 329,873 |
| | - | 141,625,200 | 3,703,002 | 145,328,202 | 20,139,863 | 125,183,234 | 5,105 | 145,328,202 |

(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

## 47. Fair value of financial instruments (continued)

### Basis of valuation (continued)

*Accounting classifications and fair values (continued):*

| | The Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | | | | | | | |
| | Carrying amount | | | | Fair value | | | |
| | Amortised cost | Fair value through OCI | Fair value through profit or loss | Total | Level 1 | Level 2 | Level 3 | Total |
| **Pledged assets measured at fair value** | | | | | | | | |
| Government securities | - | 7,690,051 | - | 7,690,051 | - | 7,690,051 | - | 7,690,051 |
| Bank of Jamaica securities | - | 2,292,204 | - | 2,292,204 | - | 2,292,204 | - | 2,292,204 |
| Unitised funds | - | - | 2,149,695 | 2,149,695 | - | 2,149,695 | - | 2,149,695 |
| | - | 9,982,255 | 2,149,695 | 12,131,950 | - | 12,131,950 | - | 12,131,950 |
| **Financial assets not measured at fair value** | | | | | | | | |
| Loans and receivables | 78,915,653 | - | - | 78,915,653 | - | - | 81,247,005 | 81,247,005 |
| **Pledged assets not measured at fair value** | | | | | | | | |
| Government securities | 281,676 | - | - | 281,676 | - | 341,395 | - | 341,395 |

### Valuation technique

All Government of Jamaica securities and international bonds are valued using the bid price from Bloomberg to estimate the fair value.

## 48. 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.

(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

## 48. Capital risk management (continued)

### Banking, mortgage lending and investment management

Capital adequacy is reviewed by executive management, the Audit Committee and the Board of Directors. Based on the guidelines developed by Bank of Jamaica (BOJ) and the Financial Services Commission (FSC), each regulated entity is required to:

- Hold the minimum level of regulatory capital; and
- Maintain a minimum ratio of total regulatory capital to risk weighted assets.

Regulatory capital is divided into two tiers:

1. Tier 1 capital comprises share capital, reserve fund and reserves created by appropriations of retained earnings. The carrying value of goodwill is deducted in arriving at Tier 1 capital; and
2. Tier 2 capital comprises qualified subordinated loan capital, collective impairment allowances and revaluation surplus on property and equipment.

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

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

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

| | Regulated by the BOJ[1] | | Regulated by the FSC[2] | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Tier 1 Capital | 53,112,451 | 53,138,609 | 8,951,948 | 9,226,596 |
| Tier 2 Capital | - | - | 464,162 | 464,162 |
| | 53,112,451 | 53,138,609 | 9,416,110 | 9,690,758 |
| Less prescribed deductions | ( 2,725,000) | ( 220,000) | - | - |
| Total regulatory capital | 50,387,451 | 52,918,609 | 9,416,110 | 9,690,758 |

| | Regulated by the BOJ[1] | | Regulated by the FSC[2] | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| **Risk weighted assets** | | | | |
| On-balance sheet | 270,213,279 | 247,987,824 | 12,706,562 | 14,896,271 |
| Off-balance sheet | 58,133,373 | 55,928,469 | - | - |
| Foreign exchange exposure | 986,040 | 310,466 | 6,170,633 | 7,317,113 |
| Total risk weighted assets | 329,332,692 | 304,226,759 | 18,877,195 | 22,213,384 |
| Actual regulatory capital to risk weighted assets | 15.30% | 17.39% | 49.88% | 43.63% |
| Regulatory requirement | 10.00% | 10.00% | 10.00% | 10.00% |

[1] This relates to The Bank of Nova Scotia Jamaica Limited and The Scotia Jamaica Building Society.

[2] This relates to Scotia Investments Jamaica Limited.

(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

## 48. 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:

| | 2022 | 2021 |
|---|---|---|
| Regulatory capital held | 10,547,801 | 7,432,724 |
| Minimum regulatory capital | 1,739,713 | 1,940,195 |
| Minimum Continuing Capital on Surplus Requirements Ratio | 606% | 383% |

## 49. Commitments

| | | The Group | |
|---|---|---|---|
| | | 2022 | 2021 |
| (a) | Capital expenditure - authorised and contracted | 187,821 | 181,513 |
| (b) | Commitments to extend credit:<br>Originated term to maturity of more than one year | 58,308,373 | 56,103,469 |

## 50. 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, 2022, the Group had assets under administration amounting to approximately $284,500,338 (2021: $247,158,184).

