Scotia Group
Jamaica Limited

2018 Annual Report

Building for the Future

Scotiabank

What's inside

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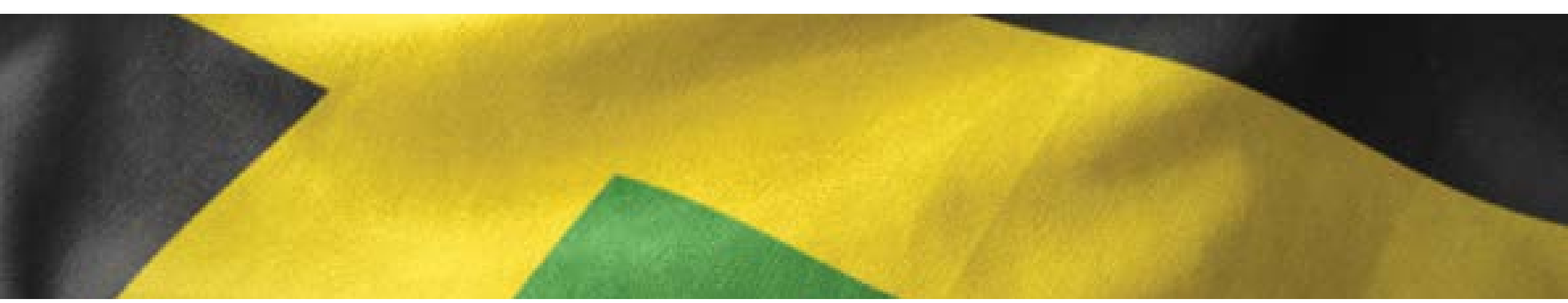
Who we are

About Scotia Group Jamaica Limited (SGJL):

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

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

SGJL has $522 billion in assets (as at October 31, 2018).



Corporate data

SECRETARY

Richard Fraser
Vice President,
Senior Legal Counsel &
Corporate Secretary

REGISTERED OFFICE

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

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Fax: (876) 922.6548
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Telex: 2297
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AUDITORS

KPMG
6 Duke Street
Kingston, Jamaica

Tel.: (876) 922.6640
Fax: (876) 922.4500
(876) 922.7198
firmmail@kpmg.com.jm

REGISTRAR

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

Tel.: (876) 922.6230
Fax: (876) 967.9467
http://www.pwc.com/jm

Why invest in Scotiabank?

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

	Earnings per Share (EPS)	Dividends per Share
2018	410¢	$1.95
2017	391¢	$1.83

Return on equity
11.5%

Capital Position: **STRONG**

Ten Year Statistical Review

CONSOLIDATED BALANCE SHEET	2018	2017	2016
BALANCE SHEET DATA - $000			
TOTAL ASSETS	**521,862,287**	490,882,681	477,391,654
PERFORMING LOANS	**178,919,287**	161,979,917	162,446,895
NON-PERFORMING LOANS	**3,687,971**	4,513,674	4,379,885
INVESTMENTS & OTHER EARNING ASSETS	**244,092,864**	241,897,129	249,802,716
DEPOSITS BY THE PUBLIC	**287,948,379**	260,559,467	248,416,381
SECURITIES SOLD UNDER REPURCHASE AGREEMENT	**31,152**	20,666,065	31,634,237
STOCKHOLDERS' EQUITY	**115,647,730**	102,431,566	91,855,773
PROFITS AND DIVIDENDS - $000			
PROFIT BEFORE TAX	**18,292,628**	18,201,458	16,640,943
NET PROFIT AFTER TAX ATTRIBUTABLE TO STOCKHOLDERS	**12,770,916**	12,174,742	11,300,599
DIVIDENDS PAID AND PROPOSED	**6,067,607**	5,694,214	5,320,815
NUMBER OF STOCK UNITS AT YEAR END	**3,111,573**	3,111,573	3,111,573
FINANCIAL RATIOS			
EARNINGS PER STOCK UNIT	**4.10**	3.91	3.63
PRICE EARNINGS RATIO	**13.09**	13.10	8.67
DIVIDENDS PER STOCK UNIT	**1.95**	1.83	1.71
DIVIDEND YIELD	**3.66%**	4.28%	5.53%
DIVIDEND PAYOUT RATIO	**47.51%**	46.77%	47.08%
RETURN ON AVERAGE EQUITY	**11.54%**	12.58%	12.65%
RETURN ON ASSETS AT YEAR END	**2.45%**	2.48%	2.37%
OTHER DATA			
TIER 1 CAPITAL (BANK ONLY) (1) $000	**39,909,535**	33,900,498	27,391,052
RISK BASED CAPITAL ADEQUACY RATIO (Bank only) (1)	**16.91%**	15.28%	12.88%
STOCK PRICE AT THE YEAR END	**53.72**	51.25	31.48
PRICE CHANGE FROM LAST YEAR	**4.82%**	62.83%	17.16%
CHANGE IN JSE INDEX FROM LAST YEAR	**24.66%**	75.64%	27.02%
NUMBER OF STAFF	**1,727**	1,876	2,021
EXCHANGE RATE US$1.00 = J$	**127.9971**	126.6851	128.7033
INFLATION RATE YEAR OVER YEAR	**4.72%**	4.68%	1.78%

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

2015	2014 (Restated)		2013 (Restated)		2012 (Restated)		2011	2010	2009
432,931,945	407,030,262		389,260,505		358,141,805	+	332,041,259	325,823,953	315,555,872
149,997,313	140,829,220		130,332,373		117,973,642		94,719,222	91,599,243	88,591,281
4,502,060	4,902,782		4,491,383		4,551,026		5,257,217	4,215,254	3,587,030
229,603,523	216,747,750		207,670,829		198,905,245		200,539,453	200,362,102	194,182,553
209,461,602	190,726,667		183,369,415		160,994,182		144,670,083	145,664,085	141,877,096
39,832,452	47,840,197		42,588,792		45,384,758		44,700,992	45,025,585	46,120,207
85,257,232	76,484,253	*	69,775,527	*	63,974,046	+	60,310,619	53,155,381	45,724,655
14,244,136	14,357,886	*	14,631,285	*	14,369,041	+	14,244,620	14,417,094	15,379,659
9,921,429	10,457,709	*	11,980,842	*	9,932,812	+	10,193,390	10,405,649	11,152,199
5,040,748	4,978,516		4,978,516		4,698,475		4,605,128	4,605,128	4,325,086
3,111,573	3,111,573		3,111,573		3,111,573		3,111,573	3,111,573	3,111,573
3.19	3.36	*	3.85	*	3.19	+	3.28	3.34	3.58
8.43	5.72	*	5.19	*	6.65	+	7.59	6.09	5.13
1.62	1.60		1.60		1.51		1.48	1.48	1.39
7.01%	8.08%		7.64%		6.69%		6.48%	7.08%	8.13%
50.81%	47.61%	*	41.55%	*	47.30%	+	45.18%	44.26%	38.78%
12.32%	14.23%	*	15.64%	*	15.98%	+	17.59%	20.78%	26.35%
2.29%	2.57%	*	3.08	*	2.77	+	3.07%	3.19%	3.53%
23,332,290	19,401,181		17,623,522		17,122,852		16,526,173	15,959,189	14,932,460
11.50%	12.08%		11.23%		11.75%	+	14.95%	15.40%	17.84%
26.87	19.23		19.97		21.23		24.90	20.35	18.38
39.74%	-3.73%		-5.91%		-14.76%		22.36%	10.72%	-9.08%
83.05%	-12.36%		-8.89%		-5.72%		14.30%	3.46%	-14.06%
2,144	2,311		2,326		2,315		2,337	2,283	2,273
119.5755	112.4939		104.6866		90.8050		86.2778	85.3825	89.1037
2.03%	8.09%		9.40%		6.17%		7.26%	10.37%	7.18%

Notice of Annual General Meeting

Scotia Group Jamaica Limited

NOTICE IS HEREBY GIVEN that the Annual General Meeting of **SCOTIA GROUP JAMAICA LIMITED** (the "Company") will be held on Friday, March 15, 2019 at 10:00 a.m. at the Spanish Court Worthington, 16 Worthington Avenue, Kingston 5, Jamaica, to consider, and if thought fit, pass the following resolutions:

1. **Resolution No. 1 – Audited Accounts**
   That the Directors' Report, the Auditor's Report and the Statements of Account of the Company for the year ended October 31, 2018 previously circulated be and are hereby received.

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

   a. Barbara Alexander
   b. Eric Crawford
   c. Angela Fowler
   d. Jeffrey Hall
   e. A. Mark Hart
   f. Brendan King
   g. W. David McConnell
   h. David Noel
   i. Leslie Reid
   j. Audrey Richards
   k. Evelyn Smith

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

BY ORDER OF THE BOARD

Richard Fraser
Company Secretary
December 5, 2018

REGISTERED OFFICE
Scotiabank Centre
Duke & Port Royal Streets
Kingston

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

Directors' Report

Scotia Group Jamaica Limited

The Directors submit herewith the Statement of Consolidated Revenue, Expenses, Unappropriated Profits, Assets and Liabilities of the Group for the year ended October 31, 2018.

The Consolidated Statement of Revenue and Expenses reports pre-tax profit for the year of $18.3 billion from which there has been provided $5.5 billion for corporate income tax, leaving a balance of $12.8 billion.

The appropriation of earnings detailed in the financial statements includes:

A final dividend of 51 cents per stock unit payable to stockholders on record as at December 27, 2018 payable on January 18, 2019. This brings the total distribution for the year to $1.95 per stock unit compared with $1.83 per stock unit for the previous year.

On May 4, 2018 the following Directors were appointed to the Board
Mrs. Angela Fowler, Mrs. Leslie Reid, Ms. Audrey Richards and
Mr. W. David McConnell.

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

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

ON BEHALF OF THE BOARD

Jeffrey Hall
Chairman, Kingston, Jamaica
December 5, 2018

Jeffrey Hall

Chairman of the Board of Directors

Chairman's Message to Shareholders

Dear Fellow Shareholders,

The 2018 financial year was a successful one for Scotia Group. We achieved solid results for all stakeholders, while delivering excellent customer service through our strong leadership and sound risk management culture.
The success of our business is underpinned by our ability to provide our customers with an outstanding client experience, and as such in 2018 we focused on restructuring our operations as we seek better ways to serve our customers, strengthen our leadership and reduce operating costs in the long term.

Building for the Future

Earlier in this financial year we sold our microfinance company Credi-Scotia. This transaction was undertaken as we placed greater focus on our competencies and core businesses. Digital technology continues to shape the future of the financial industry and we have fully embraced this momentum. We have seen strong growth in the number of customers who now conduct transactions using our digital platforms as we continue to re-define retail banking, and improve customer experience through these convenient channels. The Group remains committed to investing in technology as we constantly change to ensure we remain competitive through greater efficiency, security, compliance and customer satisfaction.

Toward the end of the financial year, we announced the establishment of the Group's first digital branch to be located at our Scotiabank Centre Head Office in 2019. This shift will see the amalgamation of the King Street operations into this new digital location and the creation of a world-class facility, providing superior customer experience and engagement.

Our Governance

Effective corporate governance remains a tenet for the success of our business and will remain so in building for the future. The Board remains committed to the highest levels of oversight by adopting best practices in corporate governance, improving transparency and reviewing implementation of the Group's strategy to ensure that the interest of our many stakeholders, including shareholders, customers, team members and communities are protected.

"

Digital technology continues to shape the future of the financial industry and we have fully embraced this momentum. "

Throughout the year, the Board met to oversee risk management and governance, and carried out several other duties through Board committees that have strong, experienced chairs and members.

This year we welcomed four new directors to the Board, Mrs. Angela Fowler, Mr. William McConnell, Ms. Leslie Reid and Ms. Audrey Richards. Together they bring a wealth of knowledge and extensive expertise which spans key areas of Business management, Operations and Law.

Corporate Social Responsibility

We continue our support to nation building to help create healthy, resilient and sustainable communities across our country. This year we created one major programme to ensure we were able measure the impact of our giving and make a significant difference in an area of need. As a result, we expanded the *Scotiabank Nutrition for Learning Programme* making it the flagship project, and restructured our philanthropic efforts to fully align our corporate social responsibility with the global Scotiabank focus on Youth and Education. This programme also aligns with **Jamaica's Vision 2030 Goal** which seeks to ensure ***Jamaicans are empowered to achieve their fullest potential*** and also supports two National Outcomes : *A Healthy and Stable Population, and providing World-Class Education and Training.*

Scotiabank *Nutrition for Learning* was launched in April 2018 and impacts 14,000 children in 34 educational institutions across the country. The programme focuses on nutrition in children and brings to the forefront healthy eating habits among children which is critical to improving educational outcomes such as attendance and academic performance.

The Scotia Foundation *Shining Star Scholarship Programme* for secondary students continued with the provision of awards to existing scholars. Launched in 1999, at the start of the Grade Six Achievement Test (GSAT), this programme has awarded scholarships to the top scholastic achievers in the GSAT each year since inception.

Acknowledgement

On behalf of the Board, I would like to thank you our valued shareholders and team members for your unwavering support, trust and loyalty to the Scotia Group over the years. The Board remains confident that Scotiabank is well positioned and has the right talent, strategy and operating structure for future success and for creating long-term value for all stakeholders. I look forward to another strong year for our Group.

Jeffrey Hall

David Noel
President &
Chief Executive Officer

"

We are optimistic about the future and we continue to position our business for long-term success…"

President and CEO's Message to Shareholders

Dear Shareholders,

We are pleased to report that Scotia Group recorded solid performance during the 2017-2018 financial year. We continue to focus on growing our core businesses, improving operational efficiency and executing prudent expense management. A significant priority for us during the financial year was the restructuring of our operations to focus on our core strengths of offering leading financial advice and services to our retail, corporate and commercial banking, wealth management and insurance customers in Jamaica. This underpins our overall strategy and operations.

Financial Highlights

The Group recorded net income after tax (NIAT) of $12.8 billion which represents an increase of $364 million or 3% over the prior year. Earnings per share were $4.10, representing growth of 4.8%. We continue to return value to our shareholders with a return on equity of 11.5% and increased dividends in respect of 2018 of $1.95 compared to $1.83 for 2017. In addition, we continue to exceed regulatory capital requirements with all subsidiaries exceeding capital requirements. Our strong capital position also enables us to manage increased capital adequacy requirements in the future, and take advantage of growth opportunities.

Economic Outlook

The Jamaican economy is expected to remain on the current positive trajectory in the upcoming financial year and is poised for growth, driven by advancing strategic initiatives, low interest rate environment and increased confidence levels. We anticipate that the Government of Jamaica will maintain its path of fiscal prudence, with the debt to GDP falling below 100%, supported by stable primary and fiscal surplus. This fiscal stability is anticipated to continue as tax revenue growth is supported by improvement in economic activities and constrained expenditure. The external accounts are anticipated to remain relatively stable, while the stock of international reserves is expected to remain robust.

Business Line Performance

We achieved solid results in our core business which was off-set by significantly lower interest rates, particularly in our investment portfolio. Our loan portfolio expanded 10% year over year, growing to $183 billion. Mortgages performed particularly well with an increase in the portfolio of $3.7 billion or 13% over prior year. This performance was driven by coordinated strategic initiatives that allowed our sales team to focus more on mortgage lending. The commercial lending portfolio including small business, contributed a strong performance with increases in the overall loan portfolio of 17% over prior year. This performance was achieved by making key strategic enhancements to our operating procedures to capitalise on positive trends in the economy. The Small and Medium-Sized Enterprise (SME) lending portfolio grew by 15% compared to last year. The Group also continued to support the small business sector with several sponsorships and initiatives including our own Scotia Vision Achiever which is a transformational coaching programme designed to help small business owners to increase their efficiency and grow their businesses. Small business lending remains a core area of focus for Scotia Group as this enables our customers to achieve financial independence, encourages innovation and is vital to the success of Jamaica's economy.

Scotia Investments Jamaica Limited (SIJL) continues to perform well with funds under management (Off Balance Sheet) totalling $164 billion as at October 31, 2018, increasing by $19.8 billion or 14% over the previous year. We continued to leverage our strengths in the Investment and Commercial Banking businesses to execute customised capital market deals amounting to $6 billion.

Scotia Insurance delivered strong performance and had a record year in terms of the number of policies issued. Sales productivity increased by over 85% for the year. During the year we continued to educate the market with a series of proactive engagement activities promoting retirement, critical illness and life insurance products.

Building for the Future

In the financial sector, we continue to face intense competition, as well as compressed margins.
Our strategy is to continue to grow our business by focusing on our customers' needs, improving operational efficiency, and becoming more agile to take advantage of the available opportunities in the market.

In keeping with our customer focus, we executed a number of initiatives throughout the year to improve our customers' experience and satisfaction rates including:

I. The implementation of a real time feedback system, The Pulse, which has yielded significant results. Since the launch, we have received over 8,000 responses from customers. The analysis that we have derived from this tool has helped us to prioritise and refine many of our customer initiatives.

II. Executing ongoing digital banking sessions to assist customers to use our convenient digital channels and continuing to offer free WiFi in branches.

III. The launch of Scotiabank Alerts for debit and credit card transactions using our online portal and mobile banking App. These alerts allow customers to receive notifications for both debit and credit card transactions. The objective of this new feature is to significantly improve customer satisfaction and confidence in our card usage while reducing fraud losses.

The feedback received from these initiatives has indicated our customers' growing preference for the convenience of digital channels which also offer a more cost effective way to conduct transactions. "In branch" transactions now represent only 13% of all transactions. We continue to see an increase in online and mobile transactions which now account for 21% of total transactions.
For the next fiscal year we will continue to implement value added changes to our branch operations to make them more customer-centric. Our vision is to change the banking experience of our customers to one that creates capacity for our retail staff to engage more with customers around planning for their financial needs.

Outlook

We are optimistic about the future and we continue to position our business for long-term success in order to return superior value to all stakeholders. We continue to invest in our people, and we have a strong leadership team which we believe is well positioned to meet our strategic objectives. We will also continue to leverage our strength as part of a Global bank to deliver the highest quality of service to our customers.

I would like to thank our loyal customers for choosing Scotiabank as their financial partner, the Board of Directors for their support and good governance, our dedicated team of Scotiabankers who continue to give their best to meet our customers' needs, and our shareholders for their confidence and trust in us.

David Noel

Corporate Governance

GROUP CORPORATE STRUCTURE

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

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

Scotia Group also wholly owns Scotia Investments Jamaica Limited (Scotia Investments), which is licensed as a Member Dealer by the Jamaica Stock Exchange and a Securities Dealer by the Financial Services Commission. Scotia Investments became a wholly owned subsidiary of Scotia Group effective September 29, 2017 following a Scheme of Arrangement which was sanctioned and approved by the Supreme Court of Jamaica.

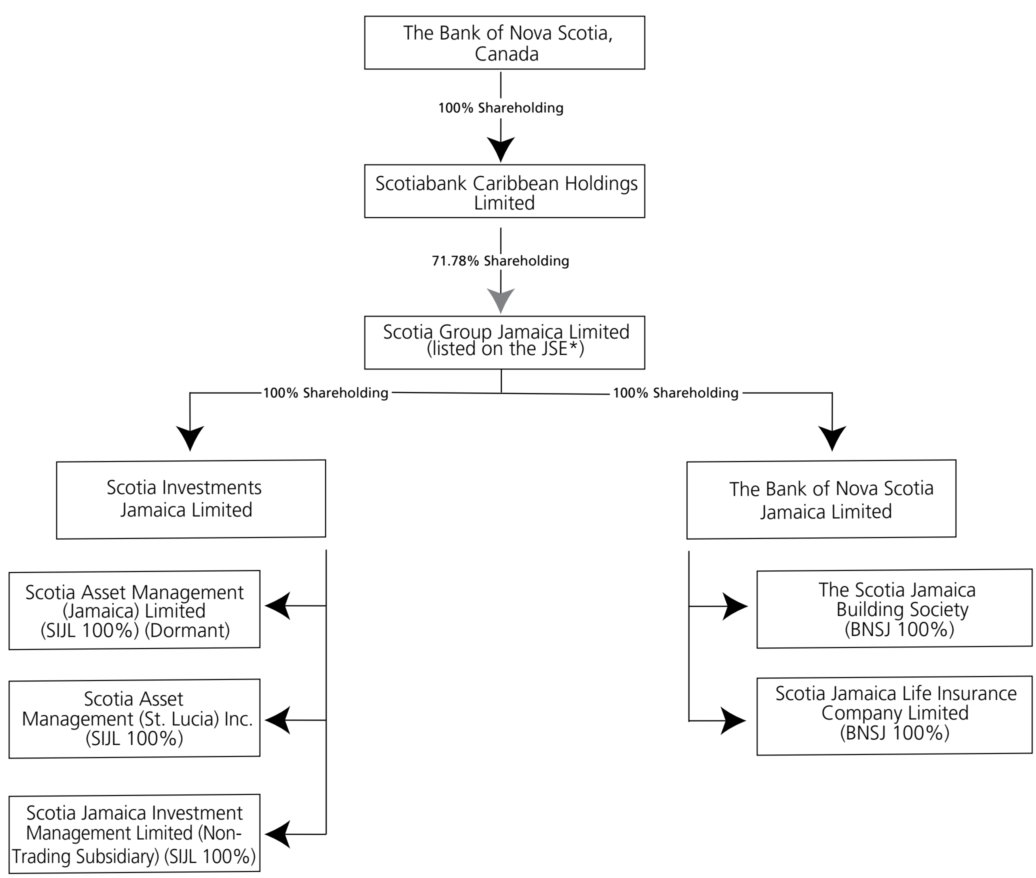
CORPORATE GOVERNANCE

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

The Board of Directors

The Board of Directors supervises and monitors management's performance against the Board approved parameters and compliance with applicable legal and regulatory requirements. They also provide advice and counsel to management to ensure that the key strategic objectives of the business are achieved.

SCOTIA GROUP CORPORATE GOVERNANCE STRUCTURE



* Jamaica Stock Exchange

Board Responsibility

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

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

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

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

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

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

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

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

Board Composition

As at October 31, 2018, the Board comprised of eleven Directors chaired by Mr. Jeffrey Hall, an Independent Chairman.

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

DIRECTORS SCOTIA GROUP JAMAICA LIMITED

BOARD EXPERTISE	Independent(I)/Non-Independent(NI)	General Management	Finance & Audit	Strategic Management	Banking	H.R & Education	Legal	Risk Management
Jeffrey Hall	I	X	X	X			X	X
Barbara Alexander	I	X	X	X		X	X	X
Eric Crawford	I	X	X	X				X
Angela Fowler	I	X	X	X		X	X	
M. Antony Hart	I	X	X	X				
Brendan King	NI	X	X	X	X			X
W. David McConnell	I	X	X	X				X
David Noel	NI	X	X	X	X		X	X
Leslie Reid	NI	X	X	X	X		X	
Audrey Richards	I	X	X	X	X		X	X
Evelyn Smith	I	X	X	X				X

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

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

Committees of the Group and Subsidiary Boards

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

Audit and Conduct Review Committee

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

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

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

Executive & Enterprise Risk Committee

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

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

Human Resources and Pension Committee

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

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

Directors Orientation & Training Opportunities

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

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

* Appointed May 4, 2018

Appointment, Term, Election & Retirement of Directors

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

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

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

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

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

A Director shall resign from the Board upon the expiration of the respective term (including any variation of the term recommended by the Executive & Enterprise or other Committee) no later than 6 weeks prior to the date of the Annual General Meeting of the year in which the term expires.

