

Scotiabank (Ireland) Designated Activity Company

Supplementary Pillar 3 Disclosures

As at 31st October 2016

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Overview

Scotiabank (Ireland) Designated Activity Company (“SIDAC”)(the “Company”), which holds a banking licence, is incorporated in Ireland and is a wholly owned subsidiary of The Bank of Nova Scotia International Limited (“BNSI”), Nassau, Bahamas which is in turn wholly owned by The Bank of Nova Scotia, Toronto, Canada (“Scotiabank”).

This document comprises the Company’s Pillar 3 disclosures on capital and risk management as at 31 October 2016. These disclosures have been prepared purely for the purposes of satisfying the Company’s obligations under the Capital Requirements Regulation (Regulation (EU) No. 575/2013) (“CRR”), associated implementing legislation and guidelines issued by the European Banking Authority (“EBA”) and to explain the basis on which the Company has prepared and disclosed certain capital requirements and information about the management of certain risks. These disclosures are made for no other purpose and should not be relied upon in making any financial or investment decision.

Additional relevant information may be found in the Company’s Directors’ Report and Financial Statements 2016.

Scope of Disclosure

These Pillar 3 disclosures are prepared on an unconsolidated / individual basis.

Means of Disclosure

The Company complies with its Pillar 3 reporting requirements through a combination of disclosures in the published financial statements including the unaudited portion and supplementary disclosures in this document.

Management Body

The Management Body is comprised of the Company's Board of Directors which comprises of seven directors made up of one executive director, one group non – executive director and five independent non- executive directors as shown below.

Name	Roles/Job Titles	Board Member	Member of Sub-Committee of the Board
Andrew Branion	Scotiabank (BNS) Executive Vice-President and Group Treasurer	Group Non-Executive Director Chair of SIDAC Board	Risk Committee
Susan Foster	SIDAC CEO	Executive Director	Risk Committee
George Stinnes	Company Director	Independent Non-Executive Director	Risk Committee
Michael Bourke	Bank Director and Chairman of Supervisory Board of Parex Bank Group, Latvia	Independent Non-Executive Director	Audit Committee and Risk Committee
Bob Brooks	Risk Management professional in various banks	Independent Non-Executive Director	Chair of Risk Committee
Mary Walsh	Chartered Accountant and former International tax partner	Independent Non-Executive Director	Chair of Audit Committee
Máire O'Connor	Solicitor and former partner at McCann Fitzgerald Solicitors	Independent Non-Executive Director	Audit Committee

Recruitment Policy for Board of Directors Selection

Diversity

The Company's Board is composed of highly qualified directors from diverse backgrounds, who have familiarity with the financial industry in the European Union and Ireland in particular.

To support this composition as part of the Board's commitment to sound and effective corporate governance practices, the Board will, when identifying candidates, and bearing in mind the desire for a diverse Board and diversity criteria, including gender, age, ethnicity and geographic background, recommend for appointment to the Board only those candidates who:

- (a) have the relevant skills, experience, expertise, knowledge, appropriate qualification for role (e.g. accounting, auditing for Audit Committee of the Board and risk management for Risk Committee of the Board) and
- (b) Have the necessary personal qualities, professionalism and integrity expected of a Board member.

Selection Criteria and Policy

The Board as a whole must have the relevant financial and risk expertise; and in addition to its own search, as and when appropriate from time to time, engage qualified independent external advisors to conduct a search for candidates who meet the Board's expertise, skills and diversity criteria to help achieve its diversity aspirations.

Appointments must not proceed where possible conflicts of interest may emerge which are significant to the overall work of the Board. The Board is responsible for either the appointment of Independent Non-Executive Directors or where appropriate identifying and proposing the appointment of Independent Non-Executive Directors to shareholders. Before appointment to the Board, the proposed director must show that the individual satisfies the selection criteria applicable to the role for which the individual is being proposed for appointment, evidencing items such as their skills, experience, expertise, competencies, professionalism, fitness, probity and integrity to carry out his or her duties, including a knowledge and appreciation of public issues and familiarity with local, national and international affairs.

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The knowledge, skills and expertise of the directors are as shown in the table below.