## 51. 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.

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.

(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

## 52. Dividends

(a) Paid to stockholders:

| | The Group and Company | |
|---|---|---|
| | 2022 | 2021 |
| In respect of 2022 | 3,267,179 | - |
| In respect of 2021 | 1,089,051 | 3,422,752 |
| In respect of 2020 | - | 1,400,217 |
| Paid to minority interest in a subsidiary | 4,356,230 | 4,822,969 |

(b) Proposed

At the Board of Directors meeting on December 9, 2022, a dividend in respect 2022 of $0.35 (2021 of $0.35 per share) amounting to $1,089,058 (2021: $1,089,058 ) 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.

## 53. 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 $30,467 (2021: $37,907).

At the reporting date, the shares acquired with the employer's contributions and held in trust pending allocation to employees and/or vesting were:

| | The Group | |
|---|---|---|
| | 2022 | 2021 |
| Number of shares | 1,226,659 | 1,164,450 |
| Fair value of shares $'000 | 45,080 | 41,309 |

**SCOTIA GROUP JAMAICA LIMITED**

**Notes to the Financial Statements (Continued)**
**October 31, 2022**
(*Expressed in thousands of Jamaican dollars unless otherwise stated*)

**54. Prior year adjustment**

Based on the Group's review of the tax treatment applicable to premiums and discounts on the investment portfolio, it was determined that these amounts constitute timing differences based on the requirements of IAS 12 Income Taxes. This has been accounted for by reflecting the associated deferred tax asset on the balance sheet and income tax expense line items for prior periods.

The following table summarizes the impact on the Group's financial statements. There was no impact on the Company's financial statements.

(i) **Statement of Financial Position**

| | October 31, 2021 | | | November 1, 2020 | | |
|---|---|---|---|---|---|---|
| | As previously reported | Adjustments | As restated | As previously reported | Adjustments | As restated |
| Deferred tax assets | 302,506 | 138,938 | 441,444 | 149,744 | 86,368 | 236,112 |
| Others | 585,141,765 | - | 585,141,765 | 543,089,904 | - | 543,089,904 |
| **Total assets** | **585,444,271** | **138,938** | **585,583,209** | **543,239,648** | **86,368** | **543,326,016** |
| Deferred tax liabilities | 7,761,915 | (253,185) | 7,508,730 | 7,037,160 | (77,147) | 6,960,013 |
| Others | 464,079,306 | - | 464,079,306 | 425,446,854 | - | 425,446,854 |
| **Total Liabilities** | **471,841,221** | **(253,185)** | **471,588,036** | **432,484,014** | **(77,147)** | **432,406,867** |
| Others | 55,496,687 | | 55,496,687 | 56,817,738 | | 56,817,738 |
| Unappropriated profits | 58,106,363 | 392,123 | 58,498,486 | 53,937,896 | 163,515 | 54,101,411 |
| Total equity | 113,603,050 | 392,123 | 113,995,173 | 110,755,634 | 163,515 | 110,919,149 |
| **Total Liabilities and Equity** | **585,444,271** | **138,938** | **585,583,209** | **543,239,648** | **86,368** | **543,326,016** |

(ii) **Statement of Revenue and Expenses**

| | October 31, 2021 | | |
|---|---|---|---|
| | As previously reported | Adjustments | As restated |
| Net profit before tax | 12,669,179 | - | 12,669,179 |
| Income taxes | ( 4,258,935) | 228,608 | ( 4,030,327) |
| Net profit after tax | **8,410,244** | **228,608** | **8,638,852** |
| **Total comprehensive income** | **7,670,385** | **228,608** | **7,898,993** |

(iii) There is no material impact on the Group's total operating, investing or financing cash flows for the year ended October 31, 2021.

(iv) Earnings per stock unit in the 2021 financial statements was reported as $2.70. Restated earnings per stock unit for 2020 is $2.78.