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

Director Compensation

The Board determines the form and amount of Director compensation based on peer reviews, with the aim of recruiting and retaining qualified and experienced candidates. Directors who are employees of any of the subsidiary companies are not compensated in their capacity as Directors.

Scotiabank Code of Conduct

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

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

FEE STRUCTURE	Annual Retainer	Per Meeting			Annual Retainer	Per Meeting Fee
		Board	Audit & Conduct Review	Executive & Enterprise Risk		Human Resources & Pension
Expressed in JMD		SGJL			BNSJ	
Board Chairman	$2,700,000				$250,000	
Deputy Board Chairman	$2,400,000				$187,500	
Committee Chair (other than Audit Chair)	$1,500,000				$125,000	
Audit Committee Chair	$1,800,000				$125,000	
Audit Committee Members	$1,200,000				$125,000	
Other Directors	$1,020,000				$125,000	
All Directors		$60,000	$72,000	$54,000		$54,000

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

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

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

Board Annual Self Evaluation

The Group's Board and the Boards of its subsidiaries conduct an annual self-evaluation of performance during the year. Directors are required to complete a questionnaire which tests a wide range of issues regarding the effectiveness of the Board governance.
The issues include the quality of the information provided by management, the effectiveness of the operation of any committee and a performance assessment of the Board and Chairperson during the year.

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

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

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

Board of Directors

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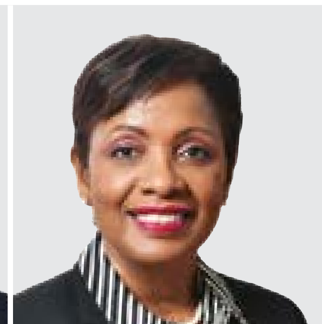

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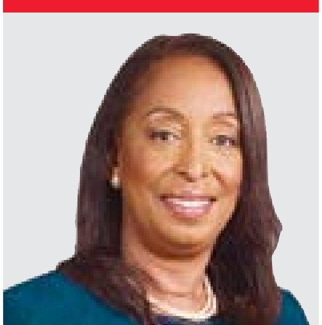

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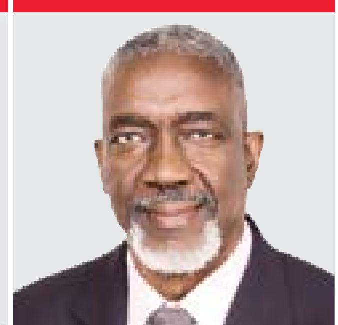

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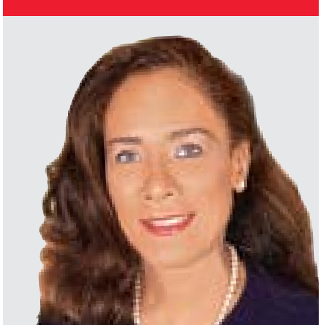

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1. Jeffrey M. Hall

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

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

Scotiabank Board Details:-

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

2. Angela Fowler

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

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

Scotiabank Board Details:-

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

3. Antony Mark Hart

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

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

Scotiabank Board Details:-

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

4. Audrey Richards

Audrey Richards is a Consultant with the Development Bank of Jamaica, with responsibility for the development of the ecosystem for Venture Capital and Private Equity in Jamaica. She has been involved in several capacities in the Jamaican capital markets for more than 21 years and previously served as CEO for Edward Gayle and Company Limited (presently known as NCB Capital Markets).

She has consulted for a number of institutions, including the Inter-American Development Bank, Bank of Jamaica, Jamaica Stock Exchange, and the Financial Services Commission. Mrs. Richards sits on the Boards, British Caribbean Insurance Company Limited, Caribbean Mezzanine Fund 1, St. Andrew High School Foundation and the Board of Governors of the St. Andrew High School. .

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

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

5. Barbara A. Alexander

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

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

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

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

6. Brendan King

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

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

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

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

7. David Noel

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

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

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

8. Eric Crawford

Eric Crawford presently chairs the Public Accountancy Board and is also the Chairman of Jamaica International Financial Services Authority (JIFSA), which is a statutory body mandated to advance the creation of an International Finance Centre in Jamaica. He is highly regarded in the business community for his ability to develop innovative, workable solutions for addressing the taxation needs of a wide variety of businesses. He was a partner with PricewaterhouseCoopers (PwC) Jamaica, for 26 years.

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

Scotiabank Board Details:-

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

9. Evelyn Smith

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

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

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

Scotiabank Board Details:-

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

10. Leslie Reid

Leslie Reid is Vice President, Business Support and Internal Controls, International Banking, The Bank of Nova Scotia (Canada) with responsibility for the strategic support and implementation of projects that strengthen internal controls effectiveness and reduces operational risk, working in partnership with country leadership in the Spanish and English Caribbean, Central America, and Uruguay.

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

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

Scotiabank Board Details:-

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

11. William D. McConnell

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

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

Scotiabank Board Details:-

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

Executive Management Team

1. **David Noel**
   President and
   Chief Executive Officer

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

3. **Marcia Gaudet**
   Vice President,
   Human Resources

4. **Perrin Gayle**
   Senior Vice President,
   Corporate and
   Commercial Banking

5. **Jean Maucieri**
   Chief Risk Officer

6. **Lissant Mitchell**
   Senior Vice President,
   Wealth Management,
   Chief Executive Officer,
   Scotia Investments
   Jamaica Limited

EXECUTIVE MANAGEMENT TEAM

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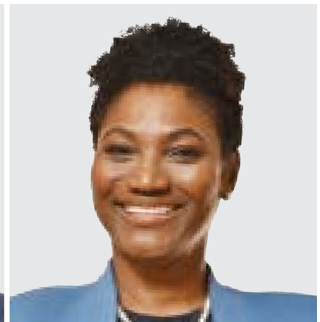

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7. Adrian Stokes

Senior Vice President,
Head of Insurance and
Wealth Management

8. Audrey Tugwell Henry

Executive Vice President,
Retail Banking

9. Gary-Vaughn White

Vice President, Treasury

10. Naadia White

Vice President, Compliance

11. Shelee Wilkie Channer

Chief Auditor

12. Michelle Wright

Chief Financial Officer

Management's Discussion & Analysis

INTRODUCTION

Scotia Group Jamaica Limited (Scotia Group) is implementing a bold new vision for financial services in Jamaica. The objective is to deploy market-leading new technology, processes and systems to make the institution more efficient, improve the customer experience and manage risk. This program builds upon more than 129 unbroken years of high quality financial services to Jamaica. Today we are supported by a network of 32 banking and investment branches, 253 automated teller machines and 1,727 employees. We provide a full range of financial services through our subsidiaries to a wide base of personal, commercial, corporate and government clients across Jamaica.

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

OUR OPERATING ENVIRONMENT

Macroeconomic environment remains positive

Scotia Group operated in a relatively stable macroeconomic environment for the financial year 2018. Economic indicators remained robust and reflected stability throughout the year.

Annual point-to-point inflation rate was 4.7% and remained flat over the 12- month period. This was mainly influenced by the "*Food & Non–Alcoholic Beverages*" index, primarily vegetables and starchy foods which were negatively impacted by moderate price increases. The inflation rate is forecasted to fall within the Bank of Jamaica's (BOJ's) targeted range as Jamaica continues to shift towards a full-fledged inflation targeting regime, given expectations of continued fiscal restraint by the Government of Jamaica, improvement in agricultural supply, and moderate changes in international commodity prices.

The Jamaican economy remained buoyant and continues to show signs of recovery with GDP growth for the quarter ended June 2018 accelerating to 2.2% compared to 0.8% for the corresponding period in 2017, the unemployment rate at an 11-year low of 8.4% in July 2018, public debt on a downward trajectory, Net International Reserves (NIR) at high levels and rating agencies Fitch and Moody upgrading Jamaica's ratings outlook to positive from stable.

Against this backdrop, Jamaica continues its impressive track record under the new precautionary Stand-By Agreement with the International Monetary Fund (IMF), having successfully met all its targets, as well as having structural reforms on track. This new agreement, which has a stronger focus on growth, is an active force behind the continued reduction in the country's debt profile with debt-to-GDP ratio falling from 115% in FY2016/17 to 102% for FY2017/18. Additionally, the high liquidity that exists in the market continued to push interest rates to record lows.

Businesses remain optimistic with the expectation that the economy should further improve in the upcoming year, however, confidence remained unchanged in the third quarter of the financial year after ebbing in the first quarter. Of note, for the first time in several quarters businesses cited the devaluation of the Jamaican dollar as the main deterrent to investment plans. Previously, crime and violence were the main factors businesses cited as barriers to their future investment strategies. Conversely, consumer confidence spiked to a 17-year high, underpinned by a positive job outlook and confidence in the Government's efforts and initiatives. The sustained levels of confidence coupled with the low interest rate environment, and low unemployment levels which impact consumers' purchasing power augurs well for credit demand in the financial sector.

Financial Sector Performance

The financial sector continues to benefit from increased business activities and a more favorable interest rate environment for borrowing, which continue to support loan growth in the sector. As at June 2018 the overall growth in loans was 11.5% compared to 9.2% for the corresponding period in 2017. Deposits grew 11.3% vs. 12.1% for 2017. Total assets expanded 11% compared to 10.1% for 2017. Additionally, as at June 2018, commercial banking sector loans to the private sector increased by 8.1% or $21.1 billion (11.5% or $26.9 billion in 2017), due mainly to the growth in tourism, professional & other services and manufacturing sectors. Credit quality for the sector continued to show improvements with non-performing loans representing 2.6% of total loans as at June 2018, compared to 2.7% that was reported in 2017.

The Collective Investment Scheme industry (unit trusts and mutual funds) increased 17% to US$2.3 billion for the year ended October 2018, as investors continued to reposition from repurchase agreements into these investment vehicles. Additionally, gross life insurance premiums sold in the industry grew by 10.9% as at August 2018.

OVERVIEW OF FINANCIAL RESULTS

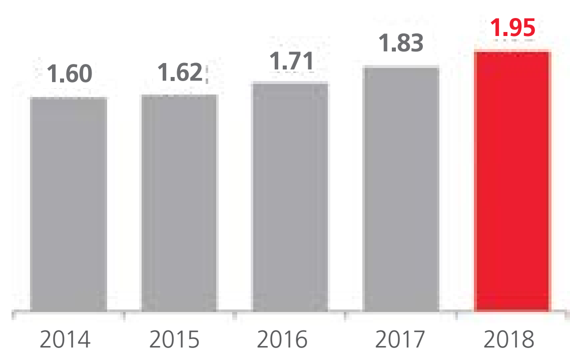
Total Revenue

Scotia Group's net profit attributable to common shareholders was $12.8 billion, representing a return on equity of 11.5%. These results translated to earnings per share of $4.10, increasing from $3.91 for the previous year. The dividend per share was $1.95, representing a 47.5% dividend payout ratio.

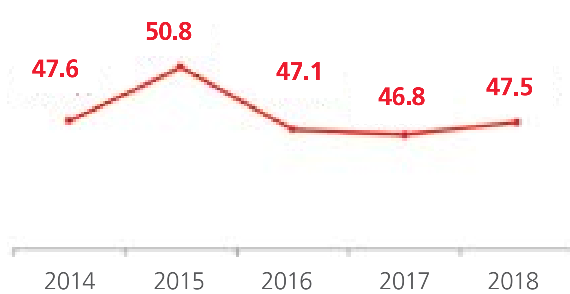
Our results were achieved from our diversified business lines and our ability to seize opportunities as they became available, while managing the associated risks. Our core business remains strong and continues to perform well with strong growth in overall loan volumes, however, the Group's results were negatively impacted by the significant reduction in interest rates. Additionally, our Treasury and Asset Management business lines had solid performances that boosted our non-interest revenues. We grew our revenues while containing our expense growth. However, the marginal increase in our expenses was due to restructuring costs, which will improve long-term efficiency, but resulted in a slight decline in our productivity ratio from 51.1% to 52.1% during the year.

Scotia Group is one of the largest banking and financial services organizations in Jamaica, with assets of $522 billion and customer deposits of $288 billion as at October 31, 2018. The growth in our asset base was achieved through client acquisition and deepening relationships across all customer segments: consumer, small and medium enterprises as well as corporate and commercial. The quality of our loan portfolio improved year over year, with non-accrual loans as a percentage of gross loans recorded at 2% compared to 2.7% for 2017.

Dividends per Share ($)



DIvidend Payout Ratio (%)



Our Asset Management business in Scotia Investments continued to grow, with the total value of clients' funds in Collective Investment Schemes growing by $6.3 billion or 11.2% for the year to $62.9 billion.

Financial Highlights	31-Oct-18 $millions	31-Oct-17 $millions
Total Assets	**521,862**	490,883
Investments	**156,491**	158,757
Loans (net of provisions for losses)	**182,607**	166,494
Deposits by the Public	**287,948**	260,559
Liabilities under repurchase agreements and other client obligations	**23,829**	38,511
Policyholders' Fund	**45,292**	45,171
Shareholders' Equity	**115,648**	102,432
Profit after Tax	**12,771**	12,407
Total Comprehensive Income	**19,190**	16,423
Return on Average Equity	**11.5%**	12.6%
Productivity Ratio	**52.1%**	51.1%
Operating Leverage	**-2.0%**	4.6%
Earnings per share (cents)	**410**	391
Dividend per share (cents)	**195**	183

We continue to strengthen our capital base which grew by $13.2 billion or 13% year over year, and exceeding the increase in capital requirements from our growing business. This further solidifies the resilience of our business and our ability to withstand market volatility, which provides our valued customers and shareholders with confidence that we are the institution of choice and they are safe with us. This robust capital position places us on a firm footing to support our future strategic initiatives.

OUR STRATEGY

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

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

Our valued customers are our top priority and they are placed at the centre of the decision-making process throughout our organisation. We take pride in understanding and anticipating their needs in order to provide them with the best advice, solutions and options. We continue to introduce strategies to deepen our relationship with customers and equip our employees to effectively resolve customer concerns at the first point of contact. We are committed to providing a superior and seamless customer experience through the enhancement of our distribution channels, to better suit all client segments.

We have developed *The Pulse*, our customer feedback system which has been yielding positive results and has indicated our customers' growing preference for the convenience of digital channels which offer a more cost effective way to conduct transactions. Scotia Group remains focused on maintaining the trust and confidence of customers, while helping them to become financially better off.

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

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

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

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

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

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

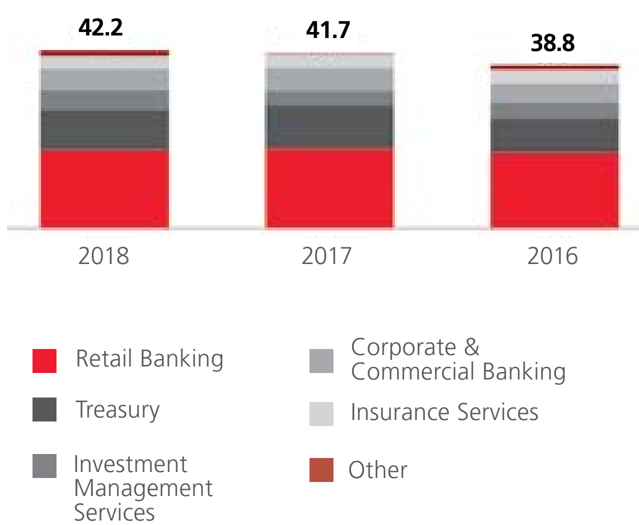
GROUP FINANCIAL PERFORMANCE

Total Revenue

Total revenue was $40.3 billion in 2018, compared to $39.5 billion for 2017. We achieved significant revenue growth in our treasury business line, however this was partially offset by declines in other segments due to lower interest rates offset by loan growth.

- Retail (-1.8%): Loan growth was led by residential mortgages which grew by 13% or $3.8 billion. Our overall retail loan growth of $4.6 billion or 4% resulted from higher loan averages and volumes. Notwithstanding this, growth in our revenues declined as a result of lower yields.
- Commercial (-6.7%): Though there were improvements in our loan balances, which increased by 17% year over year, as well as higher deposit and payment services in our merchant services, lower yields were the main contributor to the reduction in revenues.
- Insurance Services (-7.5%): Insurance revenue was adversely impacted by lower interest income as a result of a decline in interest rates during the year. In addition, gains from sale of securities were lower in 2018 due to strategic sale of investments during the previous year.
- Investment Management (-4.5%): Reduction in interest income resulted in the decline in revenues as asset yields declined year over year. We continued to pursue our strategy to grow our Asset Management segment and reduce exposure to the inherent risks in an on-balance sheet business model. This has resulted in lower net interest income, however we gained higher fees from the Asset Management segment of 9.4% year-over-year.
- Treasury (+35.2%): Higher FX trading gains, driven by strategy changes and increased collaboration among the various business lines were the major drivers behind the year over year increase in revenues.

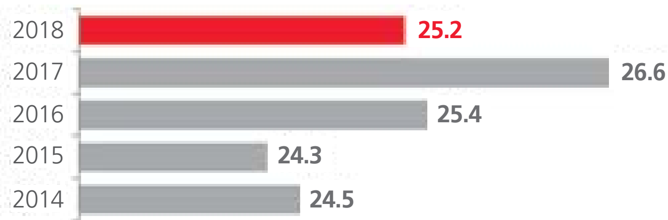
Revenues by Business Line
(excluding loan loss impairment) $ Billions



Net Interest Income

Loan volumes improved across our business lines, however, interest income was impacted by lower portfolio yields due to reducing interest rates which were at a more rapid pace than anticipated, underpinned by a stable macroeconomic environment. We recorded net interest income of $25.2 billion in 2018, down $1.4 billion or 5.4% compared to the prior year.

Net Interest Income
$ Billions



The Group's average earning assets increased by 2.5%, while the net interest margin (net interest income as a percentage of average earning assets) declined relative to the previous year by 40 basis points.

Average yields on earning assets were lower by 75 basis points as a result of lower rates and competitive pressures. Year over year, the growth in volumes contributed a positive $686 million to net interest income, offsetting the negative impact from declining yields of $2.1 billion.

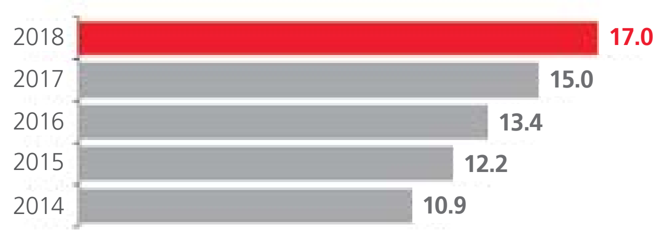
Net Interest Margin Analysis ($'000)	2018	2017
Rate Variance	**(2,121,960)**	(119,044)
Volume Variance	**685,635**	1,387,246
Net Interest Income	**(1,436,325)**	1,268,202

Other Income

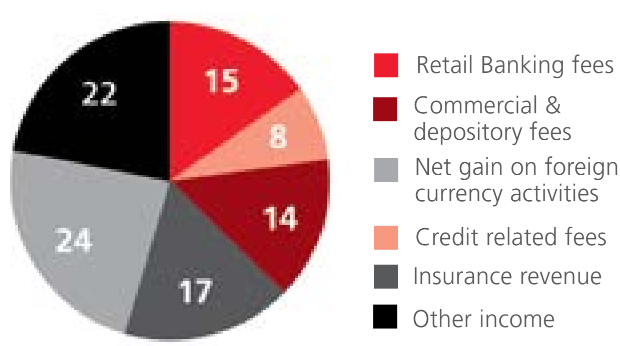
Other income, defined as all income other than interest income, was $17 billion for 2018, up $2 billion or 13.2% from last year.

- Insurance revenues amounted to $2.9 billion compared to $2.8 billion for 2017, this was driven by growth in core insurance business, specifically increased premium income and lower creditor life refund.
- Fees and Commissions were down $511 million or 5.9% and totaled $8.1 billion for the year ended October 31, 2018, due to reduced fees, continuous customer education on alternatives to reduce fees, as well as ongoing shift to online and mobile banking by our customers, resulting in lower service charges.
- Foreign Exchange revenues were up 60.4% and amounted to $4 billion compared to $2.5 billion for 2017. This increase was mainly driven by increased market activities.
- Net gains on financial assets were up 12.2% and amounted to $1.2 billion compared to $1 billion for the prior year. The growth was due to higher volumes from increased market activities, as well as fair value gains on the sale of securities.

Other Income
$ Billions



Sources of Non-Interest Revenues (%)

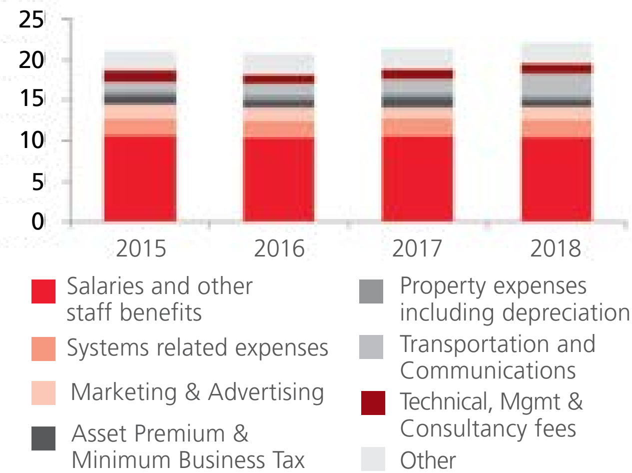


Non-Interest Expenses

Non-Interest expenses for the year totaled $22 billion, up $709 million or 3.3% over prior year. Salaries and employee benefits which represent 47.5% of our operating costs, reduced by $194 million or 1.8%. However, increases were noted in technical and support services, and system related expenses. These increases were mainly offset by decreases in salaries & employee costs, transportation & communication and marketing & advertising expenditures.

Non-Interest Expenses

$ Billions



Our productivity ratio, which is calculated as total expenses as a percentage of total revenue (excluding impairment losses on loans), marginally increased from 51.1% to 52.1% in 2018, due to the increase in expenses which was driven primarily by structural transformation costs incurred during the year to drive long term efficiency and support technological changes.

Productivity Ratio (%)

Taxes

For the year ended October 31, 2018 income tax expense totaled $5.5 billion, down $272.5 million or 4.7% from prior year. Our effective income tax rate reduced to 30.2% from 31.8% as a result of an increase in non-taxable income in 2018. When Asset Tax of $1.1 billion is added, the tax expense for the year (excluding irrecoverable GCT) equated to 34.1% of our pre-tax income.