Name	Executive / Non - executive	No. of additional directorships	Knowledge, skills and expertise
Andrew Branion	Non-executive	1	Mr. Branion's current position is the Executive Vice President and Group Treasurer of BNS. He is also a member of both the BNS Market Risk Management and Policy Committee, and of the BNS Asset and Liability Committee ("ALCO"). Previously, Mr. Branion was Chief Market Risk Officer and prior to that Head of Risk Policy and Capital Markets, Global Risk Management ("GRM"), BNS. Mr. Branion has also held various senior roles in Global Banking & Markets ("GBM"). Prior to joining BNS Mr. Branion worked for the Bank of Canada.
Susan Foster	CEO/ Executive	1	Ms Foster is SIDAC's CEO. She has extensive experience in market, liquidity and credit risk management. Previously, Ms Foster was Vice President International Banking, Treasury Business Development and Support. Prior to this Ms Foster held various Market Risk related Vice President positions in GRM, BNS.
George Stinnes	Non-executive	3	Mr. Stinnes is Chairman of the British Airways Retirement Plan. In the past he served as Director at British Airways and also acted as Special Advisor to the Chief Executive. Previously he was the Group Treasurer for British Airways, and was the Chairman of the Treasury Risk Committee. Prior to this he was Vice President and Director at Wood Gundy Limited responsible for primary market syndication and trading.
Michael Bourke	Non-executive	2	Mr. Bourke worked for many years in various capacities in the Central Bank of Ireland and has also worked with the International Monetary Fund. He has also held Executive and Non-Executive Directorship roles for Latvian banks where he was involved in building management and risk management regimes.
Bob Brooks	Non-executive	0	Mr. Brooks has occupied Senior Risk Management roles at a number of major UK banks including NatWest and HBOS and more recently was engaged as a consultant to Daiwa Capital Markets. He is currently supporting the UK Asset and Liability Management Association in developing a new professional banking exam syllabus.
Mary Walsh	Non-executive	4	Ms Walsh, a chartered accountant, is a former international tax partner with over 25 years' experience at PwC. Her Non-Executive Directorships include the National Treasury Management Agency, where she chairs the Risk Committee. She was a member of the Commission on Taxation and has also held a Directorship with the Central Bank of Ireland during which time she Chaired its Audit Committee. Her qualifications include B.Sc. Experimental Physics, FCA and AITI Chartered Tax Advisor.
Máire O' Connor	Non-executive	10	Ms O' Connor, a solicitor, is a retired partner from McCann Fitzgerald where she was Head of the Investment Management Group. Previously she was a Partner and Head of the Investment Management Group at Ernst & Young and

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			<p>was also a Director of NCB Corporate Finance Limited. She currently holds a number of Directorships of Irish Regulated Investment Funds. She is also a former director of the Irish Stock Exchange.</p> <p>Her qualifications include B. Mus, Solicitor and MSc (Clinical Psychotherapy).</p>
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Countercyclical Capital Buffer

The Company is required to maintain an institution specific countercyclical buffer (“CCyB”). The table below shows the geographical distribution of the Company’s credit exposure relevant for the calculation of its CCyB.

Country Code	Country	CCB rate	Application	Own Funds USD '000s	Weighting	Weighted Buffer
AE	United Arab Emirates			1,974	0.01	0.0000000
AT	Austria			0	-	0.0000000
AU	Australia			0	-	0.0000000
BE	Belgium			2,913	0.01	0.0000000
BM	Bermuda			7,079	0.02	0.0000000
BS	Bahamas			2,265	0.01	0.0000000
CA	Canada			4,030	0.01	0.0000000
CH	Switzerland			4,005	0.01	0.0000000
CY	Cyprus			0	-	0.0000000
DE	Germany			6,517	0.02	0.0000000
DK	Denmark			0	-	0.0000000
ES	Spain			1,745	0.01	0.0000000
FI	Finland			9,292	0.03	0.0000000
FR	France			18,519	0.05	0.0000000
GB	United Kingdom			85,636	0.25	0.0000000
HK	Hong Kong SAR	0.625%	30/06/2016	2,647	0.01	0.0000482
HU	Hungary			1	0.00	0.0000000
IE	Ireland			5,239	0.02	0.0000000
IM	Isle of man			4,908	0.01	0.0000000
IT	Italy			0	-	0.0000000
JE	Jersey			8,923	0.03	0.0000000
JP	Japan			0	-	0.0000000
KY	Cayman Islands			0	0.00	0.0000000
LR	Liberia			2,743	0.01	0.0000000
LU	Luxembourg			11,098	0.03	0.0000000
MH	Marshall Islands			2,478	0.01	0.0000000
NL	Netherlands			27,681	0.08	0.0000000
NO	Norway	1.5%	30/06/2016	13,699	0.04	0.0005992
PL	Poland			4,502	0.01	0.0000000
SE	Sweden	1.5%	27/06/2016	5,619	0.02	0.0002458
SG	Singapore			0	-	0.0000000
US	United States			103,368	0.30	0.0000000
VG	Virgin Islands			6,028	0.02	0.0000000
				342,909	1	0.0008933
Total Countercyclical Risk Geographical Breakdown				342,909		
Total Risk Exposure Amount				4,707,106		
Buffer %				0.089%		
Buffer				4,205		