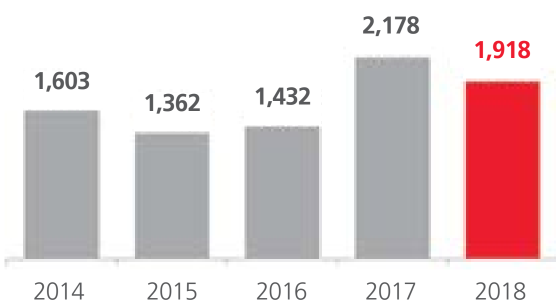
Taxation Charge ($'000)	2018	2017	2016
Profit Before Taxes	**18,292,628**	**18,201,458**	**16,640,943**
Current Income Tax:			
Income tax calculated at 33 1/3%	3,781,195	4,519,136	3,600,792
Income tax calculated at 30%	455,918	410,888	491,071
Income tax calculated at 25%	1,096,376	1,071,442	933,259
Adjustment for (over)/under provision of prior years' charge	(5,275)	–	11,603
	5,328,214	**6,001,466**	**5,013,519**
Deferred Income Tax	193,498	(207,298)	36,822
Taxation Charge	**5,521,712**	**5,794,168**	**5,050,341**
Effective Tax Rate	**30.2%**	**31.8%**	**30.3%**

Credit Quality

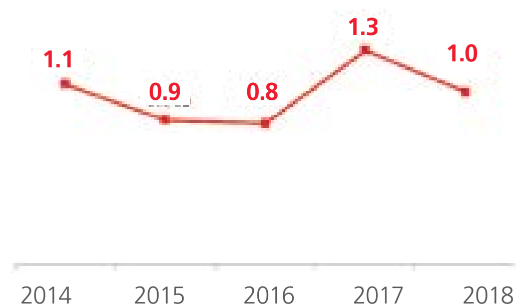
Impairment losses on loans amounted to $1.9 billion, and were down $260.5 million or 12% from prior year due to lower provisioning requirements on the reduced non-accrual loan (NAL) portfolio, as the quality of both our retail and commercial credit portfolios continued to improve. Total non-accruals as at October 31, 2018 was $3.7 billion, down $826 million or 18.3% compared to prior year.

This represented 2.0% of gross loans and 0.7% of total assets; down from 2.7% of gross loans, and 0.9% of total assets as at October 31, 2017. The Group's NALs as a percentage of gross loans and total assets remain well below the industry average.

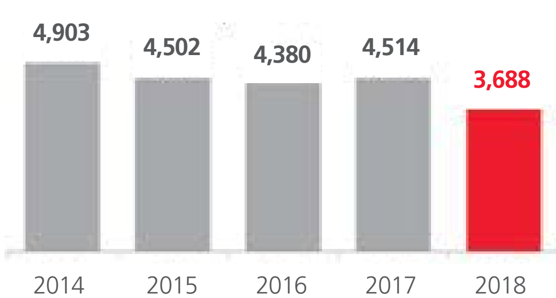
Impairment Losses
$ Millions



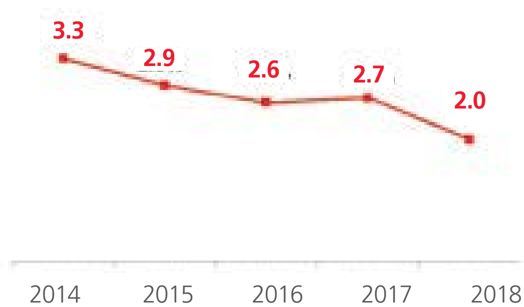
Impairment Losses
to Gross Loans (%)



Non-Accrual Loans
$ Millions



Non-Accrual Loans
to Gross Loans (%)



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

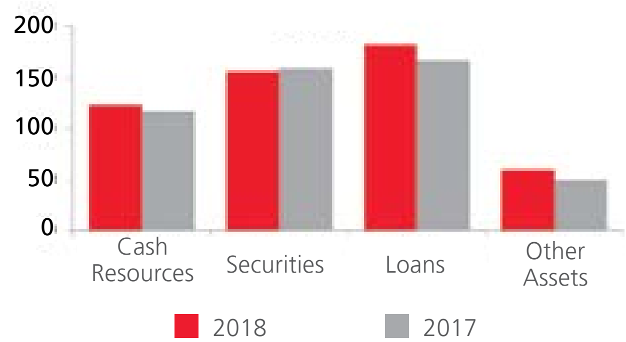
Loan Loss Provision Analysis ($'000)	2018	2017	2016	2015
Gross Loans	184,822,921	168,813,395	168,734,577	156,402,493
Non Accrual Loans	3,687,971	4,513,674	4,379,885	4,502,060
Impairment Allowance	2,215,663	2,319,804	1,907,797	1,903,120
Loan Loss Reserve	2,377,843	2,687,050	3,143,875	3,204,491
Total Regulatory Loan Loss Provision	4,593,506	5,006,854	5,051,672	5,107,611
IFRS Loan Loss Provision as a % of Gross Loans	1.2%	1.4%	1.1%	1.2%
IFRS Loan Loss Provision as a % of Non Accrual Loans	60.1%	51.4%	43.6%	42.3%
Total Regulatory Loan Loss Provision as a % of Gross Loans	2.5%	3.0%	3.0%	3.3%
Total Regulatory Loan Loss Provision as a % of Non Accrual Loans	124.6%	110.9%	115.3%	113.5%
Total Assets	521,862,287	490,882,681	477,391,654	432,937,283
Net Loans (after Loan Loss Provision)	182,607,258	166,493,591	166,826,780	154,499,373
NAL : Gross Loans	2.0%	2.7%	2.6%	2.9%
NAL : Net Loans	2.0%	2.7%	2.6%	2.9%
NAL : Total Assets	0.7%	0.9%	0.9%	1.0%

GROUP FINANCIAL CONDITION

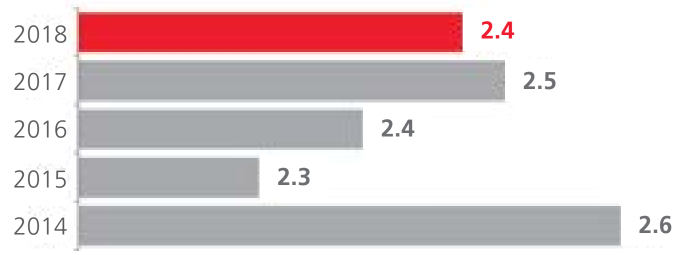
Assets

Total assets increased by $31 billion or 6.3% to $522 billion as at October 31, 2018. The growth in our asset base was driven by a 10% increase in our loan portfolio, as well as a $10.8 billion increase in other assets resulting from higher retirement benefit assets in our pension scheme. These increases were offset by reduction in our stock of investment assets that fell by $2.3 billion.

Asset Mix
$ Billions



Return On Assets (%)



Cash Resources

Cash resources held to meet statutory reserves and the Group's prudential liquidity targets stood at $122.8 billion as at October 31, 2018, up $6.3 billion or 5% from $116.5 billion last year. The growth was due to increased liquidity from inflows of retail and commercial deposits, and the general increase in market liquidity. We continued to maintain adequate liquidity levels to enable us to respond effectively to changes in cash flow requirements.

Securities

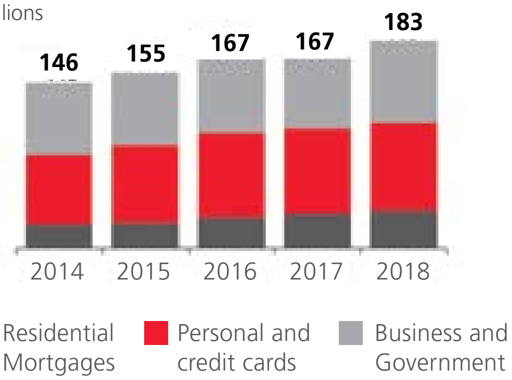
Total investment securities, decreased by $2.3 billion to $156.5 billion mainly due to lower balances being held in our investment company arising from an increase in our clients' off-balance sheet holdings.

Loans

Our loan portfolio grew by $16.1 billion or 10% this year, with loans, after allowance for impairment losses, increasing to $182.6 billion. Our business lines performance was solid, with residential mortgages showing strong growth of 13%, personal and credit cards increasing by 2.2%, and business and government increasing by 17%.

Loan Portfolio

$ Billions



Liabilities

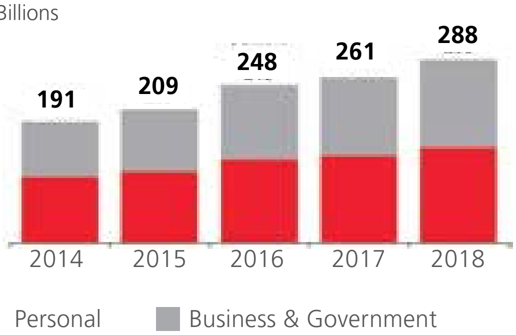
Total liabilities as at October 31, 2018 were $406.2 billion, an increase of $17.8 billion or 4.6%. The growth in our liabilities was as a result of increases in our retail and commercial customer deposit base.

Deposits

Deposits by the public increased to $288 billion, up from $260.6 billion in the prior year. This increase represents $27.4 billion or 10.5% growth in core deposits which was reflected in higher inflows from our retail and private sector portfolio, as we expanded our customer base and deepened relationships with customers.

Deposit Portfolio

$ Billions

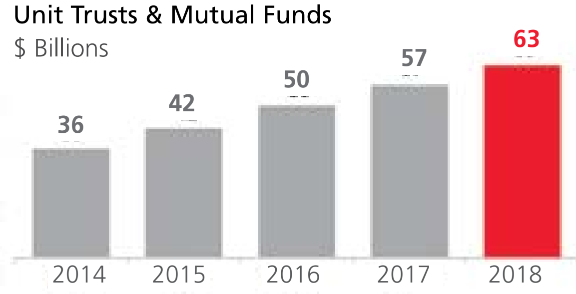


Obligations related to repurchase agreements, capital management and government securities funds

This mainly represents placements by clients of Scotia Investments, in addition to other wholesale funding. Our strategic focus is to grow our mutual funds and unit trusts business lines, as such, the net of these obligations decreased by $14.7 billion or 38.0% compared to prior year as SIJL clients reduced repurchase agreement holdings and increased their investment in the unit trusts and mutual funds offered by the company. Consequently, our fund and asset management portfolios grew by $19.8 billion or 14.0% compared to the prior year. Our suite of products offered continue to propel us as a dominant player in the Collective Investment Scheme industry.

Funds Under Management Unit Trusts & Mutual Funds

$ Billions

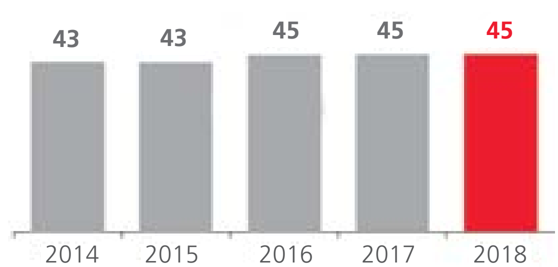


Policyholders' Fund

The Policyholders' Fund reflects the insurance contract liabilities held at Scotia Insurance for our flagship product ScotiaMINT. As at October 31, 2018 the Fund stood at $45.3 billion, compared to $45.2 billion in the previous year.

Policyholders' Fund

$ Billions

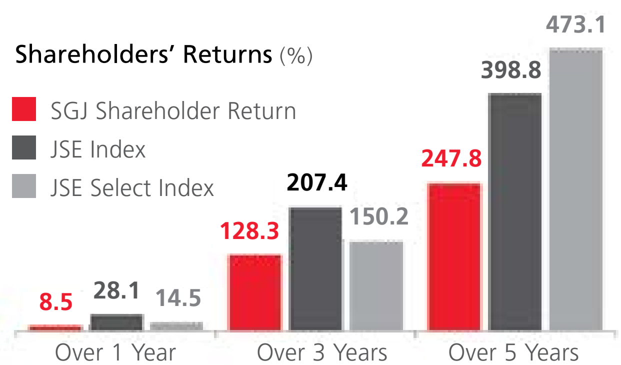


Shareholders’ Equity

Total shareholders’ equity grew to $115.6 billion in 2018, $13.2 billion or 12.9% more than the prior year driven mainly by unappropriated profit.

Shareholders’ Return

Our total shareholders’ return for financial year 2018 was 8.5% (including both dividends and change in the price of the Group’s common shares). Returns this year yielded 128.3% over the last 3 years and 247.8% over the last 5 years.



Shareholders’ returns for the 3 and 5 year horizons were largely influenced by the 83.1% and 75.6% increase in the Jamaica Stock Exchange (JSE) Index in the 2015 and 2017 financial years, as well as 24.7% increase in this financial year. Scotia Group’s closing share price grew by $2.47 or 4.82% this year. Our consistent dividend policy continues to be a key component of shareholder return with 56.9% of the 8.5% shareholder return this year attributable to share price appreciation. We remain focused on achieving sustainable, long-term earnings growth and maintaining stable dividend income streams for our shareholders.

Shareholders’ Returns – For the years ended	2018	2017	2016
Closing Market Price ($)	53.72	51.25	31.48
Dividends Paid ($)	1.95	1.83	1.71
Dividend Yield	3.66%	4.28%	5.53%
Change in Share Price	4.82%	62.83%	17.16%
Total Annual Shareholder Return	8.48%	67.11%	22.69%

Capital Management

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

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

Regulatory Capital

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

CAPITAL ADEQUACY	2018 Capital Adequacy Ratio	2017 Capital Adequacy Ratio	Regulatory Requirement	Excess over Regulatory Requirement
Banking and Building Society	18.0%	16.4%	10.0%	8%
Investment Management	32.4%	40.1%	10.0%	22.4%
Life Insurance	703.0%	549.0%	150.0%	553.0%

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

Business Outlook

The Government of Jamaica continues to make strides in economic reform. Supported by the IMF Stand-By Arrangement, Macroeconomic stability remains positive, with low inflation, FX reserves at healthy levels, unemployment at its lowest on record and poverty waning. This trend is expected to continue with the Government prioritizing and accelerating structural reforms that will drive private sector investments needed to achieve sustained economic growth. The BOJ transitioned to an inflation-targeting framework which seeks to contribute to an improvement in macroeconomic outcomes by anchoring inflation expectations and promoting policy credibility, which are important for encouraging private investment. The BOJ Foreign Exchange Intervention and Trading Tool (B-FXITT) introduced in July 2017 saw a more flexible two way movement of the local currency against its major trading counterparts during the year. The depreciatory pace of the dollar heightened during the first half of the financial year, however towards the latter half of the year the dollar depreciated at a slower pace, largely due to increased supplies from the market, as well as reduced end-user demand.

These favorable indicators have contributed to increased business and consumer confidence and bodes well for customers and the growth in all business lines within the Group. Additionally, the improvement in the job market, low interest rate environment, changes in business activities, as well as the ability of the BOJ to maintain an accommodative monetary policy stance in support of expanded output and job creation augur well for growth in the demand for credit from both retail and commercial customers, thus increasing competition in the market. Notably, structural impediments such as crime continue to weigh on the pace of expansion in economic activities.

In an increasingly competitive environment, with growing customer demand and expectations, the Group understands that bridging the gap between our strategies and serving our customers will be fundamental to have a competitive advantage and remain sustainable. In response to these continuous changing market needs, we will continue to deepen our relationships with our customers by firmly establishing our brand in the marketplace, as the preferred Bank, and continue to have a strong foothold in local and international markets. We have heightened our focus on our digital and alternate banking platforms, and we will continue to enhance our customers' experience through these convenient channels. We know that every customer has the right to be better off and as such we will continue to enhance our operations to deliver world-class services to our customers in the most convenient low cost manner.

Our people remain our key strategic resource and we will continue to improve our employee engagement, develop our talents and sharpen our focus on performance management, as our success depends on the immeasurable contribution of our valued team members.

Competition in the retail loans business will continue to be strong given the favourable market conditions. We will focus on determining our customers' financial needs and deliver the most relevant choice from our suite of products across all our business lines, to assist them to realize their financial needs and objectives. We will continue to enrich the experience of our customers by offering them greater speed and convenience in our service delivery, as we continue to improve our operational efficiency through our digital and alternate banking channels.

We expect our Commercial and Small Business customers to grow their operations as they seek to benefit from the positive macroeconomic environment and current high business confidence. We will capitalize on opportunities that arise from this momentum, as we offer additional financial support to these businesses by assisting them to meet their financial goals.

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

In the coming year we will be increasing investments in our branch operations. Our head office branch will undergo renovations which will incorporate digital technology to create a new world-class banking experience for our customers. We will continue our thrust to remain the financial partner of choice, leveraging our growing global footprint as well as our team of expert professionals, to offer a wide range of tangible solutions to our customers while delivering superior customer experience for the benefit of all our stakeholders.

Risk Management

The primary goals of risk management are to ensure that the outcomes of risk-taking activities are consistent with the Group's strategies and risk appetite, and that there is an appropriate balance between risk and reward in order to maximize shareholder returns.

Risk Management Principles

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

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

RISK MANAGEMENT FRAMEWORK

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

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

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

Risk Governance

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

Risk Appetite

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

Risk Management Tools

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

Risk Identification & Assessment

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

Risk Culture

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

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

Three Lines of Defence

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

Within this model:

- The Business Lines act as the first line of defence by identifying, owning, assessing and managing the risks, while
- Risk Management units and other control functions (the second line) provide independent oversight and objective challenge to the first line of defence, as well as measuring, monitoring, reporting and control of risk.
- Internal Audit Department (the third line) provides assurance that control objectives are achieved by the first and second lines of defence.

PRINCIPAL RISK TYPES

Credit Risk

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

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

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

Market Risk

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

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

In its trading activities, the Group primarily buys and sells currencies, equities and bonds for its customers.

The key exposures arising from these activities are:

Interest Rate Risk

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

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

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

Foreign Currency Risk

This arises from foreign currency operations and is typically mitigated by financing its foreign currency assets with borrowings in the same currencies. *The foreign currency risk exposure for the Group is summarized in Note 48 (c) (ii) of the Financial Statements.*

Credit Spread Risk

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

Trading activities also result in these exposures and are managed using aggregate Value at Risk (VaR) and stress testing. The quality of the Group's VaR is validated by regular back-testing analysis, in which the VaR is compared to profit and loss results.

Liquidity Risk

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

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

The key elements of the liquidity risk framework are:

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

- **Core liquidity** – the Group maintains a pool of highly liquid, unencumbered assets that can be readily sold, or pledged to secure borrowings, under stressed market conditions or due to company specific events.

Operational Risk

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

The Group has policies, processes and assessment methodologies to ensure that operational risk is appropriately identified and managed with effective controls. This includes a senior management Non-Financial Risk and Internal Controls Committee chaired by the CRO, and the Operational Risk function within the Group's risk management unit oversees the identification, assessment and analysis of operational risk, and reporting on actual loss events.

Technology, Information and Cyber Security Risk

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

Technology, information and cyber security risks continue to impact financial institutions and other businesses in Jamaica and around the globe. Threats are not only increasing in volume but also in the level of sophistication, as adversaries use ever evolving technologies and attack methodologies.

The technology environment of the Bank, its customers and the third parties providing services to the Bank, may be subject to attacks, breaches or other compromises. Incidences like these can result in disruption to operations, misappropriation or unauthorized release of confidential, financial or personal information, as well as reputational damage, among other things. The Bank proactively monitors and manages these potential risks and constantly updates and refines programs as threats emerge, in an effort to minimize disruptions and keep systems and information protected. In addition, the Bank has purchased insurance coverage to help mitigate against certain potential losses associated with cyber incidents.

We have taken steps to sensitize our employees and customers of the increasing levels of security threats our business face daily. Our employees do mandatory yearly training around cyber security through workshops, online lectures and presentations. Our Marketing department provides awareness for customers through bulletins and print media. In addition, customers are also educated in best practices, dos and don'ts by our customer facing staff at every available opportunity, while our ATMs and vestibules have protection guidelines, as we seek to reduce cyber security risk on an ongoing basis.

Data Risk

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

The Data Governance Framework and associated policy govern the oversight and management of data to ensure that the outcomes of the data management activities fulfill all regulatory requirements, align to industry best practices, and enable the Group to use trusted data.

Environmental risk

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

The Board-approved Environmental Policy describes the principles that the Group applies when managing matters arising from environmental considerations. The Environmental Policy guides initiatives to promote lending practices, supplier agreements, the management of real estate holdings, and external reporting practices. It is supplemented by specific policies and practices relating to individual business operations.

Insurance Risk

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

The Group's insurance subsidiary, Scotia Jamaica Life Insurance Company (SJLIC), engages in insurance underwriting activity; accordingly an Insurance Risk Policy and insurance Risk Management Framework are in place to provide insurance risk governance and to guide SJLIC in its governance and risk management practices. SJLIC's Board of Directors provide oversight and approval of the SJLIC's insurance risk policies and risk appetite statement.

Reputational Risk

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

The Group has established Board-approved Reputational Risk Policy, as well as policies and procedures for managing suitability risk, and reputational and legal risk related to structured finance transactions. Reputational risk is managed and controlled throughout the Group by codes of conduct, governance practices and risk management programs, policies, procedures and training. All directors, officers and employees have a responsibility to conduct their activities in accordance with the Group's Code of Conduct, and in a manner that minimizes reputational risk. The activities of the Legal, Corporate Secretary, Public, Corporate Affairs; and Compliance departments are particularly oriented to the management of reputational risk.

Strategic Risk

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

The Board of Directors is ultimately responsible for oversight of strategic risk, by adopting a strategic planning process and approving, on an annual basis, a strategic plan for the Group.

The execution and evaluation of strategic plans is a fundamental element of the Framework. On an ongoing basis, Heads of Business Lines and Control Functions identify, manage, and assess the internal and external risks that could impede achievement of, or progress of, strategic objectives. The Executive Management Team regularly meets to evaluate the effectiveness of the Group's strategic plan, and consider what amendments, if any, are required.

Supporting our Communities

Scotiabank and the ScotiaFoundation maintained a strong focus on children and education in 2018. Through three major programmes the Scotiabank Nutrition for Learning programme, the ScotiaFoundation Shining Star Scholarship programme and Scotiabank Kiddy Cricket, we positively impacted over 27,000 children and encompassed all 14 parishes.

Education

The Scotiabank Nutrition for Learning programme, now the largest corporate social responsibility activity is intended to bring nutrition in children to the forefront, to improve educational outcomes such as attendance and academic performance as well as introduce healthy eating to children at the early childhood and primary levels. It incorporates students, teachers, parents and partners with a similar vision. Elements of the programme include training of canteen staff, education of the school community on proper nutrition, cultivating vegetable gardens in schools and providing funds for the purchase of food items for the schools.

Since the year 2000, the ScotiaFoundation maintained a breakfast programme which grew from one to eleven schools in 2017. In 2018 this programme was expanded to 34 schools (30 schools and 4 homes for children with disabilities) in all 14 parishes. This programme impacts 14,000 students. The Scotiabank Nutrition for Learning programme aligns with Jamaica's Vision 2030 Goal 1 – Jamaicans are empowered to achieve their fullest potential and it supports National Outcome 1 - A Healthy and Stable Population, and National Outcome 2 - World-Class Education and Training. The programme is endorsed by the Ministry of Education, Youth and Information.

During the year, with our partner, award winning chef Jacqui Tyson, Scotiabank hosted five cooking workshops across the island which trained 145 individuals to creatively incorporate fruits and vegetables into school menus. The majority of these individuals were school canteen cooks, and we included administrators, guidance counsellors, Parent Teachers Association presidents, and volunteers to get support from the wider school community.

In May, National Child Month, 199 ScotiaVolunteers gave volunteer hours on National Teacher's Day, National Reading Day and on National Labour Day. The ScotiaVolunteers armed with educational posters on the 'Top 10 Reasons to Eat More Fruits and Vegetables' taught healthy eating classes in several schools and engaged the children in physical exercise. For National Labour Day, ScotiaVolunteers worked with technical guidance from the Ministry of Agriculture, RADA office and the National 4-H Club, to create container vegetable gardens, fence garden plots and plant seedlings for various vegetables at six schools.

The Foundation continued its scholarship payments to ongoing ScotiaFoundation Shining Star Scholars, with funding supporting just under 90 scholars in high schools.

At the primary school level, the Scotiabank Kiddy Cricket Programme impacted over 13,000 students from 242 schools across the island. In March 2018, an educational component was added to the primary curriculum with the launch of the Scotiabank/WICB Kiddy Cricket educational guide entitled 'Chirpy's Classroom Adventure Academic Manual'. This programme continues to expose both girls and boys to the sport of cricket and encourages their love for the game.

Impact at the community level was maintained through The Salvation Army with the hosting of the annual Christmas Red Kettle Appeal at the Scotiabank Centre and our ScotiaVolunteers who packaged over 1,000 bags of groceries at the William Chamberlain Centre for distribution to the elderly and homeless.

Shareholdings

Scotia Group Jamaica Limited – As at 31 October 2018

Top Ten Largest Shareholders

Rank	Shareholder	Holdings
1	SCOTIABANK CARIBBEAN HOLDINGS LIMITED	2,233,403,384
2	SAGICOR POOLED EQUITY FUND	62,522,351
3	NATIONAL INSURANCE FUND	57,924,069
4	SJIML A/C 3119	55,725,439
5	RESOURCE IN MOTION	31,002,498
6	NCB INSURANCE CO. LTD A/C WT109	26,291,176
7	GRACEKENNEDY LIMITED PENSION SCHEME	20,897,463
8	SDBG A/C 560-03	13,208,959
9	SDBG A/C 560-01	12,961,606
10	JCSD TRUSTEE SERVICES LTD - SIGMA OPTIMA	12,949,865

Shareholdings of Directors, Senior Managers and Connected Parties

Directors	Total Shareholdings (Units)	Direct (Units)	Connected Parties (Units)
ALEXANDER, BARBARA ANN	108,000	108,000	0
CRAWFORD, ERIC	45,000	45,000	0
FOWLER, ANGELA	47,766	0	47,766
HALL, JEFFREY MCGOWAN	40,000	0	40,000
HART, ANTONY MARK	0	0	0
KING,BRENDAN	0	0	0
NOEL, DAVID	40,000	0	40,000
MCCONNELL, WILLIAM DAVID	0	0	0
REID, LESLIE	0	0	0
RICHARDS, AUDREY	5,000	5,000	0
SMITH,EVELYN	0	0	0
Senior Managers			
BRIGHT, ALSTON CARL	209,872	153,172	56,700
DANIEL, KIYOMI	0	0	0
FORBES-PATRICK,YANIQUE	0	0	0
FRASER, RICHARD	0	0	0
GAUDET, MARCIA	0	0	0
HARVEY VINCENT AGUSTUS	13,945	9,045	4,900
HEYWOOD,NADINE	0	0	0
MAIR, HORACE CRAIG	46,668	46,668	0
MAUCIERI, JEAN	0	0	0
MILLER, HUGH G	76,591	76,591	0
MITCHELL, LISSANT	44,500	0	44,500
NELSON, MORRIS	643	643	0
STOKES, ADRIAN	0	0	0
SYLVESTER, COURTNEY A.	382,117	257,353	124,764
THOMPSON-JAMES, JULIE	7,800	0	7,800
TUGWELL-HENRY, AUDREY	29,996	0	29,996
WHITE, GARY-VAUGHN	102,314	102,314	0
WHITE, NAADIA	8,126	8,126	0
WILKIE-CHANNER, SHELEE NADINE	123,913	102,865	21,048
WRIGHT, MICHELLE	45,504	45,504	0

Consolidated Financial Statements of SCOTIA GROUP JAMAICA LIMITED

October 31, 2018

CONTENTS

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 58 to 132, which comprise the Group's and the Company's statements of financial position as at October 31, 2018, 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, 2018, and of the Group's and the Company's financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and the Jamaican Companies Act.

Basis for Opinion

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

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
SCOTIA GROUP JAMAICA LIMITED

Report on the Audit of the Financial Statements (cont'd)

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. Impairment of loans

The key audit matter	*How the matter was addressed in our audit*
Loans, after allowances for impairment, represent 35% or \$183 billion of the Group's total assets. Allowance for impairment losses of \$2.2 billion has been recognised by the Group. The estimation of the impairment allowance on loans on an individual and aggregate basis requires management to make significant judgements to determine whether there is objective evidence that these loans should be classified as impaired arising from repayment default or adverse economic conditions.	Our procedures in this area included the following: • Testing controls over the Group's impairment process, such as: (a) controls over the completeness and accuracy of the data used to determine impaired loans. (b) management review of the recoverable value calculations. • Challenging management's identification of impaired loans by reviewing a sample of loans and assessing whether or not they were appropriately classified, based on the criteria for determining objective evidence of impairment.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
SCOTIA GROUP JAMAICA LIMITED

Report on the Audit of the Financial Statements (cont'd)

Key Audit Matters (cont'd)

1. Impairment of loans (cont'd)

The key audit matter (cont'd)	*How the matter was addressed in our audit (cont'd)*
Management also makes assumptions in determining the estimated future cash flows from the loans to determine the impairment allowance. Estimates of expected cash flows require management to use judgement in estimating the values of collateral held, cost to sell the collateral and the time to liquidate such collateral. The combination of estimates and judgements increases the risk that management's estimate could be materially misstated. *[see notes 3 and 23 to the financial statements]*	Our procedures in this area included the following (cont'd): • Testing a sample of impairment calculations by assessing the forecasts of expected cash flows and challenging assumptions using externally available information as well as historical trends. • Assessing whether disclosures in the financial statements are adequate in respect of the Group's exposure to credit risk and measurement of impairment allowances.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
SCOTIA GROUP JAMAICA LIMITED

Report on the Audit of the Financial Statements (cont'd)

Key Audit Matters (cont'd)

2. Fair value of investments

The key audit matter	*How the matter was addressed in our audit*
Investment securities measured at fair value represent 26% of total assets of the Group. The valuation of the Group's investments requires significant estimation, as no quoted prices are available for some of these instruments. Valuation of these investments, although based on observable inputs, involves the exercise of judgement and the use of assumptions. Management used valuation techniques which require inputs such as market yields obtained from established yield curves. These judgements and assumptions could result in estimated fair values that are materially different from actual transaction values. *[see notes 3, 20, 24 and 49 to the financial statements]*	Our procedures in this area included the following: • Assessing and testing the design and operating effectiveness of the Group's controls over the determination and computation of fair values. • Challenging the reasonableness of yields/prices by comparing to independent third party pricing sources. • Assessing the reasonableness of significant assumptions used by such third-party pricing sources. • Involving our own valuation specialists to determine/obtain yields/prices of specific securities and comparing these to management's inputs. • Assessing the adequacy of the disclosures, including the degree of estimation involved in determining fair values.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
SCOTIA GROUP JAMAICA LIMITED

Report on the Audit of the Financial Statements (cont'd)

Key Audit Matters (cont'd)

3. Valuation of policyholders' liabilities

The key audit matter	*How the matter was addressed in our audit*
Policyholders' liabilities represent 11% of the Group's total liabilities. Determining the settlement value of long-term policyholders' liabilities is an area that requires significant judgment. It involves the use of economic assumptions such as investment returns and discount rates, morbidity and mortality assumptions, maintenance expenses, lapse and withdrawals as key inputs in estimating these actuarially determined liabilities. The combination of assumptions and judgements increases the risk that management's estimate could be materially misstated. *[see notes 2(j), 3, 38, and 48(e), to the financial statements]*	Our procedures in this area included the following: • Testing the policy master file for completeness and accuracy of the underlying data used by management as inputs to the actuarial valuation. • Testing a sample of contracts to assess that the terms of contract agree to the data file provided by the management to the actuarial expert. • Assessing the objectivity, qualification, and experience of management's actuarial expert. • Involving our own actuarial specialist to assess whether the liabilities as determined by management's actuarial expert, falls within a reasonable range of expectations, the assumptions are appropriate, changes to the product features are confirmed and the actuarial valuation has been performed in accordance with accepted and commonly used actuarial systems, methodologies and practices. • Assessing whether disclosures in the financial statements are adequate in respect of the Group's exposure to insurance risk.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
SCOTIA GROUP JAMAICA LIMITED

Report on the Audit of the Financial Statements (cont'd)

Key Audit Matters (cont'd)

4. Valuation of retirement benefits asset and obligations

The key audit matter	*How the matter was addressed in our audit*
The Group operates a defined benefit retirement scheme and provides other unfunded retirement benefits. Significant estimates are made in valuing the Group's retirement benefits asset and obligations. The valuations are considered to be a significant risk, as given the size of the assets and liabilities, small changes in the assumptions can have a material financial impact on the Group. The key assumptions involved in calculating retirement benefit assets and liabilities are discount rates, inflation, future increases in salaries and pensions. The use of significant assumptions increases the risk that management's estimate can be materially misstated. *[see notes 3 and 29 to the financial statements]*	Our procedures in this area included the following: • Testing employee data provided by management to the actuarial expert. • Comparing the discount and the inflation rates used to independent sources. • Recomputing interest income and cost associated with retirement benefits. • Agreeing the scheme's assets to independent supporting information. • Assessing whether disclosures in the financial statements are appropriate in respect of the Group's retirement benefit arrangements.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
SCOTIA GROUP JAMAICA LIMITED

Report on the Audit of the Financial Statements (cont'd)

Other Information

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

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

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

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

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
SCOTIA GROUP JAMAICA LIMITED

Report on the Audit of the Financial Statements (cont'd)

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 56-57, forms part of our auditors' report.

Report on additional matters as required by the Jamaican Companies Act

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

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

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

KPMG

Chartered Accountants
Kingston, Jamaica

December 5, 2018

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
SCOTIA GROUP JAMAICA LIMITED

Appendix to the Independent Auditors' report

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
SCOTIA GROUP JAMAICA LIMITED

Appendix to the Independent Auditors' report (cont'd)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

SCOTIA GROUP JAMAICA LIMITED | Consolidated Statement of Revenue and Expenses | Year Ended October 31, 2018

(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2018	2017
Net interest income and other revenue			
Net interest income			
Interest from loans and deposits with banks		22,352,770	23,026,816
Interest from securities		6,058,328	7,939,121
Total interest income	6	28,411,098	30,965,937
Interest expense	6	(3,203,320)	(4,321,834)
Net interest income		25,207,778	26,644,103
Impairment losses on loans	23	(1,917,989)	(2,178,492)
Net interest income after impairment losses on loans		23,289,789	24,465,611
Other revenue			
Fee and commission income	7	14,894,138	14,425,825
Fee and commission expense	7	(6,767,110)	(5,787,463)
		8,127,028	8,638,362
Net gains on foreign currency activities	8(a)	4,001,556	2,494,427
Net gains on financial assets	8(b)	1,160,818	1,034,352
Insurance revenue	9	2,931,627	2,785,032
Gain on sale of subsidiary	37(e)	753,145	-
Other revenue	10	29,297	75,015
Total other revenue		17,003,471	15,027,188
		40,293,260	39,492,799
Expenses			
Salaries, pensions and other staff benefits	11	10,446,820	10,641,141
Property expenses, including depreciation		2,140,995	2,113,257
Amortisation of intangible assets	28	154,552	146,897
Asset tax		1,089,022	1,068,710
Other operating expenses		8,169,243	7,321,336
	12	22,000,632	21,291,341
Profit before taxation	13	18,292,628	18,201,458
Taxation	14	(5,521,712)	(5,794,168)
Profit for the year		12,770,916	12,407,290
Attributable to:			
Stockholders of the company		12,770,916	12,174,742
Non-controlling interest		-	232,548
Profit for the year		12,770,916	12,407,290
EARNINGS PER STOCK UNIT (expressed in $) **attributable to stockholders of the company**	15	4.10	3.91

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

(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2018	2017
Profit for the year		12,770,916	12,407,290
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit plan asset and obligations	29(a)(vi) & (b)(iii)	7,636,885	6,459,498
Taxation	36	(2,545,628)	(2,153,166)
		5,091,257	4,306,332
Items that are or may be reclassified to profit or loss:			
Unrealised gains on available-for-sale financial assets		2,214,797	397,873
Realised gains on available-for-sale financial assets, transferred to profit		(514,087)	(686,187)
Foreign operations – foreign currency translation		(11,166)	(11,431)
		1,689,544	(299,745)
Taxation	36	(361,294)	9,103
		1,328,250	(290,642)
Other comprehensive income, net of tax		6,419,507	4,015,690
Total comprehensive income		19,190,423	16,422,980
Attributable to:			
Stockholders of the company		19,190,423	16,166,559
Non-controlling interest	46	-	256,421
Total comprehensive income		19,190,423	16,422,980

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

(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2018	2017
ASSETS			
Cash resources			
Cash and balances at Bank of Jamaica	16	69,070,417	61,140,777
Government and bank notes other than Jamaican	19	898,300	890,257
Due from other banks	17	17,573,229	20,328,051
Accounts with parent and fellow subsidiaries	18	35,221,037	34,117,474
	19	122,762,983	116,476,559
Financial assets at fair value through profit or loss	20	24,175	8,155
Pledged assets	21	21,433,179	37,253,225
Loans, after allowance for impairment losses	22	182,607,258	166,493,591
Investment securities	24	134,732,786	120,292,580
Government securities purchased under resale agreements	25	300,473	1,203,495
Other assets			
Customers' liabilities under acceptances, guarantees and letters of credit		13,232,396	12,228,668
Taxation recoverable		3,490,939	2,574,148
Sundry assets	26	2,428,094	2,074,311
Property, plant and equipment	27	5,303,898	5,322,155
Goodwill and intangible assets	28	961,914	1,094,143
Retirement benefits asset	29(a)	34,517,087	25,020,925
Deferred taxation	36	67,105	176,310
		60,001,433	48,490,660
Assets held for sale	37(a)	-	664,416
		60,001,433	49,155,076
		521,862,287	490,882,681

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

(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2018	2017
LIABILITIES			
Deposits by the public	30	287,948,379	260,559,467
Due to other banks and financial institutions	31	6,823,007	6,067,077
Due to ultimate parent company	32	3,311,000	3,944,710
Due to fellow subsidiaries	33	178,642	156,761
		298,261,028	270,728,015
Other liabilities			
Cheques and other instruments in transit	19	3,008,914	2,285,240
Acceptances, guarantees and letters of credit		13,232,396	12,228,668
Securities sold under repurchase agreements		31,152	20,666,065
Capital management and government securities funds	34	23,797,925	17,844,600
Other liabilities	35	6,436,777	5,648,725
Taxation payable		636,794	2,156,254
Deferred tax liabilities	36	10,790,027	7,800,934
Retirement benefit obligations	29(b)	4,727,215	3,884,186
		62,661,200	72,514,672
Liabilities held for sale	37(b)	-	37,272
Policyholders' liabilities	38	45,292,329	45,171,156
EQUITY			
Share capital	39	6,569,810	6,569,810
Reserve fund	40	3,249,976	3,249,976
Retained earnings reserve	41	37,891,770	31,891,770
Capital reserve	42	11,340	11,340
Cumulative remeasurement gains from available-for-sale securities	43	1,902,761	565,980
Loan loss reserve	44	2,377,843	2,687,050
Other reserves	45	9,964	9,964
Translation reserve		(23,425)	(12,259)
Unappropriated profits		63,657,691	57,457,935
Total equity		115,647,730	102,431,566
Total equity and liabilities		521,862,287	490,882,681

The financial statements on pages 58 to 132 were approved for issue by the Board of Directors on December 5, 2018 and signed on its behalf by:

_______________ Director
Jeffrey Hall

_______________ Director
David Noel

_______________ Director
Eric Crawford

_______________ Secretary
Richard Fraser

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, 2018

(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 available for sale financial assets	Loan loss reserve	Other reserves	Translation reserves	Unappropriated profits	Total	Non controlling interest	Total equity
Balances at October 31, 2016		**6,569,810**	**3,249,976**	**24,791,770**	**11,340**	**868,236**	**3,143,875**	**9,964**	**-**	**53,210,802**	**91,855,773**	**3,632,764**	**95,488,537**
Profit for the year		-	-	-	-	-	-	-	-	12,174,742	12,174,742	232,548	12,407,290
Other comprehensive income:													
Remeasurement of defined benefit plan/obligations		-	-	-	-	-	-	-	-	4,306,332	4,306,332	-	4,306,332
Foreign currency translation		-	-	-	-	-	-	-	(12,259)	-	(12,259)	828	(11,431)
Unrealised gains on available-for-sale securities, net of taxes		-	-	-	-	278,972	-	-	-	-	278,972	26,204	305,176
Realised gains on available-for-sale securities transferred to profit or loss		-	-	-	-	(581,228)	-	-	-	-	(581,228)	(3,159)	(584,387)
Total other comprehensive income		-	-	-	-	(302,256)	-	-	(12,259)	4,306,332	3,991,817	23,873	4,015,690
Total comprehensive income		-	-	-	-	(302,256)	-	-	(12,259)	16,481,074	16,166,559	256,421	16,422,980
Transfer to loan loss reserve		-	-	-	-	-	(456,825)	-	-	456,825	-	-	-
Transfer to retained earnings reserve		-	-	7,100,000	-	-	-	-	-	(7,100,000)	-	-	-
Transaction costs to acquire non-controlling interest		-	-	-	-	-	-	-	-	(50,222)	(50,222)	-	(50,222)
Acquisition of non-controlling interest		-	-	-	-	-	-	-	-	60,323	60,323	(3,757,825)	(3,697,502)
Transactions with owners of the Company:													
Dividends paid		-	-	-	-	-	-	-	-	(5,600,867)	(5,600,867)	(131,360)	(5,732,227)
Net movement for the year	54	-	-	7,100,000	-	-	(456,825)	-	-	(12,233,941)	(5,590,766)	(3,889,185)	(9,479,951)
Balances at October 31, 2017		**6,569,810**	**3,249,976**	**31,891,770**	**11,340**	**565,980**	**2,687,050**	**9,964**	**(12,259)**	**57,457,935**	**102,431,566**	**-**	**102,431,566**
Profit for the year		-	-	-	-	-	-	-	-	12,770,916	12,770,916	-	12,770,916
Other comprehensive income:													
Remeasurement of defined benefit plan/obligations		-	-	-	-	-	-	-	-	5,091,257	5,091,257	-	5,091,257
Foreign currency translation		-	-	-	-	-	-	-	(11,166)	-	(11,166)	-	(11,166)
Unrealised gains on available-for-sale securities, net of taxes		-	-	-	-	1,704,950	-	-	-	-	1,704,950	-	1,704,950
Realised gains on available-for-sale securities, net of taxes		-	-	-	-	(365,534)	-	-	-	-	(365,534)	-	(365,534)
Total other comprehensive income		-	-	-	-	1,339,416	-	-	(11,166)	5,091,257	6,419,507	-	6,419,507
Total comprehensive income		-	-	-	-	1,339,416	-	-	(11,166)	17,862,173	19,190,423	-	19,190,423
Transfer to loan loss reserve		-	-	-	-	-	(309,207)	-	-	309,207	-	-	-
Transfer to retained earnings reserve		-	-	6,000,000	-	-	-	-	-	(6,000,000)	-	-	-
Transfer to unappropriated profits		-	-	-	-	(2,635)	-	-	-	2,635	-	-	-
Transactions with owners of the Company:													
Dividends paid		-	-	-	-	-	-	-	-	(5,974,259)	(5,974,259)	-	(5,974,259)
Net movement for the year	54	-	-	6,000,000	-	(2,635)	(309,207)	-	-	(11,662,417)	(5,974,259)	-	(5,974,259)
Balances at October 31, 2018		**6,569,810**	**3,249,976**	**37,891,770**	**11,340**	**1,902,761**	**2,377,843**	**9,964**	**(23,425)**	**63,657,691**	**115,647,730**	**-**	**115,647,730**

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

(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2018	2017
Cash flows from operating activities			
Profit for the year		12,770,916	12,407,290
Adjustments for:			
Taxation charge	14	5,521,712	5,794,168
Depreciation	27	567,648	537,843
Amortisation of intangible assets	28	154,552	146,897
Impairment allowances on loans	23	3,192,042	3,761,229
Loss/(gain) on sale of property, plant and equipment	10	1,878	(46,460)
Gain on sale of available for sale securities		-	(686,187)
Gain on sale of subsidiary	37(e)	(753,145)	-
Increase in retirement benefits asset/obligation, net		(889,679)	(400,902)
		20,565,924	21,513,878
Interest income	6	(28,411,098)	(30,965,937)
Interest expense	6	3,203,320	4,321,834
		(4,641,854)	(5,130,225)
Changes in operating assets and liabilities			
Loans		(19,306,142)	(4,143,757)
Deposits by the public		33,348,951	14,639,510
Deposits with Bank of Jamaica maturing after ninety days		655,915	(276,266)
Policyholders' liabilities		121,173	406,571
Sundry assets, net		(353,783)	256,398
Other liabilities, net		788,052	(1,843,301)
Due to parent company and fellow subsidiaries		(599,113)	(1,126,275)
Assets held for sale, net		185,522	-
Accounts with parent and fellow subsidiaries		(6,324,460)	2,134,898
Financial assets at fair value through profit or loss		(15,608)	545,879
Taxation recoverable		(916,791)	(298,336)
Retirement benefits asset/obligations		(126,569)	(101,496)
Amounts due to other banks and financial institutions		754,950	161,091
Statutory reserves at Bank of Jamaica		(3,379,069)	(7,411,913)
Securities sold under repurchase agreements		(20,527,216)	(10,932,603)
		(20,336,042)	(13,119,825)
Interest received		28,531,066	31,279,851
Interest paid		(3,329,467)	(4,374,416)
Taxation paid		(6,847,674)	(5,562,246)
Net cash (used in)/provided by operating activities (carried forward to page 64)		(1,982,117)	8,223,364

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

(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2018	2017
Cash flows from operating activities (brought forward from page 63)		(1,982,117)	8,223,364
Cash flows from investing activities			
Investment securities		(12,849,758)	(2,898,389)
Pledged assets		16,674,156	8,680,423
Proceeds from disposal of property, plant and equipment		3,666	80,306
Purchase of property, plant and equipment	27	(554,935)	(426,282)
Purchase of intangible assets	28	(22,323)	(32,689)
Net proceeds from sale of subsidiary	37(d)	1,194,767	-
Acquisition of non-controlling interest	46	-	(3,747,724)
Net cash provided in investing activities		4,445,573	1,655,645
Cash flows from financing activities			
Dividends paid to stockholders	54	(5,974,259)	(5,600,867)
Dividends paid to non-controlling interest in subsidiary	54	-	(131,360)
Net cash used in financing activities		(5,974,259)	(5,732,227)
Effect of exchange rate changes on cash and cash equivalents		329,260	(407,804)
Net (decrease)/increase in cash and cash equivalents		(3,181,543)	3,738,978
Cash and cash equivalents at beginning of year		74,036,257	70,297,279
Cash and cash equivalents at end of year	19	70,854,714	74,036,257

(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2018	2017
Net interest income and other revenue			
Interest from deposit with banks		212,986	129,705
Interest from securities		-	48,027
	6	212,986	177,732
Net gains/(losses) on foreign currency activities		63,568	(83,743)
Net losses on financial assets	8(b)	-	(535)
Gain on sale of subsidiary	37(e)	1,075,750	-
Dividend income		12,467,088	5,621,443
		13,606,406	5,537,165
Total income		13,819,392	5,714,897
Expenses			
Asset tax		200	200
Other operating expense		44,616	44,273
	12	44,816	44,473
Profit before taxation	13	13,774,576	5,670,424
Taxation	14	(42,048)	(33,320)
Profit for the year		13,732,528	5,637,104
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Realised gains on available-for-sale financial assets transferred to profit		-	(1,237)
Taxation credit	36	-	309
Other comprehensive loss, net of tax		-	(928)
Total comprehensive income for the year		13,732,528	5,636,176

(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2018	2017
ASSETS			
Cash resources			
Accounts with subsidiaries	19	15,646,295	7,466,320
Loans to subsidiary	22	-	180,000
Investment in subsidiaries, at cost		13,029,908	13,229,908
Other assets			
Sundry assets		-	544
Taxation recoverable		272,312	307,169
		28,948,515	21,183,941
LIABILITES			
Accrued expenses and other liabilities		8,770	8,334
Taxation payable		34,160	36,179
Deferred tax liabilities	36	11,119	3,231
		54,049	47,744
EQUITY			
Share capital	39	6,569,810	6,569,810
Unappropriated profits		22,324,656	14,566,387
Total stockholders' equity		28,894,466	21,136,197
Total liabilities and equity		28,948,515	21,183,941

The financial statements on pages 58 to 132 were approved for issue by the Board of Directors on December 5, 2018 and signed on its behalf by:

_____________________ Director
Jeffrey Hall

_____________________ Director
David Noel

_____________________ Director
Eric Crawford

_____________________ Secretary
Richard Fraser

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

(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	Share capital	Cumulative remeasurement result from available for sale financial assets	Unappropriated profits	Total
Balances at October 31, 2016		6,569,810	928	14,580,372	21,151,110
Profit for the year		-	-	5,637,104	5,637,104
Other comprehensive loss:					
Realised gains transferred on available for sale securities, net of tax		-	(928)	-	(928)
Total comprehensive income		-	(928)	5,637,104	5,636,176
Transaction costs to acquire non-controlling interest		-	-	(50,222)	(50,222)
Transaction with owners:					
Dividends paid	54	-	-	(5,600,867)	(5,600,867)
Balances at October 31, 2017		6,569,810	-	14,566,387	21,136,197
Profit for the year, being total comprehensive income		-	-	13,732,528	13,732,528
Transaction with owners:					
Dividends paid	54	-	-	(5,974,259)	(5,974,259)
Balances at October 31, 2018		6,569,810	-	22,324,656	28,894,466

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

(Expressed in thousands of Jamaican dollars unless otherwise stated)

	Notes	2018	2017
Cash flows from operating activities			
Profit for the year		13,732,528	5,637,104
Adjustments for:			
Gain on sale of subsidiary	37(e)	(1,075,750)	-
Interest income	6	(212,986)	(177,732)
Taxation	14	42,048	33,320
		12,485,840	5,492,692
Changes in operating assets and liabilities			
Loan to subsidiary		180,000	50,000
Other assets, net		35,402	(10,465)
Accounts with fellow subsidiaries		(5,995,188)	(478)
Other liabilities		437	1,727,089
		6,706,491	7,258,838
Interest received		181,422	189,184
Taxation paid		(36,180)	(9,971)
Net cash provided by operating activities		6,851,733	7,438,051
Cash flow from investing activity			
Acquisition of non-controlling interest	46	-	(3,747,724)
Net proceeds from sale of subsidiary		1,275,750	-
Investment securities		-	1,199,771
Net cash provided by/(used in) investing activities		1,275,750	(2,547,953)
Cash flows from financing activity			
Dividends paid, being cash used in financing activity	54	(5,974,259)	(5,600,867)
Net increase/(decrease) in cash and cash equivalents		2,153,224	(710,769)
Cash and cash equivalents at beginning of year		1,174,772	1,885,541
Cash and cash equivalents at end of year	19	3,327,996	1,174,772

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

(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.

During the year, the Company disposed of its shares in Scotia Jamaica Microfinance Company Limited (see note 37).

During the prior year, Scotia Investments Jamaica Limited (SIJL) initiated a Court application to implement a Scheme of Arrangement by which all shares held by non-controlling interests were cancelled with the payment by Scotia Group Jamaica Limited of J$38 per share, resulting in Scotia Group owning 100% of the remaining shares of SIJL. This was approved at an Extraordinary General Meeting held on August 30, 2017, and was finalised with the Supreme Court's approval in September 2017.

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

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

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

*The statements included in the consolidation are audited financial statements as at and for the year ended October 31, 2018.

**The subsidiary was disposed of during the year.

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").

New, revised and amended standards and interpretations that became effective during the year

Certain new, revised and amended standards and interpretations came into effect during the current financial year. The Group has determined that none of them had a significant effect on the amounts or disclosures in the financial statements.

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

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

(i) The Group is required to adopt IFRS *9 Financial Instruments* effective November 1, 2018. The standard replaces IAS 39 *Financial Instruments: Recognition and Measurement* and sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

Classification and measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and the cash flow characteristics of the assets. Accordingly, the basis of measurement for the Group's financial assets may change. The standard contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. The Group does not expect the implementation to result in a significant change in the classification and measurement of the Group's financial assets.

Impairment

The adoption of IFRS 9 will have a significant impact on the Group's impairment methodology. IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The probability weighted outcome considers multiple scenarios based on reasonable and supportable forecasts. The new impairment model will apply to financial assets measured at amortised cost or FVOCI.

Under IFRS 9, loss allowances will be measured on either of the following stages, based on the extent of credit deterioration since origination:

- Stage 1 - 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date. This stage 1 approach differs from the current approach which estimates a collective allowance to recognise losses that have been incurred but not reported on performing loans.

- Stage 2 - Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. Provisions are higher at this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1; and

- Stage 3 - Financial assets that have an objective evidence of impairment will be included in this stage. Similar to Stage 2, the allowance for credit losses will continue to capture the lifetime expected credit losses.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for short-term receivables without a significant financing component.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

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

(i) IFRS 9 *Financial Instruments* (continued)

Transition impact

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as follows:

- The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement as well as impairment changes. Differences in the carrying amounts of financial instruments resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at November 1, 2018.

- The Group will determine the business model within which a financial asset is held based on the facts and circumstances that exist at the date of initial application.

The Group estimates the IFRS 9 transition will reduce retained earnings by approximately $600 million after-tax and the Tier 1 capital ratio by approximately 9 basis points as at November 1, 2018. The estimated impact relates primarily to the implementation of the ECL requirements. The Group continues to revise, refine and validate the impairment models and related process controls.

(ii) The Group is required to adopt IFRS 15 *Revenue from Contracts with Customers* from November 1, 2018. The standard establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes.*

The standard introduces a five-step model to determine when to recognise revenue, and at what amount. The model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised at a point in time, when control of goods or services is transferred to the customer; or over time, in a manner that best reflects the entity's performance. The standard scopes out contracts that are considered to be lease contracts, insurance contracts and financial instruments, and as such will not impact the majority of the Group's revenue, including interest income, interest expense, trading revenue and securities gains.

Management has assessed that the main impact of this standard is in respect of fees and commission income. While the assessment is still ongoing, IFRS 15 is not expected to have a material impact on the timing and recognition of fee income.

(iii) IFRS 16 *Leases*, which is effective for annual reporting periods beginning on or after January 1, 2019, eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Entities will be required to bring all major leases on-balance sheet, recognising new assets and liabilities. The on-balance sheet liability will attract interest; the total lease expense will be higher in the early years of a lease even if a lease has fixed regular cash rentals. Optional lessee exemption will apply to short- term leases and for low-value items with value of US$5,000 or less.

Lessor accounting remains similar to current practice as the lessor will continue to classify leases as finance and operating leases. Early adoption is permitted if IFRS 15 *Revenue from Contracts with Customers* is also adopted.

IFRS 16 will result in leases being recorded on the Group's balance sheet, including those currently classified as operating leases. The Group is currently assessing the impact that this new standard will have on its 2020 financial statements.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

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

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

- identifies insurance contracts as those contracts under which the entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event, (the insured event) adversely affects the policyholder;
- separates specified embedded derivatives, distinct investment components and distinct performance obligations from the insurance contracts;
- recognises and measures groups of insurance contracts at:
  a) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset)
  b) an amount representing the unearned profit in the group of contracts (the contractual service margin).
- recognises the profit from a group of insurance contracts over the period the entity provides insurance cover, and as the entity is released from risk. If a group contract is or becomes loss making, an entity recognises the loss immediately.
- presents separately insurance revenue (that excludes the receipt of repayment of investment components) and 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 retained in IFRS 17. The general model requires disclosure and reconciliation of the expected present value of future cash flows, risk adjustment and contractual service margin. No reconciliation is required under the variable fee approach.

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

(v) Amendments to IFRS 4 *Insurance Contracts*, provide two optional solutions to reduce the impact of the differing effective dates of IFRS 9, *Financial Instruments* (effective January 1, 2018), and IFRS 4, *Insurance Contracts* (expected to be effective in 2020 or later) as follows:

Temporary exemption from IFRS 9

- Rather than having to implement IFRS 9 in 2018, some companies will be permitted to continue to apply IAS 39 *Financial Instruments: Recognition and Measurement.*
- To qualify, a reporting company's activities need to be predominantly connected with insurance.

Entities applying the temporary exemption will need to disclose fair value information separately for financial assets that meet the exemption criteria and for all other financial assets.

Overlay approach

For designated financial assets, a company is permitted to reclassify between profit or loss and other comprehensive income (OCI), the difference between the amounts recognised in profit or loss under IFRS 9 and those that would have been reported under IAS 39.

There are new qualitative and quantitative disclosure requirements to describe how the adjustment is calculated and the effect on the financial statements.

The Group is assessing the impact that this amendment will have on its 2019 financial statements.

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

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

(vi) IFRIC 22 *Foreign Currency Transactions and Advance Consideration*, effective for annual reporting periods beginning on or after January 1, 2018, addresses how to determine the transaction date when an entity recognises a non-monetary asset or liability (e.g. non-refundable advance consideration in a foreign currency) before recognising the related asset, expense or income. It is not applicable when an entity measures the related asset, expense or income on initial recognition at fair value or at the fair value of the consideration paid or received at the date of initial recognition of the non-monetary asset or liability.

An entity is not required to apply this interpretation to income taxes or insurance contracts that it issues or reinsurance contracts held.

The interpretation clarifies that the transaction date is the date on which the company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date.

The Group is assessing the impact that this interpretation will have on its 2019 financial statements.

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

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

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

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

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

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

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

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

Prepayment features with negative compensation

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

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

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

Modifications to financial liabilities

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

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

(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.

Subsidiaries are those entities controlled by the Group. The Group 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.

The company and its subsidiaries are collectively referred to as “the Group”.

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

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

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

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

(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.

2. Summary of significant accounting policies (continued)

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

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

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

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

Fee and commission income

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

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

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

Premium income

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

Dividend income

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

(f) Interest expense

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

2. Summary of significant accounting policies (continued)

(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.

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 cash surrender value incurred in the period are recorded as expenses in the statement of revenue and expenses.

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

(h) Claims

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

(i) Reinsurance contracts held

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

(j) Policyholders' liabilities

The policyholders' liabilities have been calculated using the Policy Premium Method (PPM) of valuation. Under this method, explicit allowance is made for all future benefits and expenses under the policies. The premiums, benefits and expenses for each policy are projected and the resultant future 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 38(a)].

2. Summary of significant accounting policies (continued)

(k) Taxation

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

Current income tax

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

Deferred income tax

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realised or the liability will be settled based on enacted rates.

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

(l) Financial assets and liabilities

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

Recognition

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

Derecognition

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

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

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

Measurement

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

2. Summary of significant accounting policies (continued)

(l) Financial assets and liabilities (continued)

Measurement (continued)

The measurement of financial assets subsequent to initial recognition depends upon their classification as set out in note 2(m) below, namely: loans and receivables are measured at amortised cost; held-to-maturity investments are measured at amortised cost; investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably determined are measured at cost.

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

(m) Financial assets classification and impairment

Classification

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

Financial assets at fair value through profit or loss

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

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

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

Loans and receivables

See details at note 2(p).

Held-to-maturity

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

Available-for-sale

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

Identification and measurement of impairment

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

2. Summary of significant accounting policies (continued)

(m) Financial assets classification and impairment (continued)

Identification and measurement of impairment (continued)

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

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

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

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

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

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

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

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

(o) 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.

2. Summary of significant accounting policies (continued)

(p) Loans and receivables and allowance for impairment losses

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

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

The Group considers a loan to be impaired when there is objective evidence of impairment as a result of one or more loss events that occurred after the date of initial recognition of the loan and the loss event has an impact on the estimated future cash flows of the loan that can be reliably estimated. An allowance for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms of loans. Objective evidence is represented by observable data that comes to the attention of the Group and includes events that indicate:

(i) significant financial difficulty of the borrower;

(ii) default or delinquency in interest or principal amounts;

(iii) the probability of the borrower entering a phase of bankruptcy or financial reorganisation;

(iv) measurable decrease in the estimated future cash flows from the loan.

The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the impaired loans.

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

The recognition of interest on impaired loans in accordance with the regulations differs from IFRS, which requires that interest on the impaired asset continues to be recognised through the unwinding of the discount that was applied to the estimated future cash flows. The difference is not considered material.

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

(q) 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.

(r) Acceptances and guarantees

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

(s) Property, plant and equipment

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

2. Summary of significant accounting policies (continued)

(s) Property, plant and equipment (continued)

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

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

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

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

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

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

(t) Investment in subsidiaries

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

(u) Goodwill and intangible assets

Intangible assets acquired separately

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

Intangible assets acquired in a business combination

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

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

Impairment of tangible and intangible assets excluding goodwill

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

2. Summary of significant accounting policies (continued)

(u) Goodwill and intangible assets (continued)

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.

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.

(v) Employee benefits

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

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

2. Summary of significant accounting policies (continued)

(v) Employee benefits (continued)

Pension obligations

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

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

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

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

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

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

Termination benefits

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

Other post-retirement obligations

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

Equity compensation benefits

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

2. Summary of significant accounting policies (continued)

(v) Employee benefits (continued)

Equity compensation benefits (continued)

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

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

Annual leave

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

Defined contribution plan

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

(w) 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.

(x) Share capital

Classification

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

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

Share issue costs

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

Dividends

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

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

(y) Leases

As lessee

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

2. Summary of significant accounting policies (continued)

(y) Leases (continued)

As lessee (continued)

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

As lessor

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

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

(z) 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.

(aa) 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.

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

Impairment losses on loans and advances

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

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

Valuation of financial instruments

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

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

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

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

The liabilities under long-term insurance contracts have been determined using the Policy Premium Method of valuation, which is outlined in note 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 38.

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.

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

Recognition and measurement of intangible assets

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

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

Income taxes

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

4. Responsibilities of the appointed actuary and external auditors

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

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

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, mortgages, and microfinance;

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

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

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

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

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

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

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

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

(Expressed in thousands of Jamaican dollars unless otherwise stated)

5. Segmental financial information (continued)

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

(Expressed in thousands of Jamaican dollars unless otherwise stated)

5. Segmental financial information (continued)

	The Group 2017							
	Banking							
	Retail	Corporate and Commercial	Treasury	Investment Management Services	Insurance Services	Other	Eliminations	Group
Net external revenues	19,563,588	7,900,452	5,441,887	3,357,600	5,337,953	69,811	-	41,671,291
Revenue from other segments	(529,433)	2,208,796	(1,971,856)	143,941	107,266	23,644	17,642	-
Total revenues	19,034,155	10,109,248	3,470,031	3,501,541	5,445,219	93,455	17,642	41,671,291
Total expenses and losses	(13,744,386)	(6,525,093)	(556,335)	(1,231,573)	(1,288,681)	(44,473)	(79,292)	(23,469,833)
Profit before tax	5,289,769	3,584,155	2,913,696	2,269,968	4,156,538	48,982	(61,650)	18,201,458
Taxation								(5,794,168)
Profit for the year								**12,407,290**
Segment assets	114,999,461	70,042,301	163,571,362	61,920,634	57,151,482	21,183,941	(25,186,006)	463,683,175
Unallocated assets								27,199,506
Total assets								**490,882,681**
Segment liabilities	151,314,231	140,227,828	-	46,257,134	45,854,991	47,744	(12,400,932)	371,300,996
Unallocated liabilities								17,150,119
Total liabilities								**388,451,115**
Other segment items:								
Capital expenditure	187,619	243,538	-	20,362	7,452	-	-	458,971
Impairment losses on loans	2,049,037	143,263	-	(13,808)	-	-	-	2,178,492
Depreciation and amortisation	362,236	182,814	-	134,526	5,164	-	-	684,740

(Expressed in thousands of Jamaican dollars unless otherwise stated)

6. Net interest income

	The Group		The Company	
	2018	2017	2018	2017
Interest income:				
Deposits with banks and other financial institutions	1,635,538	4,221,355	207,707	109,991
Investment securities	6,038,833	7,859,105	-	48,027
Financial assets at fair value through profit or loss	2,541	222,566	-	-
Reverse repurchase agreements	16,955	107,925	-	-
Loans and advances	20,717,231	18,554,986	5,279	19,714
	28,411,098	30,965,937	212,986	177,732
Interest expense:				
Banks and customers	1,508,215	1,546,806	-	-
Repurchase agreements	274,741	1,156,862	-	-
Policyholders' liabilities	1,400,860	1,533,751	-	-
Other	19,504	84,415	-	-
	3,203,320	4,321,834	-	-
Net interest income	25,207,778	26,644,103	212,986	177,732

7. Net fee and commission income

	The Group	
	2018	2017
Fee and commission income:		
Retail banking fees	5,057,306	5,193,872
Credit related fees	1,299,058	1,251,766
Commercial and depository fees	6,759,856	6,400,096
Insurance related fees	231,770	199,061
Trust and other fiduciary fees	51,470	51,662
Asset management and related fees	1,494,678	1,329,368
	14,894,138	14,425,825
Fee and commission expenses	(6,767,110)	(5,787,463)
	8,127,028	8,638,362

8. Net gains on foreign currency activities and financial assets

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

(b) Net gains on financial assets:

	The Group		The Company	
	2018	2017	2018	2017
Gains on securities held for trading	376,462	342,128	-	-
Gains/(losses) on available-for-sale investments	784,356	401,434	-	(535)
Gains on equities	-	290,790	-	-
	1,160,818	1,034,352	-	(535)

(Expressed in thousands of Jamaican dollars unless otherwise stated)

9. Insurance revenue

	The Group	
	2018	2017
Gross premiums		
Individual life	932,756	846,574
Group life	1,353,286	1,277,062
	2,286,042	2,123,636
Reinsurance ceded	(377)	(539)
	2,285,665	2,123,097
Changes in actuarial reserves	645,962	661,935
	2,931,627	2,785,032

10. Other revenue

	The Group	
	2018	2017
(Loss)/gain on sale of property, plant and equipment	(1,878)	46,460
Dividend and other income	31,175	28,555
	29,297	75,015

11. Salaries, pensions and other staff benefits

	The Group	
	2018	2017
Wages and salaries	9,001,681	8,728,330
Statutory payroll contributions	801,081	765,964
Other staff benefits	1,533,737	1,547,749
	11,336,499	11,042,043
Post-employment benefits		
Pension credit on defined benefit plan [note 29(a)(v)]	(1,445,568)	(850,235)
Other post-retirement benefits [note 29(b)(ii)]	555,889	449,333
	(889,679)	(400,902)
Total (note 12)	10,446,820	10,641,141

12. Expenses by nature

	The Group		The Company	
	2018	2017	2018	2017
Salaries, pension contributions and other staff benefits (note 11)	10,446,820	10,641,141	-	-
Property expenses, including depreciation	2,140,995	2,113,257	-	-
Amortisation and impairment of intangible assets	154,552	146,897	-	-
Systems related expenses	1,531,751	1,301,089	-	-
Insurance claims and benefits	191,616	199,686	-	-
Transportation and communication	968,977	1,204,405	3,501	3,659
Marketing and advertising	463,443	668,321	-	-
Professional, legal and consultancy fees	599,801	489,031	36,359	37,592
Technical and support services	2,756,188	1,737,342	-	-
Deposit insurance	436,148	410,412	-	-
Stationery	322,350	385,666	2,516	1,027
Asset tax	1,089,022	1,068,710	200	200
Licensing and other regulatory fees	159,290	144,613	-	-
Other operating expenses	739,679	780,771	2,240	1,995
	22,000,632	21,291,341	44,816	44,473

(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	
	2018	2017	2018	2017
Auditors' remuneration	52,479	53,593	6,914	6,914
Depreciation of property, plant and equipment	567,648	537,843	-	-
Amortisation and impairment of intangible assets	154,552	146,897	-	-
Directors' emoluments:				
Fees	22,630	29,946	11,692	14,673
Management remuneration	58,235	57,236	-	-
Operating lease rentals	451,624	451,235	-	-

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	
	2018	2017	2018	2017
Current income tax:				
Income tax at 33⅓%	3,781,195	4,519,136	-	-
Income tax at 30%	455,918	410,888	-	-
Income tax 25%	1,096,376	1,071,442	34,160	36,180
Adjustment for over provision of prior year's charge	(5,275)	-	-	-
Deferred income tax [note 36(a)]	193,498	(207,298)	7,888	(2,860)
	5,521,712	5,794,168	42,048	33,320

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

	The Group		The Company	
	2018	2017	2018	2017
Profit before taxation	18,292,628	18,201,458	13,774,576	5,670,424
Tax calculated at 25%	-	-	3,443,644	1,417,606
Tax calculated at 33⅓%	6,097,543	6,067,153	-	-
Adjusted for the tax effects of:				
Different tax regimes applicable to the life insurance and mortgage financing subsidiaries and non-regulated entities	(548,935)	(450,120)	-	-
Income not subject to tax	(386,024)	(296,643)	(3,116,772)	(1,405,361)
Expenses not deductible for tax purposes	364,265	359,774	65	65
Prior period over provision	(5,275)	-	-	-
Other charges and allowances	138	114,004	(284,889)	21,010
	5,521,712	5,794,168	42,048	33,320
Effective tax rate	30.19%	31.83%	0.31%	0.59%

(Expressed in thousands of Jamaican dollars unless otherwise stated)

15. Earnings per stock unit

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

	2018	2017
Profit for the year attributable to stockholders of the Company	12,770,916	12,174,742
Weighted average number of ordinary stock units in issue ('000)	3,111,573	3,111,573
Earnings per stock unit (expressed in $)	4.10	3.91

16. Cash and balances at Bank of Jamaica

	The Group	
	2018	2017
Statutory reserves – non-interest bearing (note 19)	37,885,689	34,506,620
Cash in hand and other balances at Bank of Jamaica	31,184,728	26,634,157
	69,070,417	61,140,777

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

Relevant legislation	Entity	Reserve percentage			
		Jamaican		Foreign currency	
		2018	2017	2018	2017
Banking Services Act, Section 14(i)	BNSJ	12%	12%	15%	15%
Building Society Regulations Section 31	SJBS	1%	1%	1%	1%

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

17. Due from other banks

	The Group	
	2018	2017
Items in course of collection from other banks	349,952	574,205
Placements with other banks	17,223,277	19,753,846
	17,573,229	20,328,051

18. Accounts with parent and fellow subsidiaries

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

(Expressed in thousands of Jamaican dollars unless otherwise stated)

19. Cash and cash equivalents

	The Group		The Company	
	2018	2017	2018	2017
Cash resources	122,762,983	116,476,559	15,646,295	7,466,320
Less amounts not considered cash and cash equivalents:				
Statutory reserves (note 16)	(37,885,689)	(34,506,620)	-	-
Other balances at Bank of Jamaica	-	(655,915)	-	-
Cheques and other instruments in transit	(3,008,914)	(2,285,240)	-	-
Accounts with parent and fellow subsidiaries greater than ninety days	(12,273,822)	(6,278,622)	(12,273,822)	(6,278,622)
Accrued interest	(83,815)	(42,462)	(44,477)	(12,926)
	69,510,743	72,707,700	3,327,996	1,174,772
Add other cash equivalent balances:				
Repurchase agreements less than ninety days (note 25)	300,000	1,200,000	-	-
Pledged assets less than ninety days (note 21)	1,043,971	128,557	-	-
	70,854,714	74,036,257	3,327,996	1,174,772
Cash and cash equivalents is comprised of:				
Cash and balances with Bank of Jamaica other than statutory reserves	31,184,728	25,978,241	-	-
Government and bank notes other than Jamaican	898,300	890,257	-	-
Amounts due from other banks	17,573,229	20,328,051	-	-
Accounts with parent and fellow subsidiaries	22,947,215	27,838,853	3,372,473	1,187,698
Repurchase agreements	300,000	1,200,000	-	-
Pledged assets	1,043,971	128,557	-	-
Accrued interest	(83,815)	(42,462)	(44,477)	(12,926)
	73,863,628	76,321,497	3,327,996	1,174,772
Cheques and other instruments in transit	(3,008,914)	(2,285,240)	-	-
	70,854,714	74,036,257	3,327,996	1,174,772

20. Financial assets at fair value through profit or loss

	The Group	
	2018	2017
Government of Jamaica Securities	23,633	8,025
Accrued interest	542	130
	24,175	8,155

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 2018	The Group 2017
Investment securities pledged as collateral for securities sold under repurchase agreements	32,741	18,553,635
Capital Management and Government Securities funds	19,845,766	13,397,939
Securities with regulators, clearing houses and other financial institutions	1,554,672	5,301,651
	21,433,179	37,253,225

Included in pledged assets are the following categories of assets:

	The Group 2018	The Group 2017
Deposits with financial institutions	6,403,160	5,687,967
Government issued securities:		
Available-for-sale	5,106,678	20,985,867
Held-to-maturity	529,133	522,974
Loans	1,308,082	1,313,327
Unitised funds:		
Available-for-sale	1,749,483	1,707,268
Other:		
Available-for-sale	6,336,643	7,035,822
	21,433,179	37,253,225

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 2018	The Group 2017
Debt securities and other investments with an original maturity of less than ninety days (note 19)	1,043,971	128,557

22. Loans, after allowance for impairment losses

	The Group 2018	The Group 2017	The Company 2018	The Company 2017
Business and Government	72,430,744	61,830,726	-	180,000
Personal and credit cards	78,062,100	76,378,256	-	-
Residential mortgages	33,309,094	29,582,997	-	-
Interest receivable	1,020,983	1,021,416	-	-
	184,822,921	168,813,395	-	180,000
Less: Allowance for impairment losses (note 23)	(2,215,663)	(2,319,804)	-	-
	182,607,258	166,493,591	-	180,000

(Expressed in thousands of Jamaican dollars unless otherwise stated)

22. Loans, after allowance for impairment losses (continued)

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

	The Group	
	2018	2017
Neither past due nor impaired	170,589,863	149,654,990
Past due but not impaired		
Past due 1-30 days	6,608,328	10,030,423
Past due 31-60 days	2,053,945	2,542,793
Past due 61-90 days	861,830	1,050,099
	9,524,103	13,623,315
Impaired:		
Past due more than 90 days	3,687,971	4,513,674
Interest receivable	1,020,984	1,021,416
Gross loan portfolio	184,822,921	168,813,395
Less: Allowance for impairment losses	(2,215,663)	(2,319,804)
Loans, after allowance for impairment losses	182,607,258	166,493,591

There were no financial assets other than those included above that were individually impaired at the reporting date.

(ii) Repossessed collateral

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

23. Impairment losses on loans

	The Group	
	2018	2017
Total impaired loans	3,687,971	4,513,674
Allowance at beginning of year	2,319,804	1,907,797
Provided during the year	3,192,042	3,761,229
Bad debts written off	(3,296,183)	(3,290,613)
Reclassified as held for sale	-	(58,609)
Allowance at end of year (note 22)	2,215,663	2,319,804
Provided during the year	3,192,042	3,761,229
Recoveries of bad debts	(1,274,053)	(1,582,737)
Impairment losses reported in profit for the year	1,917,989	2,178,492

A loan is classified as impaired if its book value exceeds the present value of the expected cash flows from interest payments, principal repayments, guarantees, and proceeds of liquidation of collateral. As at October 31, 2018, provisions for credit losses are made on all impaired loans. Uncollected interest not accrued on impaired loans is estimated at $1,360,536 (2017: $2,089,051) for the Group.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

23. Impairment losses on loans (continued)

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

	The Group	
	2018	2017
Allowance based on IFRS - [see (a) below]	2,215,663	2,319,804
Additional allowance based on BOJ regulations [see (b) below]	2,377,843	2,687,050
	4,593,506	5,006,854

(a) This is the allowance based on the requirements of IAS 39, *Financial Instruments: Recognition and Measurement*.

(b) This represents the additional allowance to meet the Bank of Jamaica loan loss provisioning requirements. A non-distributable loan loss reserve was established to represent the excess of the provision required by BOJ over the IAS 39 requirements (note 44).

24. Investment securities

	The Group	
	2018	2017
Available-for-sale (AFS)		
Unquoted shares	5,105	5,105
Government securities	115,107,162	86,146,734
Bank of Jamaica securities	-	2,774,245
Treasury bills	5,067,101	292,426
Corporate bonds	13,354,654	28,779,401
Other	298,740	274,669
Interest receivable	900,024	993,927
	134,732,786	119,266,507
Held-to-Maturity (HTM)		
Government securities	-	1,023,002
Interest receivable	-	3,071
	-	1,026,073
Total investments securities	134,732,786	120,292,580

Included in investment securities are Government of Jamaica Benchmark Investment Notes with a book value of $90,000 (2017: $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.

The debt securities include fixed rate and variable rate instruments. The Group did not reclassify any HTM Securities (measured at amortised cost) to AFS securities (measured at fair value), during the year.

25. Government securities purchased under resale agreements

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

	The Group	
	2018	2017
Reverse repurchase agreements with an original maturity of less than 90 days (note 19)	300,000	1,200,000
Interest receivable	473	3,495
	300,473	1,203,495

The fair value of collateral held pursuant to reverse repurchase agreements is $315,068 (2017: $1,256,993).

(Expressed in thousands of Jamaican dollars unless otherwise stated)

26. Sundry assets

	The Group	
	2018	2017
Accounts receivable and prepayments	545,809	261,403
Deferred charges	1,115,096	1,154,298
Other	767,189	658,610
	2,428,094	2,074,311

27. Property, plant and equipment

	The Group				
	Freehold Land and Buildings	Leasehold Improvements	Furniture, Fixtures, Motor vehicles & Equipment	Capital Work- in-Progress	Total
Cost					
October 31, 2016	4,297,758	498,262	6,184,293	500,622	11,480,935
Additions	15,892	6,244	41,327	362,819	426,282
Disposals	(56,664)	-	(20,000)	-	(76,664)
Transfers	47,573	9,510	526,352	(583,435)	-
Reclassified as held for sale	-	(3,942)	(17,057)	-	(20,999)
October 31, 2017	4,304,559	510,074	6,714,915	280,006	11,809,554
Additions	12,958	3,513	60,414	478,050	554,935
Disposals	-	-	(37,757)	-	(37,757)
Transfers	39,918	9,752	452,587	(502,257)	-
October 31, 2018	4,357,435	523,339	7,190,159	255,799	12,326,732
Depreciation					
October 31, 2016	742,473	468,568	4,793,304	-	6,004,345
Charge for the year	126,967	7,076	403,800	-	537,843
Eliminated on disposals	(22,818)	-	(20,000)	-	(42,818)
Reclassifed as held for sale	-	(2,181)	(9,790)	-	(11,971)
October 31, 2017	846,622	473,463	5,167,314	-	6,487,399
Charge for the year	91,594	15,708	460,346	-	567,648
Eliminated on disposals	-	-	(32,213)	-	(32,213)
October 31, 2018	938,216	489,171	5,595,447	-	7,022,834
Net book values					
October 31, 2018	3,419,219	34,168	1,594,712	255,799	5,303,898
October 31, 2017	3,457,937	36,611	1,547,601	280,006	5,322,155
October 31, 2016	3,555,285	29,694	1,390,989	500,622	5,476,590

(Expressed in thousands of Jamaican dollars unless otherwise stated)

28. Goodwill and intangible assets

	The Group					
	Customer relationships	Contract-Based intangibles	License	Goodwill	Computer software	Total
Cost						
October 31, 2016	1,382,582	348,987	49,470	136,892	421,636	2,339,567
Additions	-	-	-	-	32,689	32,689
Reclassified as held-for-sale	-	-	-	-	(74)	(74)
October 31, 2017	1,382,582	348,987	49,470	136,892	454,251	2,372,182
Additions	-	-	-	-	22,323	22,323
October 31, 2018	1,382,582	348,987	49,470	136,892	476,574	2,394,505
Amortisation						
October 31, 2016	848,699	71,574	5,333	40,229	165,307	1,131,142
Amortisation for the year	88,492	-	-	-	58,405	146,897
October 31, 2017	937,191	71,574	5,333	40,229	223,712	1,278,039
Amortisation for the year	88,492	-	-	-	66,060	154,552
October 31, 2018	1,025,683	71,574	5,333	40,229	289,772	1,432,591
Net book values						
October 31, 2018	356,899	277,413	44,137	96,663	186,802	961,914
October 31, 2017	445,391	277,413	44,137	96,663	230,539	1,094,143
October 31, 2016	533,883	277,413	44,137	96,663	256,329	1,208,425

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	
	2018	2017
Defined benefit pension plan (a)	34,517,087	25,020,925
Other post-retirement benefits (b)	(4,727,215)	(3,884,186)
	29,789,872	21,136,739

(a) Defined benefit pension plan

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

	The Group	
	2018	2017
Present value of funded obligations (iii)	(36,033,524)	(31,928,705)
Fair value of plan assets (iv)	70,550,611	60,654,296
	34,517,087	28,725,591
Limitation of economic benefit	-	(3,704,666)
Asset in the statement of financial position	34,517,087	25,020,925

(Expressed in thousands of Jamaican dollars unless otherwise stated)

29. Retirement benefits asset/obligations (continued)

(a) Defined benefit pension plan (continued)

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

	The Group	
	2018	2017
Balance at beginning of year	25,020,925	17,366,400
Contributions paid	500	500
Pension income recognised in profit or loss (v)	1,445,568	850,235
Remeasurement recognised in other comprehensive income (vi)	8,050,094	6,803,790
Balance at end of year	34,517,087	25,020,925

(iii) Movement in the present value of obligation:

	The Group	
	2018	2017
Balance at beginning of year	(31,928,705)	(27,555,249)
Current service costs	(734,271)	(616,756)
Interest cost	(2,811,469)	(2,430,425)
Employees' contribution	(526,537)	(512,709)
Benefits paid	1,359,907	1,442,042
Actuarial gains arising from:		
Experience adjustments	421,132	524,968
Changes in demographic assumptions	812,919	-
Changes in financial assumptions	(2,626,500)	(2,780,576)
Balance at end of year	(36,033,524)	(31,928,705)

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

	The Group	
	2018	2017
Fair value of plan assets at beginning of year	60,654,296	50,685,637
Contributions	527,037	513,209
Benefits paid	(1,359,907)	(1,442,042)
Interest income on plan assets	5,418,788	4,531,433
Administrative fees	(94,060)	(115,258)
Remeasurement gain on plan assets included in other comprehensive income	5,404,457	6,481,317
Fair value of plan assets at end of year	70,550,611	60,654,296

Plan assets consist of the following:

	The Group	
	2018	2017
Government stocks and bonds	42,592,204	36,477,739
Quoted equities	23,441,002	17,811,184
Reverse repurchase agreements	509,908	255,389
Certificates of deposit	220,290	929,444
Real estate	3,562,971	3,034,655
Net current assets	224,236	2,145,885
	70,550,611	60,654,296

(Expressed in thousands of Jamaican dollars unless otherwise stated)

29. Retirement benefits asset/obligations (continued)

(a) Defined benefit pension plan (continued)

(v) Components of defined benefit credit recognised in profit and loss for the year:

	The Group	
	2018	2017
Current service costs	734,271	616,756
Interest cost on obligation	2,811,469	2,430,425
Interest income on plan assets	(5,418,788)	(4,531,433)
Interest on effect of asset ceiling	333,420	518,759
Administrative fees	94,060	115,258
	(1,445,568)	(850,235)

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

	The Group	
	2018	2017
Remeasurement of defined benefit obligations	1,392,449	2,255,608
Remeasurement of plan assets	(5,404,457)	(6,481,317)
Change in effect on asset ceiling	(4,038,086)	(2,578,081)
	(8,050,094)	(6,803,790)

(vii) Sensitivity analysis on projected benefit obligation:

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

	The Group			
	2018		2017	
	1 % Increase	1 % Decrease	1 % Increase	1% Decrease
Discount rate	5,634,000	(5,134,000)	6,601,000	(4,405,000)
Future pension increases	4,221,000	(2,659,000)	3,275,000	(2,763,000)
Future salary increases	1,458,000	(1,305,000)	1,567,000	(1,377,000)

(viii) Liability duration

The average liability duration is as follows:

	The Group	
	2018	2017
Active members and all participants (years)	16.6	16.3

(ix) The estimated pension contributions to be paid into the defined benefit and contribution plans during the next financial year is $500 (2017: $500).

(Expressed in thousands of Jamaican dollars unless otherwise stated)

29. Retirement benefits asset/obligations (continued)

(a) Defined benefit pension plan (continued)

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

	The Group	
	2018	2017
Discount rate	7.50%	9.00%
Future salary increases	6.50%	6.50%
Future pension increases	3.50%	5.00%

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

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

	The Group	
	2018	2017
Balance at beginning of year	(3,884,186)	(3,191,557)
Current service costs	(211,193)	(166,496)
Interest cost	(344,696)	(282,837)
Benefits paid	126,069	100,996
Actuarial gains arising from:		
Experience adjustments	77,624	252,281
Changes in financial assumptions	(758,912)	(572,490)
Changes in demographic assumptions	268,079	(24,083)
Balance at end of year	(4,727,215)	(3,884,186)

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

	The Group	
	2018	2017
Current service costs	211,193	166,496
Interest on obligation	344,696	282,837
	555,889	449,333

(iii) Charge recognised in other comprehensive income:

	The Group	
	2018	2017
Experience adjustments	(77,624)	(252,281)
Changes in financial and demographic assumptions	490,833	596,573
	413,209	344,292

(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 6.0% (2017: 6.5%) 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.

(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)

(v) Sensitivity analysis on projected benefits obligation (continued)

	The Group			
	2018		2017	
	1% Increase	1% Decrease	1% Increase	1% Decrease
Discount rate	(736,000)	953,000	(604,000)	784,000
Future pension increases	861,000	(678,000)	724,000	(567,000)
Future salary increases	15,000	(13,000)	12,000	(11,000)

(vi) Liability duration

The average liability duration is as follows:

	The Group	
	2018	2017
Active members and all participants (years)	18.3	18.5

30. Deposits by the public

	The Group	
	2018	2017
Personal	149,616,835	138,202,024
Business	138,235,687	122,251,924
Interest payable	95,857	105,519
	287,948,379	260,559,467

Deposits include $830,892 (2017: $16,323) held as collateral for irrevocable commitments under letters of credit.

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, in the normal course of business.

32. Due to ultimate parent company

	The Group	
	2018	2017
The Bank of Nova Scotia:		
Facility I	1,101,989	1,636,039
Facility II	1,765,080	2,246,127
	2,867,069	3,882,166
Interest payable	36,197	48,913
	2,903,266	3,931,079
Deposits held with Bank	407,734	13,631
	3,311,000	3,944,710

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

(Expressed in thousands of Jamaican dollars unless otherwise stated)

32. Due to ultimate parent company (continued)

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

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

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	
	2018	2017
Accrued staff benefits	2,216,051	1,676,481
Prepaid letters of credit	695,383	27,712
Provisions	404,942	475,361
Accrued liabilities	3,120,401	3,469,171
	6,436,777	5,648,725

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	
	2018	2017	2018	2017
Balance at beginning of year	(7,624,624)	(5,689,368)	(3,231)	(6,400)
Recognised in the profit for the year (note 14)	(193,498)	207,298	(7,888)	2,860
Recognised in other comprehensive income				
Remeasurement of defined benefits asset/obligations	(2,545,628)	(2,153,166)	-	-
Available-for-sale investments				
- fair value remeasurement	(255,300)	(92,697)	-	-
- transfer to profit	(105,994)	101,800	-	309
	(2,906,922)	(2,144,063)	-	309
Other	2,122	1,509	-	-
Balances at end of year	(10,722,922)	(7,624,624)	(11,119)	(3,231)

(Expressed in thousands of Jamaican dollars unless otherwise stated)

36. Deferred tax assets and liabilities (continued)

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

	The Group		The Company	
	2018	2017	2018	2017
Pension benefits	(11,507,560)	(8,342,340)	-	-
Other post-retirement benefits	1,576,172	1,295,162	-	-
Available-for-sale investments	(592,429)	(231,135)	-	-
Vacation accrued	144,979	133,060	-	-
Accelerated tax depreciation	(31,269)	(79,012)	-	-
Impairment losses on loans	(215,050)	(385,480)	-	-
Interest receivable	(207,003)	(211,803)	(11,119)	(3,231)
Unrealised net premiums on AFS securities	88,812	176,498	-	-
Other	20,426	20,426	-	-
Net deferred income tax liability	(10,722,922)	(7,624,624)	(11,119)	(3,231)

	The Group		The Company	
	2018	2017	2018	2017
This is comprised of:-				
Deferred income tax asset	67,105	176,310	-	-
Deferred income tax liability	(10,790,027)	(7,800,934)	(11,119)	(3,231)
	(10,722,922)	(7,624,624)	(11,119)	(3,231)

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

	The Group		The Company	
	2018	2017	2018	2017
Accelerated tax depreciation	(47,743)	(47,902)	-	-
Pensions and other post retirement benefits	338,583	167,033	-	-
Allowance for loan impairment	(170,430)	(147,704)	-	-
Vacation accrued	(11,919)	(5,733)	-	-
Interest receivable	(4,800)	(70,604)	7,888	(2,860)
Unrealised premiums/(discount) on AFS securities	87,686	(63,287)	-	-
Other	2,121	(39,101)	-	-
	193,498	(207,298)	7,888	(2,860)

37. Assets and liabilities held for sale

On December 1, 2017 the Group disposed of its shares in Scotia Jamaica Microfinance Company Limited. This transaction is in line with the Group's strategic direction to simplify its operations, focus on growing its core banking, insurance and investment business and deliver value to shareholders. Consequently, as at October 31, 2017, the assets and liabilities of the subsidiary were presented as held for sale.

(a) Assets classified as held for sale:

	The Group	
	2018	2017
Cash resources	-	7
Loans, after allowance for impairment	-	646,605
Deferred tax assets	-	8,129
Property, plant and equipment	-	9,028
Other assets	-	647
	-	664,416

(Expressed in thousands of Jamaican dollars unless otherwise stated)

37. Assets and liabilities held for sale (continued)

(b) Liabilities classified as held for sale:

	The Group	
	2018	2017
Accrued charges	-	5,544
Accounts payables	-	11,966
Taxation payable	-	19,762
	-	37,272

(c) Analysis of asset and liabilities disposed of:

	2018	2017
Cash and cash equivalents	80,983	-
Loans	642,545	-
Other assets	14,464	-
Debt financing	(172,500)	-
Other liabilities	(42,887)	-
	522,605	-

(d) Net cash inflow from sale of subsidiary:

	2018	2017
Proceeds from sale	1,350,000	-
Less: cash and cash equivalents	(80,983)	-
Less: other costs	(74,250)	-
Net cash inflow	1,194,767	-

(e) Gain on sale of subsidiary:

	The Group		The Company	
	2018	2017	2018	2017
Consideration received	1,350,000	-	1,350,000	-
Net assets on sale of subsidiary	(522,605)	-	-	-
Elimination of investment in subsidiary	-	-	(200,000)	-
Transaction costs	(74,250)	-	(74,250)	-
Gain on sale of subsidiary	753,145	-	1,075,750	-

38. Policyholders' liabilities

(a) Composition of policyholders' liabilities:

	The Group	
	2018	2017
Policyholders' fund	51,594,637	50,861,291
Benefits and claims payable	181,629	188,801
Unprocessed premiums	12,639	14,902
Annuity fund	539,869	493,549
Insurance risk reserve - Individual life	(8,055,034)	(7,137,546)
- Individual accident and sickness	357,126	242,782
- Universal life	(31,722)	(72,821)
- Whole life	112,474	61,988
- Group life	580,711	518,210
	45,292,329	45,171,156

(Expressed in thousands of Jamaican dollars unless otherwise stated)

38. Policyholders' liabilities (continued)

(b) Movement in policyholders' liabilities:

	The Group 2018	The Group 2017
Policyholders' fund:		
At beginning of year	50,861,291	49,956,739
Gross premium	5,111,179	5,276,527
Disbursements	(5,779,629)	(5,905,726)
Interest credited	1,401,796	1,533,751
At end of year	51,594,637	50,861,291

	The Group 2018	The Group 2017
Benefits and claims payable:		
At beginning of year	188,801	170,182
New claims and benefits made during the year	184,444	218,305
Benefits and claims paid	(191,616)	(199,686)
At end of year	181,629	188,801

	The Group 2018	The Group 2017
Unprocessed premiums:		
At beginning of year	14,902	(9,427)
Premiums received	7,536,105	7,564,968
Premiums applied	(7,538,368)	(7,540,639)
At end of year	12,639	14,902
Annuity fund:		
At beginning of year	493,549	374,283
Issue of new annuities	62,483	133,172
Payments	(35,660)	(30,986)
Interest credited	19,497	17,080
At end of year	539,869	493,549

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

	2017		
	Individual life	Group life	Total
Insurance risk reserve:			
At beginning of year	(6,297,064)	569,872	(5,727,192)
Changes in assumptions	(596,765)	(45,101)	(641,866)
Normal changes	(11,768)	(6,561)	(18,329)
At end of year	(6,905,597)	518,210	(6,387,387)

(Expressed in thousands of Jamaican dollars unless otherwise stated)

39. Share capital

	Number of Units ('000)		Carrying value	
	2018	2017	2018	2017
Authorised:				
Ordinary shares of no par value	10,000,000	10,000,000		
Issued and fully paid:				
Ordinary stock units	3,111,573	3,111,573	6,569,810	6,569,810

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

40. Reserve fund

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

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

41. 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.

42. Capital reserve

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

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

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

44. Loan loss reserve

This is a non-distributable loan loss reserve which represents the excess of the regulatory loan loss provision over the impairment allowances determined under IFRS requirements (note 23).

45. Other reserves

This represents reserves arising on consolidation of subsidiaries

46. Non-controlling interest

Effective September 29, 2017, the Company acquired the non-controlling interest and SIJL became a wholly owned subsidiary of Scotia Group Jamaica Limited (see note 1). Accordingly, the revenue, expenses and cash flows relating to SIJL for 2017 is for the period November 1, 2016 to September 30, 2017.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

46. Non-controlling interest (continued)

Statement of revenue and expenses for the year ended October 31, 2017

	2017
Total operating income	2,972,524
Profit for the year	1,092,567
Other comprehensive income	103,844
Total comprehensive income	1,196,411
Profit allocated to non-controlling interest	232,548
Other comprehensive income allocated to non-controlling interest	23,873
	256,421

Statement of cash flows

Cash flows from operating activities	391,257
Cash flows from investing activities	(176,015)
Cash flows from financing activities	(131,360)
Net increase in cash and equivalents	83,882
Dividends paid to non-controlling interest	131,360

47. Related party transactions and balances

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

Parties are considered to be related if one party has the ability to control or exercise significant influence over, or be controlled or significantly influenced by the other party, or both parties are subject to common control or significant influence.

A number of banking transactions are entered into with related parties, including companies connected by virtue of common directorships in the normal course of business. These include loans, deposits, investment management services and foreign currency transactions.

Related party transactions with the parent company include the payment of dividends. Related party transactions with the ultimate parent company comprise the payment of dividends, management fees, guarantee fees, centralised computing and other service fees. There was no balance due to the ultimate parent company, other than the loans payable as set out in note 32. No impairment losses have been recognised in respect of loans made to related parties.

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

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

(Expressed in thousands of Jamaican dollars unless otherwise stated)

47. Related party transactions and balances (continued)

	The Group					
	Ultimate parent	Fellow subsidiaries	Directors and key management personnel	Connected companies	Total 2018	Total 2017
Loans						
Balance at October 31	-	-	524,996	6,760,351	7,285,347	3,209,923
Interest income earned	-	-	35,028	723,033	758,061	308,219
Deposit liabilities						
Balance at October 31	3,311,000	178,642	473,495	4,254,075	8,217,212	6,427,346
Interest expense on deposits	194,897	-	617	10,018	205,532	266,519
Investments/repurchase agreements						
Securities sold under repurchase agreements	-	-	-	-	-	(877,229)
Interest paid on repurchase agreements	-	-	-	-	-	(25,228)
Other investments	-	342,601	-	196,793	539,394	145,409
Interest paid on other investments	-	1,388	-	16,309	17,697	(91)
Deposits with banks						
Due from banks and other financial institutions	1,149,447	34,071,590	-	-	35,221,037	39,763,179
Interest earned from banks and other financial institutions	178	744,720	-	-	744,898	368,918
Other						
Gain on redemption of units in Mutual Fund	-	-	-	-	-	413,433
Fees and commission earned	-	-	488	-	488	16,658
Insurance products	-	-	11,002	-	11,002	12,803
Technical fees paid	(1,571,093)	-	-	-	(1,571,093)	(1,110,960)
Other operating (expense)/income, net	(1,060,163)	(758,029)	-	(9,291)	(1,827,483)	(1,215,443)

	The Group 2018	The Group 2017
Key management compensation		
Salaries and other short term benefits	922,147	905,838
Post-employment benefits	(197,611)	56,353
	724,536	962,191

48. Financial risk management

(a) Overview and risk management framework

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

- extensive risk management policies define the Group's risk appetite, set the limits and controls within which the Group operates, and reflect the requirements of regulatory authorities. These policies are approved by the Group's Board of Directors, either directly or through the Executive and Enterprise Risk Committee.
- guidelines are developed to clarify risk limits and conditions under which the Group's risk policies are implemented.
- processes are implemented to identify, evaluate, document, report and control risk.
- compliance with risk policies, limits and guidelines is measured, monitored and reported to ensure consistency against desired goals.

48. Financial risk management (continued)

(a) Overview and risk management framework (continued)

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

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

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

(i) Board Audit Committee

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

(ii) Executive and Enterprise Risk Committee

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

(iii) Asset and Liability Committee

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

The Investment Advisory Committee performs a similar role to ALCO for Scotia Jamaica Life Insurance, where it provides a specialised focus due to the nature of the insurance business.

The most important types of risk for the Group are credit risk, liquidity risk, market risk, insurance risk and operational risk. Market risk includes currency risk, interest rate risk and other price risk.

(b) Credit risk

(i) Credit Risk Management

At a strategic level, the Group manages the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to any one borrower or groups of borrowers, and industry segments. Credit risk limits are approved by the Board of Directors. The exposure to any one borrower, including banks and brokers, is further restricted by sub-limits covering on and off-balance sheet exposures. Actual exposures against limits are monitored daily.

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.

48. Financial risk management (continued)

(b) Credit risk (continued)

(i) Credit Risk Management (continued)

In addition, the Group seeks additional collateral from a counterparty as soon as impairment indicators are observed for the relevant individual loans.

The Group's policy requires the review of individual financial assets that are above materiality thresholds annually or more regularly when individual circumstances require. Impairment allowances are consistent with the policies outlined in note 2(p).

The Group further manages its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with unfavourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis.

(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. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class:

The Group's rating	**External rating: Standard & Poor's equivalent.**
Excellent	AAA to AA+
Very Good	AA to A+
Good	A to A-
Acceptable	BBB+ to BB+
Higher Risk	BB and under

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:

- Excellent
- Good
- Higher Risk

(Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(b) Credit risk (continued)

(iii) Credit quality (continued)

The following table shows the percentage of the loan portfolio as at the reporting date relating to loans and credit commitments for each of the internal rating categories:

	The Group Loans and credit commitments	
	2018 (%)	2017 (%)
Excellent	25.6	26.0
Very Good	2.1	3.1
Good	25.3	26.2
Acceptable	13.8	10.9
Higher Risk	33.2	33.8
	100.0	100.0

Under the Bank of Jamaica Credit Classification, Provisioning and Non Accrual Requirements, the following classifications are used:

Standard – loans where the financial condition of the borrower is in no way impaired, and appropriate levels of cash flows or income flows are available to meet debt payments.

Special Mention – loans where credit is currently up to date and collateral values protect the Group's exposure. However, there exists evidence to suggest that certain factors could, in future, affect the borrower's ability to service the credit properly or impair the collateral.

Sub-standard – loans with well-defined credit weakness or weakness in the sector of the borrower such that cash flows are insufficient to service debt as arranged.

Doubtful – loans where collection of the debt in full is highly questionable or improbable.

Loss – loans considered uncollectible due to insolvency of the borrower. The borrower's financial position is insufficient to service or retire outstanding debt.

Using these classifications to rate credit quality, the credit profile of the Group's loan portfolio would be as set out in the following table:

	The Group	
	2018 %	2017 %
Standard	91.7	87.1
Special Mention	6.5	10.3
Sub-Standard	0.8	1.3
Doubtful	0.3	0.4
Loss	0.7	0.9
	100.0	100.0

(Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(b) Credit risk (continued)

(iii) Credit quality (continued)

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

	The Group		The Company	
	2018	2017	2018	2017
AAA to AA+	33,484,714	5,447,147	-	-
AA to A+	8,342,365	16,343,308	-	-
A to A-	4,799,336	8,183,145	-	-
BBB+ to BB+	1,289,967	4,562,505	-	-
BB to B-	122,135,485	132,562,360	-	-
Lower than B-	74	1,490,822	-	-
Unrated	1,769,663	949,325	-	-
	171,821,604	169,538,612	-	-

	The Group		The Company	
	2018	2017	2018	2017
Classified as follows:				
Deposits with Bank of Jamaica	25,396,034	20,972,988	-	-
Financial assets at fair value through profit and loss	24,175	8,155	-	-
Investment securities				
Held-to-maturity	-	1,026,073	-	-
Available-for-sale	134,428,941	118,986,733	-	-
Pledged Assets:				
Held-to-maturity	529,133	522,974	-	-
Available-for-sale	11,443,321	28,021,689	-	-
	171,821,604	169,538,612	-	-

(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 $141,902,321 (2017: $130,840,191) for the Group.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(b) Credit risk (continued)

(v) Concentration of exposure to credit risk

(1) Loans and customer liabilities under acceptances, guarantees and letters of credit

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

	The Group			
	Loans and leases	Acceptances, guarantees and letters of credit	Total 2018	Total 2017
Agriculture, fishing and mining	1,140,539	271,704	1,412,243	1,345,636
Construction and real estate	5,305,771	277,767	5,583,538	3,210,313
Distribution	15,432,331	1,028,759	16,461,090	14,998,218
Financial institutions	5,014,975	2,186,571	7,201,546	4,803,430
Government and public entities	12,130,604	841,282	12,971,886	14,966,764
Manufacturing	7,599,532	680,224	8,279,756	6,575,419
Transportation, electricity, water and other	7,957,061	1,404,226	9,361,287	6,477,491
Personal	111,276,336	4,605,079	115,881,415	110,795,853
Professional and other services	8,046,677	1,803,486	9,850,163	9,184,127
Tourism and entertainment	9,926,158	133,298	10,059,456	7,663,357
Interest receivable	992,937	-	992,937	1,021,455
Total	184,822,921	13,232,396	198,055,317	181,042,063
Total impairment allowance (note 23)			(2,215,663)	(2,319,804)
			195,839,654	178,722,259

(2) Debt securities and amounts due from other banks

The following table summarises credit exposure for debt securities and amounts due from other banks at their carrying amounts, categorised by issuer:

	The Group		The Company	
	2018	2017	2018	2017
Government of Jamaica	126,547,113	109,213,160	-	-
Bank of Jamaica	63,281,723	57,244,010	-	-
Financial institutions	59,497,899	61,336,988	15,646,295	7,466,320
Corporates and other	19,878,457	35,958,973	-	-
	269,205,192	263,753,131	15,646,295	7,466,320

Other than exposure on Government of Jamaica securities, there is no significant concentration of credit risk related to debt securities. For securities purchased under resale agreements, titles to securities are transferred to the Group for the duration of the agreement.

(c) Market risk

Market risk arises from changes in market prices and rates (including interest rates, credit spreads, equity prices and foreign exchange rates), correlations between them, and their levels of volatility. Market risk is subject to extensive risk management controls, and is managed within the framework of market risk policies and limits approved by the Board. The Executive and Enterprise Risk Committee oversee the application of the framework set by the Board, and monitor the Bank's market risk exposures and the activities that give rise to these exposures.

The Group uses various metrics and models to measure and control market risk exposures. The measurements used are selected based on an assessment of the nature of risks in a particular activity.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(c) Market risk (continued)

The principal measurement techniques are Value at Risk (VaR), stress testing, sensitivity analysis and simulation modeling and gap analysis. The Board reviews results from these metrics quarterly.

The management of the individual elements of market risks – interest rate, currency and other price risk – is as follows:

(i) Interest rate risk

Interest rate risk is the risk of loss due to the following: changes in the level, slope and curvature of the yield curve; the volatility of interest rates; changes in the market price of credit; and the creditworthiness of a particular issuer. The Group actively manages its interest rate exposures with the objective of enhancing net interest income within established risk tolerances. Interest rate risk arising from the Group's funding and investment activities is managed in accordance with Board-approved policies and limits, which are designed to control the risk to net interest income and economic value of shareholders' equity. The income limit measures the effect of a specified shift in interest rates on the Group's annual net income over the next twelve months, while the economic value limit measures the impact of a specified change in interest rates on the present value of the Group's net assets. Interest rate exposures in individual currencies are also controlled by gap limits.

Sensitivity analysis assesses the effect of changes in interest rates on current earnings and on the economic value of assets and liabilities. Stress testing scenarios are also important for managing risk in the Group's portfolios.

The following tables summarise carrying amounts of assets, liabilities and equity in order to arrive at the Group's and the Company's interest rate gap based on the earlier of contractual repricing and maturity dates.

	The Group						
	2018						
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Cash resources	28,369,823	31,183,152	12,273,822	-	-	50,936,186	122,762,983
Financial assets at fair value through profit or loss	-	-	-	-	24,175	-	24,175
Pledged assets	-	5,108,644	9,453,640	2,458,999	2,670,304	1,741,592	21,433,179
Loans (1)	52,919,784	54,495,759	18,369,571	50,788,390	4,950,267	1,083,487	182,607,258
Investment securities (2)	-	64,067,574	20,091,359	38,356,191	11,111,554	1,106,108	134,732,786
Securities purchased under resale agreements	-	300,000	-	-	-	473	300,473
Other assets	-	-	-	-	-	60,001,433	60,001,433
Total assets	81,289,607	155,155,129	60,188,392	91,603,580	18,756,300	114,869,279	521,862,287
Deposits, due to banks, parent company and fellow subsidiaries (3)	275,258,718	8,199,620	9,537,741	5,277,269	-	(12,320)	298,261,028
Securities sold under repurchase agreements	-	31,152	-	-	-	-	31,152
Capital Management and Government Securities funds	23,797,925	-	-	-	-	-	23,797,925
Policyholders' liabilities	39,069,572	2,952,729	10,306,473	-	-	(7,036,445)	45,292,329
Other liabilities	-	-	-	-	-	38,832,123	38,832,123
Stockholders' equity	-	-	-	-	-	115,647,730	115,647,730
Total liabilities and stockholders' equity	338,126,215	11,183,501	19,844,214	5,277,269	-	147,431,088	521,862,287
Total interest rate sensitivity gap	(256,836,608)	143,971,628	40,344,178	86,326,311	18,756,300	(32,561,809)	-
Cumulative gap	(256,836,608)	(112,864,980)	(72,520,802)	13,805,509	32,561,809	-	
	2017						
Total assets	70,522,060	182,755,181	43,788,986	78,143,010	15,767,016	99,906,428	490,882,681
Total liabilities and stockholders' equity	302,325,588	30,700,499	21,946,159	5,550,924	9,478	130,350,033	490,882,681
Total interest rate sensitivity gap	(231,803,528)	152,054,682	21,842,827	72,592,086	15,757,538	(30,443,605)	-
Cumulative gap	(231,803,528)	(79,748,846)	(57,906,019)	14,686,067	30,443,605	-	

(Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

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

	The Group					
	2018					
	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Weighted average %
ASSETS						
Cash resources	1.85	2.32	2.33	-	-	2.14
Securities purchased under resale agreements	-	2.40	-	-	-	2.40
Financial assets at fair value through profit or loss	-	-	-	-	7.02	7.02
Loans (1)	9.21	17.50	11.05	11.03	7.37	12.35
Investment securities (2)	-	2.07	4.23	3.74	8.47	3.43
Pledged assets	-	1.02	1.70	5.94	7.98	2.91
LIABILITIES						
Deposits (3)	0.30	1.21	1.85	5.06	-	0.46
Securities sold under repurchase agreements	-	3.00	-	-	-	3.00
Capital Management and Government Securities funds	0.16	-	-	-	-	0.16
Policyholders' liabilities	2.71	2.95	3.00	-	-	2.42

	2017					
	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Weighted average %
ASSETS						
Cash resources	2.65	1.36	1.93	-	-	1.83
Securities purchased under resale agreements	2.50	5.74	-	-	-	5.25
Financial assets at fair value through profit or loss	-	-	-	-	5.75	5.75
Loans (1)	10.26	19.30	11.56	12.09	7.53	13.62
Investment securities (2)	-	5.20	3.95	5.12	9.43	5.44
Pledged assets	4.46	5.52	2.00	4.55	8.33	4.90
LIABILITIES						
Deposits (3)	0.36	1.58	2.12	5.12	7.00	0.56
Securities sold under repurchase agreements	3.72	2.95	2.86	-	-	2.96
Capital Management and Government Securities funds	0.09	-	-	-	-	0.09
Policyholders' liabilities	2.70	3.93	3.10	-	-	2.51

(1) Yields are based on book values, net of allowance for credit losses and contractual interest rates.

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

(3) Yields are based on contractual interest rates.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

	The Company						
	2018						
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-rate sensitive	Total
Cash resources	3,327,996	-	12,273,822	-	-	44,477	15,646,295
Investment in subsidiaries	-	-	-	-	-	13,029,908	13,029,908
Other assets	-	-	-	-	-	272,312	272,312
Total assets	3,327,996	-	12,273,822	-	-	13,346,697	28,948,515
Other liabilities	-	-	-	-	-	54,049	54,049
Stockholders' equity	-	-	-	-	-	28,894,466	28,894,466
Total liabilities and stockholders' equity	-	-	-	-	-	28,948,515	28,948,515
Total interest rate sensitivity gap	3,327,996	-	12,273,822	-	-	(15,601,818)	-
Cumulative gap	3,327,996	3,327,996	15,601,818	15,601,818	15,601,818	-	
	2017						
Total assets	1,174,773	22,500	6,342,788	93,333	-	13,550,547	21,183,941
Total liabilities and stockholders' equity	-	-	-	-	-	21,183,941	21,183,941
Total interest rate sensitivity gap	1,174,773	22,500	6,342,788	93,333	-	(7,633,394)	-
Cumulative gap	1,174,773	1,197,273	7,540,061	7,633,394	7,633,394	-	

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

	The Company					
	2018					
	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Weighted average %
ASSETS						
Cash resources	-	-	2.33	-	-	1.84

	2017					
	Immediately rate sensitive %	Within 3 months %	3 to 12 months %	1 to 5 years %	Over 5 years %	Weighted average %
ASSETS						
Cash resources	-	-	1.33	-	-	1.12
Loans (1)	-	8.75	8.75	8.75	-	8.75

(1) Yields are based on book values, net of allowance for credit losses and contractual interest rates.

Sensitivity to interest rate movements

The following shows the sensitivity to interest rate movements using scenarios that are based on recently observed market movements. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis is performed on the same basis as for 2017.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

Sensitivity to interest rate movements (continued)

	The Group	
	2018	2017
	Increase/decrease	Increase/decrease
JMD Interest rates	by 450 bps	by 175 bps
USD Interest rates	by 125 bps	by 100 bps

	The Group		The Company	
	2018	2017	2018	2017
Effect on profit or loss	3,168,043	1,343,043	200,480	41,857
Effect on stockholders' equity	11,792,960	3,999,134	37,453	20,326

(ii) Currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The main currencies giving rise to this risk are the USD, CAD, GBP, and EUR. The Group ensures that the net exposure is kept to an acceptable level by matching foreign assets with liabilities as far as possible.

The tables below summarise the Group's exposure to relevant currencies:

JMD Equivalent

	The Group 2018						
	JMD	USD	CAD	GBP	EUR	Other	Total
ASSETS							
Cash resources	51,841,890	62,549,711	2,312,087	4,919,487	871,969	267,839	122,762,983
Financial assets at fair value through profit or loss	-	24,175	-	-	-	-	24,175
Pledged assets	4,744,836	16,688,343	-	-	-	-	21,433,179
Loans	153,583,502	28,533,774	470,934	19,045	3	-	182,607,258
Investment securities	91,820,940	41,651,915	1,259,931	-	-	-	134,732,786
Government securities	300,473	-	-	-	-	-	300,473
Other assets	52,380,371	7,223,158	9,109	2,732	507,811	(121,748)	60,001,433
	354,672,012	156,671,076	4,052,061	4,941,264	1,379,783	146,091	521,862,287
LIABILITIES							
Deposits	175,128,393	114,528,040	3,536,984	4,594,790	472,568	253	298,261,028
Other liabilities	29,048,307	9,036,608	180,186	35,195	506,197	25,630	38,832,123
Policy holders' liabilities	45,292,329	-	-	-	-	-	45,292,329
Securities sold under repurchase agreements	31,152	-	-	-	-	-	31,152
Capital Management and Government Securities Funds	5,321,356	17,249,469	204,562	908,860	113,678	-	23,797,925
	254,821,537	140,814,117	3,921,732	5,538,845	1,092,443	25,883	406,214,557
NET POSITION	**99,850,475**	**15,856,959**	**130,329**	**(597,581)**	**287,340**	**120,208**	**115,647,730**

(Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(c) Market risk (continued)

(ii) Currency risk (continued)

JMD Equivalent

	The Group 2017						
	JMD	USD	CAD	GBP	EUR	Other	Total
ASSETS							
Cash resources	45,597,804	61,761,705	3,288,167	5,155,234	533,790	139,859	116,476,559
Financial assets at fair value through profit or loss	-	8,155	-	-	-	-	8,155
Pledged assets	24,457,875	12,795,479	-	(129)	-	-	37,253,225
Loans	143,721,902	22,691,291	80,389	6	3	-	166,493,591
Investment securities	88,052,212	31,947,942	292,426	-	-	-	120,292,580
Government securities	1,203,495	-	-	-	-	-	1,203,495
Other assets	43,537,603	5,467,522	16,887	1,904	131,160	-	49,155,076
	346,570,891	134,672,094	3,677,869	5,157,015	664,953	139,859	490,882,681
LIABILITIES							
Deposits	161,586,294	100,536,218	3,268,153	4,837,603	499,353	394	270,728,015
Other liabilities	27,468,842	6,282,083	85,473	23,908	125,960	55,013	34,041,279
Policy holders' liabilities	45,171,156	-	-	-	-	-	45,171,156
Securities sold under repurchase agreements	13,238,828	7,427,237	-	-	-	-	20,666,065
Capital Management and Government Securities Funds	2,654,889	13,861,573	259,412	946,682	122,044	-	17,844,600
	250,120,009	128,107,111	3,613,038	5,808,193	747,357	55,407	388,451,115
NET POSITION	**96,450,882**	**6,564,983**	**64,831**	**(651,178)**	**(82,404)**	**84,452**	**102,431,566**

The following significant exchange rates were applied during the period:

	Average rate for the period		Reporting date spot rate	
	2018	2017	2018	2017
USD	128.3980	128.3351	127.9971	126.6851
CAD	99.6417	98.2057	97.4996	99.1446
GBP	171.8235	163.2177	162.2372	167.0432
EUR	150.2552	140.8088	144.4428	144.0208

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 below. This analysis is performed on the same basis as 2017. 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.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(c) Market risk (continued)

(ii) Currency risk (continued)

Sensitivity to foreign exchange movements:

	The Group	
	2018 Increase/decrease	2017 Increase/decrease
USD	by 8.75%	by 2.25%
CAD	by 9.00%	by 10.50%
GBP	by 8.25%	by 8.25%
EUR	by 9.00%	by 10.25%
	2018	2017
Effect on profit and stockholders' equity	480,053	107,243

(iii) Equity price risk

Equity price risk arises out of price fluctuations in equity prices. The risk arises from holding positions in either individual stocks (idiosyncratic risk) or in the market as a whole (systemic risk). The goal is to earn dividend income and realise capital gains sufficient to offset the interest foregone in holding such long-term positions.

The Board sets limits on the level of exposure, and diversification is a key strategy employed to reduce the impact on the portfolio which may result from the non-performance of a specific class of assets. Given the potential volatility in the value of equities and the non-interest bearing characteristic of these instruments, the Group limits the amount invested in them.

At the reporting date, the Group did not have investments in equities.

(d) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows. The Group is exposed to daily calls on its available cash resources from overnight and maturing deposits, loan drawdowns and guarantees. The Group does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Group maintains large holdings of unencumbered liquid assets to support its operations. These assets generally can also be sold or pledged to meet the Group's obligations.

The Group's liquidity management process includes:

(i) Monitoring future cash flows and liquidity on a daily basis;

(ii) Maintaining a portfolio of highly marketable assets that can be liquidated quickly as protection against any unforeseen interruption of cash flow;

(iii) Monitoring the liquidity ratios of the Group against internal and regulatory requirements;

(iv) Managing the concentration and profile of debt maturities, as well as undrawn lending commitments; and

(v) Liquidity stress testing and contingency planning.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(d) Liquidity risk (continued)

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for entities to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates. Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash and central bank balances; government and corporate bonds; treasury bills; and loans.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

Financial liabilities cash flows

The tables below present the undiscounted cash flows (both interest and principal cash flows) to settle financial liabilities based on contractual repayment obligations. However, the Group expects that many policyholders/depositors/customers will not request repayment on the earliest date the Group could be required to pay.

	The Group					
	2018					
	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total	Carrying amounts
Financial liabilities						
Deposits, due to financial institutions, parent company and fellow subsidiaries	280,100,245	10,526,507	4,655,739	5,923,044	301,205,535	298,261,028
Securities sold under repurchase agreements	-	31,435	-	-	31,435	31,152
Capital Management and Government Securities Funds	23,797,925	-	-	-	23,797,925	23,797,925
Other liabilities	10,924,788	2,146,716	1,059,635	2,110,171	16,241,310	16,241,310
Policyholders' liabilities	41,914,328	10,611,428	-	-	52,525,756	45,292,329
Total liabilities	356,737,286	23,316,086	5,715,374	8,033,215	393,801,961	383,623,744

	2017					
	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	251,806,275	9,912,982	5,372,486	3,934,887	271,026,630	270,728,015
Securities sold under repurchase agreements	17,501,008	3,337,610	-	-	20,838,618	20,666,065
Capital Management and Government Securities Funds	17,844,600	-	-	-	17,844,600	17,844,600
Other liabilities	11,153,976	1,379,677	58,587	1,921,668	14,513,908	14,513,908
Policyholders' liabilities	40,665,562	10,926,612	-	-	51,592,174	45,171,156
Total liabilities	338,971,421	25,556,881	5,431,073	5,856,555	375,815,930	368,923,744

(Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(d) Insurance risk

The Group issues long term contracts that transfer insurance risk or financial risk or both. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits is greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio.

Two key matters affecting insurance risk are discussed below:

(i) Long-term insurance contracts

Long-term contracts are typically for a minimum period of 5 years and a maximum period which is determined by the remaining life of the insured. In addition to the estimated benefits which may be payable under the contract, the insurer has to assess the cash flows which may be attributable to the contract.

The Group has developed its insurance underwriting strategy and reinsurance arrangements to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. The Group's underwriting strategy includes the use of a medical questionnaire with benefits limited to reflect the health condition of applications and retention limits on any single life insured.

Frequency and severity of claims

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency and severity of claims are epidemics and wide-ranging lifestyle changes such as in eating, smoking and exercise habits, resulting in earlier or more claims than expected.

The Group charges for mortality risks on a monthly basis for insurance contracts and has the right to alter these charges to a certain extent based on mortality experience and hence minimize its exposure to mortality risk. Delays in implementing increases in charges and market or regulatory restraints over the extent of the increases may reduce its mitigating effect.

The tables below indicate the concentration of insured benefits across bands of insured benefits per individual and group life assured. The benefits insured are shown gross and net of reinsurance.

	The Group			
	Total benefits assured			
	2018		2017	
	Before and After Reinsurance	%	Before and After Reinsurance	%
Individual Life				
Benefits assured per life				
0 to 250,000	4,983,984	9	5,343,085	10
250,001 to 500,000	3,459,954	6	2,724,812	5
500,001 to 750,000	3,030,947	6	3,080,557	6
750,001 to 1,000,000	3,589,734	6	3,338,334	6
1,000,001 to 1,500,000	10,816,438	19	9,837,896	19
1,500,001 to 2,000,000	6,851,797	12	6,208,904	12
Over 2,000,000	23,756,314	42	21,136,123	42
Total	56,489,168	100	51,669,711	100

(Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(e) Insurance risk (continued)

(i) Long-term insurance contracts (continued)

Frequency and severity of claims (continued)

	The Group			
	Total benefits assured			
	2018		2017	
	Before and After Reinsurance	%	Before and After Reinsurance	%
Group Life				
Benefits assured per life				
0 to 250,000	10,963,492	13	11,377,437	13
250,001 to 500,000	4,507,078	5	4,638,807	6
500,001 to 750,000	5,725,865	7	5,202,911	6
750,001 to 1,000,000	4,738,948	6	4,377,498	5
1,000,001 to 1,500,000	15,862,573	18	15,580,668	18
1,500,001 to 2,000,000	13,213,842	15	13,360,915	16
Over 2,000,000	31,452,790	36	30,293,294	36
Total	86,464,588	100	84,831,530	100

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

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

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

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

Process used in deriving assumptions

The assumptions for long term insurance contracts and the process used in deriving these assumptions have remained substantially unchanged since the previous year.

For long-term contracts with fixed and guaranteed terms, estimates are made in two stages. Estimates of future deaths, voluntary terminations and partial withdrawal of policy funds, investment returns, crediting rates, inflation and administration expenses are made and form the assumptions used for calculating the liabilities at the inception of the contract. A margin for risk and uncertainty is added to these assumptions.

New estimates are made each year based on updated Group experience studies and economic forecasts. The valuation assumptions are altered to reflect these revised best estimates. The margins for risk and uncertainty may also be altered if the underlying level of uncertainty in the updated assumptions has changed. The financial impact of revisions to the valuation assumption or the related margins is recognised in the accounting period in which the change is made.

(ii) Reinsurance risk

Reinsurance risk is the risk that a reinsurer will default and not honour obligations arising from claims. To limit its exposure of potential loss on an insurance policy, the Group cedes certain levels of risk to a reinsurer. Reinsurance ceded does not discharge the Group's liability as primary issuer. The Group manages reinsurance risk by selecting reinsurers which have established capability to meet their contractual obligations and which generally have favourable credit ratings as determined by a reputable rating agency.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

48. Financial risk management (continued)

(e) Insurance risk (continued)

(ii) Reinsurance risk (continued)

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

Type of insurance contract	Retention
Group creditor life contracts	maximum retention of $42,000 per insured
Individual Universal Life	maximum retention of $15,000 per insured

(iii) Sensitivity analysis of actuarial liabilities

Sensitivity arising from the valuation of life insurance contracts

The determination of actuarial liabilities is sensitive to a number of assumptions, and changes in these assumptions could have a significant effect on the valuation results.

In summary, the valuation of actuarial liabilities of life insurance contracts is sensitive to:

- the economic scenario used in the Policy Premium Method (PPM)
- the investments allocated to back the liabilities
- the underlying assumptions used, and
- the margins for adverse deviations.

Under the Policy Premium Method (PPM) methodology, the Appointed Actuary is required to test the actuarial liability under several economic scenarios. The tests have been done and the results of the valuation provide adequately for liabilities derived from the worst of these different scenarios.

The assumption for future investment yields has a significant impact on actuarial liabilities. The different scenarios tested under PPM reflect the impact of different yields.

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

- operating expenses and taxes
- lapse
- mortality and morbidity

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

	The Group	
	2018	2017
Interest rates increase by 1%	25,269	36,697
Interest rates decrease by 1%	(25,055)	(1,649)
Mortality increases by 10%	496,742	457,498
Mortality decreases by 10%	(513,746)	(474,273)
Expenses increase by 10%	514,898	399,495
Expenses decrease by 10%	(509,248)	(395,481)
Lapses and withdrawals increase by 10%	331,011	298,015
Lapses and withdrawals decrease by 10%	(357,962)	(322,350)

49. Fair value of financial instruments

Determination of fair value

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

The best evidence of fair value for a financial instrument is the quoted price in an active market. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Where possible, the Group measures the fair value of an instrument based on quoted prices or observable inputs obtained from active markets.

For financial instruments for which there is no quoted price in an active market, the Group uses internal models that maximise the use of observable inputs to estimate fair value. The chosen valuation technique incorporates all the factors that market participants would take into account.

When using models for which observable parameters do not exist, the Group uses greater management judgement for valuation purposes.

Fair value hierarchy

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

- Level 1 - fair value measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - fair value measured based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 - fair value measured based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group recognises transfers between levels of the fair value hierarchy at the date the event or change in circumstances that caused the transfer occurred. There were no such transfers during the year.

Basis of valuation

The specific inputs and valuation techniques used in determining the fair value of financial instruments are noted below:

(i) financial instruments classified as available-for-sale are measured at fair value by reference to quoted market prices where available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques which include utilising recent transaction prices or broker quotes.

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

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

(iv) the fair value of demand deposits and savings accounts with no specific maturity is considered to be the amount payable on demand at the reporting date; the fair value of fixed-term interest bearing deposits is based on discounted cash flows using interest rates for new deposits;

(v) the fair value of variable rate financial instruments is considered to approximate their carrying amounts as they are frequently repriced to current market rates; and

(Expressed in thousands of Jamaican dollars unless otherwise stated)

49. Fair value of financial instruments (continued)

Basis of valuation (continued)

(vi) the fair value of fixed rate loans is estimated by comparing actual interest rates on the loans to current market rates offered on similar loans. For match-funded loans the fair value is assumed to be equal to their carrying value, as gains and losses offset each other. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amount of the allowance for credit losses from both book and fair values.

(vii) the fair values of quoted equity investments are based on quoted market bid prices. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment.

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 2018								
	Carrying amount					Fair value			
	Amortised cost	Held-to maturity	Available-for-sale	Fair value through profit or and loss	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value									
Unquoted shares	-	-	5,105	-	5,105	-	-	5,105	5,105
Government securities	-	-	115,928,217	24,175	115,952,392	-	115,952,392	-	115,952,392
Treasury bills	-	-	5,067,101	-	5,067,101	-	5,067,101	-	5,067,101
Corporate bonds	-	-	13,433,623	-	13,433,623	-	13,433,623	-	13,433,623
Unitised funds	-	-	298,740	-	298,740	-	298,740	-	298,740
	-	-	134,732,786	24,175	134,756,961	-	134,751,856	5,105	134,756,961
Pledged assets measured at fair value									
Government securities	-	-	5,106,678	-	5,106,678	-	5,106,678	-	5,106,678
Corporate bonds	-	-	6,336,643	-	6,336,643	-	6,336,643	-	6,336,643
Unitised funds	-	-	1,749,483	-	1,749,483	-	1,749,483	-	1,749,483
	-	-	13,192,804	-	13,192,804	-	13,192,804	-	13,192,804
Financial assets not measured at fair value									
Loans and receivables	62,907,759	-	-	-	62,907,759	-	-	65,618,133	65,618,133
Pledged assets not measured at fair value									
Government securities	-	529,133	-	-	529,133	-	632,086	-	632,086

	The Group 2017							
	Carrying amount				Fair value			
	Amortised cost	Available-for-sale	Fair value through profit or and loss	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Unquoted shares	-	5,105	-	5,105	-	-	5,105	5,105
Government securities	-	86,950,372	8,155	86,958,527	-	86,958,527	-	86,958,527
Bank of Jamaica securities	-	2,798,608	-	2,798,608	-	2,798,608	-	2,798,608
Treasury bills	-	292,426	-	292,426	-	292,426	-	292,426
Corporate bonds	-	28,945,327	-	28,945,327	-	28,945,327	-	28,945,327
Unitised funds	-	274,669	-	274,669	-	274,669	-	274,669
	-	119,266,507	8,155	119,274,662	-	119,269,557	5,105	119,274,662

(Expressed in thousands of Jamaican dollars unless otherwise stated)

49. Fair value of financial instruments (continued)

Basis of valuation (continued)

Accounting classifications and fair values (continued):

	The Group							
	2017							
	Carrying amount				Fair value			
	Amortised cost	Available-for-sale	Fair value through profit or and loss	Total	Level 1	Level 2	Level 3	Total
Pledged assets measured at fair value								
Government securities	-	20,985,867	-	20,985,867	-	20,985,867	-	20,985,867
Corporate bonds	-	7,035,822	-	7,035,822	-	7,035,822	-	7,035,822
Unitised funds	-	1,707,268	-	1,707,268	-	1,707,268	-	1,707,268
	-	29,728,957	-	29,728,957	-	29,728,957	-	29,728,957
Financial assets not measured at fair value								
Loans and receivables	61,780,342	-	-	61,780,342	-	-	63,759,192	63,759,192

Valuation technique

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

50. Capital risk management

Capital risk is the risk that the Group fails to comply with mandated regulatory requirements, resulting in a breach of its minimum capital ratios and the possible suspension or loss of its licences.

Regulators are primarily interested in protecting the rights of depositors and policyholders and they monitor closely to ensure that the Group is satisfactorily managing its affairs for the benefit of depositors and policyholders. At the same time, the regulators are also interested in ensuring that the Group maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters.

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

- To comply with the capital requirements established by the regulatory authorities responsible for banking, insurance and other financial intermediaries;
- To safeguard its ability to continue as a going concern and meet future obligations to depositors, policyholders and stockholders;
- To provide adequate returns to stockholders by pricing investment, insurance and other contracts commensurate with the level of risk; and
- To maintain a strong capital base to support the future development of the Group's operations. Capital is managed in accordance with the Board-approved Capital Management Policy.

Individual banking, investment and insurance subsidiaries are directly regulated by their designated regulator, who sets and monitors capital adequacy requirements. Required capital adequacy information is filed with the regulators at least quarterly.

(Expressed in thousands of Jamaican dollars unless otherwise stated)

50. Capital risk management (continued)

Banking, mortgage lending and investment management

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

- Hold the minimum level of regulatory capital; and

- Maintain a minimum ratio of total regulatory capital to risk weighted assets.

Regulatory capital is divided into two tiers:

1. Tier 1 capital comprises share capital, reserve fund and reserves created by appropriations of retained earnings. The carrying value of goodwill is deducted in arriving at Tier 1 capital; and

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

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

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

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

	Regulated by the BOJ[1]		Regulated by the FSC[2]	
	2018	2017	2018	2017
Tier 1 Capital	45,089,535	39,080,498	7,670,178	14,386,365
Tier 2 Capital	1,679,927	1,485,279	464,162	464,162
	46,769,462	40,565,777	8,134,340	14,850,527
Less prescribed deductions	(220,000)	(220,000)	-	-
Total regulatory capital	46,549,462	40,345,777	8,134,340	14,850,527

	Regulated by the BOJ[1]		Regulated by the FSC[2]	
	2018	2017	2018	2017
Risk weighted assets				
On-balance sheet	231,358,004	216,501,529	22,671,031	34,059,708
Off-balance sheet	27,143,489	27,983,173	800,284	824,355
Foreign exchange exposure	587,741	922,698	1,663,923	2,135,994
Total risk weighted assets	259,089,234	245,407,400	25,135,238	37,020,057
Actual regulatory capital to risk weighted assets	17.97%	16.44%	32.36%	40.11%
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)

50. Capital risk management (continued)

Life insurance business

Capital adequacy is calculated by the Appointed Actuary and reviewed by executive management, the Audit Committee and the Board of Directors. The Group seeks to maintain internal capital adequacy levels higher than the regulatory requirements. To assist in evaluating the current financial strength, the risk-based assessment measure which has been adopted is the Minimum Continuing Capital and Surplus Requirement (MCCSR) standard as defined by the Financial Services Commission and required by the Insurance Regulations 2001. Under Jamaican regulations, the minimum standard recommended for companies is a MCCSR of 150%. The MCCSR for the insurance subsidiary as of the reporting date is set out below:

	2018	2017
Regulatory capital held	9,978,945	7,550,218
Minimum regulatory capital	1,419,469	1,376,113
Minimum Continuing Capital on Surplus Requirements Ratio	703%	549%

51. Commitments

	The Group	
	2018	2017
(a) Capital expenditure - authorised and contracted	20,306	-
(b) Commitments to extend credit:		
Originated term to maturity of more than one year	28,247,570	29,260,362
(c) Operating lease commitments:		

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

	The Group	
	2018	2017
Up to one year	162,132	175,545
One to five years	534,304	570,152
Over five years	1,621,684	1,737,945
	2,318,120	2,483,642

52. Fiduciary activities

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties. This involves the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements.

The subsidiary, Scotia Asset Management (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, 2018, the Group had assets under administration amounting to approximately $220,343,952 (2017: $197,436,963).

53. Litigation and contingent liabilities

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

(Expressed in thousands of Jamaican dollars unless otherwise stated)

53. Litigation and contingent liabilities (continued)

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

54. Dividends

(a) Paid

	The Group		The Company	
	2018	2017	2018	2017
Scotia Group Jamaica Limited				
Paid to stockholders:				
In respect of 2018	4,480,694	-	4,480,694	-
In respect of 2017	1,493,565	4,200,659	1,493,565	4,200,659
In respect of 2016	-	1,400,208	-	1,400,208
	5,974,259	5,600,867	5,974,259	5,600,867
Paid to non-controlling interest in SIJL	-	131,360	-	-
	5,974,259	5,732,227	5,974,259	5,600,867

(b) Proposed

At the Board of Directors meeting on December 5, 2018, a dividend in respect of 2018 of $0.51 per share (2017: $0.48 per share) amounting to $1,586,913 (2017: $1,493,555) was proposed. Stockholders' equity for the current financial year does not reflect this resolution, which will be accounted for in stockholders' equity as an appropriation of retained profits in the ensuing financial year.

55. Employee Share Ownership Plan

The Group has an Employee Share Ownership Plan ("ESOP" or "Plan"), the purpose of which is to encourage eligible employees of the Group to steadily increase their ownership of the Company's shares. Participation in the Plan is voluntary; any employee who has completed at least one year's service with any Group entity is eligible to participate.

The operation of the ESOP is facilitated by a Trust. The employer and employees make contributions to the Trust and these contributions are used to fund the acquisition of shares for the employees. Employees' contributions are determined by reference to the length of their employment and their annual basic remuneration. The employer contributions, are as prescribed by the formula set out in the rules of the Plan.

The contributions are used by the trustees to acquire the Company's shares at market value. The shares purchased with the employees contributions vest immediately, although they are subject to the restriction that they may not be sold within two years of acquisition. Out of shares purchased with the Company's contributions, allocations are made to participating employees, but are held by the Trust for a two-year period, at the end of which they vest with the employees; if an employee leaves the employer within the two-year period, the right to these shares is forfeited; such shares then become available to be granted by the employer to other participants in accordance with the formula referred to previously.

The amount contributed by the Group to employee share purchase during the year, included in employee compensation, amounted to $41,305 (2017: $36,983).

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	
	2018	2017
Number of shares	1,066,513	1,186,952
Fair value of shares $'000	57,293	60,831

56. Subsequent Events

On November 27, 2018 the Bank of Nova Scotia Jamaica Limited (“the Bank”) announced that it will enter into a 20-year distribution agreement with Sagicor Financial Corporation Limited ("Sagicor") through which an enhanced suite of market-leading insurance products and solutions, underwritten by Sagicor, will be offered to the Bank’s customers in Jamaica. As part of this partnership, the Bank has entered into an agreement to sell its insurance subsidiary - Scotia Jamaica Life Insurance Company Limited. These agreements are subject to regulatory approval and customary closing conditions. The transaction is also subject to the closing of the announced transaction whereby Sagicor will be acquired by Alignvest Acquisition II Corporation subject to conditions in and pursuant to a plan of arrangement, and the surviving entity will continue the Sagicor brand and be publicly-listed on the Toronto Stock Exchange.

This transaction is in line with the Group’s strategic direction to simplify its operations, focus on growth in core businesses and deliver value to shareholders. Until the relevant approvals are obtained, conditions met, and the transaction closes, operations will continue as usual.

Form of Proxy

Scotia Group Jamaica Limited (the "Company")

SCOTIA GROUP JAMAICA LIMITED

I/We..

of..

in the parish of...being a Member of the above Company, hereby appoint the Chairperson of the Meeting or failing him/her

(see Note 1) ....

of ....

or failing them ....

of...

as my/our Proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on the **15th** day of **March 2019** and at any adjournment thereof (the "Meeting").

Please indicate by inserting a cross in the appropriate square how you wish your votes to be cast. Unless otherwise instructed, the Proxy will vote or abstain from voting, at his/her discretion.

ORDINARY BUSINESS		FOR	AGAINST
Resolution 1	**Audited Accounts** That the Directors' Report, the Auditor's Report and the Statements of Account of the Company for the year ended October 31, 2018 previously circulated be and are hereby received.		

ORDINARY BUSINESS		FOR	AGAINST
Resolution 2	**Election of Directors** Article 107 of the Company's Articles of Incorporation provides that at each Annual General Meeting all Directors for the time being shall retire from office. The retiring Directors are: Barbara Alexander, Eric Crawford, Angela Fowler, Jeffrey Hall, Antony Mark Hart, Brendan King, W. David McConnell, David Noel, Leslie Reid, Audrey Richards and Evelyn Smith. The proposed resolutions for election/re-election of Directors proposed by the Board of Directors of the Company are:- a) "That retiring Director Barbara Alexander be and is hereby re-elected a Director of the Company." b) "That retiring Director Eric Crawford be and is hereby re-elected a Director of the Company." c) "That retiring Director Angela Fowler be and is hereby elected a Director of the Company." d) "That retiring Director Jeffrey Hall be and is hereby re-elected a Director of the Company." e) "That retiring Director Antony Mark Hart be and is hereby re-elected a Director of the Company." f) "That retiring Director Brendan King be and is hereby re-elected a Director of the Company." g) "That retiring Director W. David McConnell be and is hereby elected a Director of the Company." h) "That retiring Director David Noel be and is hereby re-elected a Director of the Company." i) "That retiring Director Leslie Reid be and is hereby elected a Director of the Company." j) "That retiring Director Audrey Richards be and is hereby elected a Director of the Company." k) "That retiring Director Evelyn Smith be and is hereby re-elected a Director of the Company."		
Resolution 3	**Appointment of Auditors** That KPMG, Chartered Accountants, having agreed to continue in office as Auditors, be and are hereby appointed Auditors of the Company to hold office until the next Annual General Meeting at a remuneration to be fixed by the Directors of the Company.		

As witness my hand this.. ....day

of...2019.

....

Signature

NOTES:

1. If you wish to appoint a proxy other than the Chairperson of the Meeting, please insert the person's name and address and delete (initialing the deletion) "the Chairperson of the Meeting".
2. To be valid, this form of proxy and the power of attorney or other authority (if any) under which it is signed must be lodged at the office of the Secretary of the Company, 9th Floor, Scotiabank Centre, Cnr. Duke & Port Royal Streets, Kingston, at least 48 hours before the time appointed for the holding of the Meeting.
3. To this form must be affixed a $100.00 stamp in payment of stamp duty.
4. In the case of joint shareholders, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority shall be determined by the order in which the names stand in the register of members.
5. To be effective, this form of proxy must be signed by the appointer or his/her attorney, duly authorised in writing or, if the appointer is a corporation, must be under its common seal or be signed by some officer or attorney duly authorised in that behalf.

Contact Us

Call us at
1-888-429-5863 or 1-888-4-SCOTIA

E-mail general enquiries to
customercare-jam@scotiabank.com

Visit our website at
www.jm.scotiabank.com

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