	USD '000s
10 Total Risk Exposure amount	4,707,106
20 Institution specific countercyclical capital buffer	0.089%
30 Institution specific countercyclical capital buffer requirement	4,205

Credit Risk

Credit risk is the risk of financial loss resulting from the failure of a customer, for any reason, to fully honour its financial or contractual obligations. For risk management purposes the Company considers and consolidates all elements of credit risk exposure.

The table below shows the geographic distribution of regulatory exposure asset classes:

Geographic distribution of regulatory exposure asset classes as at 31 October 2016								
	European Union		United Kingdom		USA		Rest of World	
	Exposure Value	RWAs	Exposure Value	RWAs	Exposure Value	RWAs	Exposure Value	RWAs
	USD '000s	USD '000s	USD '000s	USD '000s	USD '000s	USD '000s	USD '000s	USD '000s
Central governments or central banks	68,805	-	25,411	-	-	-	-	-
Public sector entities	512,282	41,705	-	-	-	-	27,944	5,589
Multilateral Development Banks	-	-	-	-	-	-	330,777	-
International Organisations	-	-	-	-	-	-	51,982	-
Institutions	20,833	4,447	10,341	2,315	285	82	471,207	134,560
Corporates	1,238,310	1,069,703	1,203,057	1,004,729	1,102,055	781,259	781,053	727,395
Exposures in default	-	-	-	-	-	-	30,454	30,454
Items associated with particularly high risk	-	-	-	-	24,223	36,335	-	-
Covered bonds	69,815	6,981	49,162	4,916	-	-	18,969	1,897
Short-term claims on institutions and corporate	24,946	12,473	70,772	60,800	-	-	-	-
Equity exposures	30,864	30,864	-	-	-	-	-	-
Securitisations	212,760	42,552	-	-	37,961	474,511	-	-
Other exposures	1,637	1,486	-	-	-	-	13	3
Total	2,180,253	1,210,211	1,358,744	1,072,760	1,164,524	1,292,188	1,712,399	899,897

The table below shows the regulatory credit risk weighted exposures and capital requirements:

Regulatory credit risk weighted exposures and capital requirements as at 31st October 2016

	Exposure Value	Average	RWAs	Capital Requirements
		Exposure Value		
		Note 1		
	USD '000s	USD '000s	USD '000s	USD '000s
Central governments or central banks	94,217	77,396	0	0
Public sector entities	540,226	390,668	47,294	3,783
Multilateral Development Banks	330,777	276,773	0	0
International Organisations	51,982	52,656	0	0
Institutions	502,666	561,878	141,404	11,312
Corporates	4,324,476	4,222,883	3,583,085	286,647
Exposures in default	30,454	40,784	30,454	2,436
Items associated with particularly high risk	24,223	24,406	36,335	2,907
Covered bonds	137,946	147,791	13,795	1,104
Short-term claims on institutions and corporate	95,718	47,859	73,273	5,862
Equity exposures	30,864	31,356	30,864	2,469
Securitisations	250,721	272,683	517,063	41,365
Other exposures	1,651	3,477	1,488	119
Total	6,415,921	6,150,611	4,475,055	358,004

Note 1: Average exposure is calculated by taking an average of the opening balances at 1st of November 2015 and the closing balances at 31st of October 2016

The table below sets out the residual maturity of exposures:

Residual Maturity of Exposures as at 31st October 2016				
	Less than a year	Between 1 and 5 years	More than 5 years	Total
	USD '000s	USD '000s	USD '000s	USD '000s
Central Banks	19,133	-	-	19,133
Credit Institutions	171,889	663,318	167,043	1,002,250
General Governments	95,430	546,450	-	641,880
Non-Financial Corporations	327,969	2,876,123	132,858	3,336,950
Other Financial Corporations	525,189	676,004	212,760	1,413,953
Other	1,754	-	-	1,754
Total	1,141,364	4,761,896	512,661	6,415,921

The table below shows industry sector classification of regulatory exposure classes:

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Industry Sector Classification of regulatory exposure classes as at 31st October 2016								
	MINING AND QUARRYING USD '000s	MANUFACTURING USD '000s	ELECTRICITY AND AIR CONDITIONING SUPPLY USD '000s	TRANSPORTATION USD '000s	INFORMATION AND COMMUNICATION USD '000s	ADMINISTRATIVE SERVICE ACTIVITIES USD '000s	Others USD '000s	Grand Total
Central Banks	-	-	-	-	-	-	19,133	19,133
Credit Institutions	-	-	-	-	-	-	1,002,250	1,002,250
General Governments	-	-	-	-	-	-	641,880	641,880
Non-Financial Corporations	475,664	1,272,597	213,799	558,804	544,982	180,270	90,834	3,336,950
Other Financial Corporations	-	-	-	-	-	-	1,413,953	1,413,953
Other	-	-	-	-	-	-	1,754	1,754
Grand Total	475,664	1,272,597	213,799	558,804	544,982	180,270	3,169,804	6,415,921

The US\$1.4bn disclosed in Other Financial Corporations “Others” includes financial intermediation, non-bank credit grantors, financial vehicle corporations and insurance industry classifications.

Past Due & Impaired

The amount of impaired exposures is disclosed in the Company’s Financial Statements. These exposures relate to the transportation and shipping industries and relate to “Rest of World” exposures.

Asset Encumbrance

An asset is encumbered if it has been pledged or is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn.

The table below is a breakdown of assets that were encumbered:

Asset Encumbrance as at 31st October 2016					
	Carrying amount of encumbered assets	Fair Value of encumbered assets	Carrying amount of unencumbered assets	Fair Value of unencumbered assets	
	USD '000s	USD '000s	USD '000s	USD '000s	
10	Assets of the reporting institution	26,300	26,300	6,532,994	6,538,605
30	Equity instruments			18,135	18,135
40	Debt Securities			2,914,469	2,920,080
120	Other Assets	26,300	26,300	3,600,390	3,600,390

Use of External Credit Assessment Institutions (“ECAIs”)

The Company uses the standardised approach when calculating credit and counterparty risk. The standardised approach requires banks to use risk assessments prepared by ECAIs to determine the risk weightings applied to rated counterparties.

The table below shows the exposures amounts associated with the credit quality steps:

Credit Quality	Exposure	Exposure	RWAs
	(Pre credit risk mitigation) USD '000s	(Post credit risk mitigation) USD '000s	USD '000s
1	2,014,272	1,993,515	242,199
2	1,311,461	1,232,914	636,365
3	688,583	666,430	662,690
4	143,947	114,102	114,032
Unrated	2,941,110	2,408,960	2,819,770
Total	7,099,372	6,415,921	4,475,055

Securitisation

The Company is involved in securitisation deals where it acts as an investor as at the reporting date. These investments were entered into as they provided a satisfactory return for the risk being taken.

At October 31st 2016, the Company held two securitisation positions. One of the positions comprises class A notes of an asset backed securitisation vehicle and the other is a capital note subordinated to other obligations in a larger Asset Backed Commercial Paper conduit.

These positions are reflected in the table below:

Securitisation Positions at at 31st October 2016			
	On Balance Sheet	RWAs	Capital Requirements
	USD '000s	USD '000s	USD '000s
Loans and receivables	212,760	42,552	3,404
Available-for-sale financial Assets	37,961	474,511	37,961
Total	250,721	517,063	41,365

Monitoring

The Company receives monthly investor reports from the issuers wherein relevant information with regard to the investment is disclosed. The information received is analysed and any material changes are highlighted to Risk Management. Risk Management also independently review these reports monthly.

Accounting Treatment

Loans and advances are initially measured at fair value and subsequently measured at their amortised cost using the effective interest method.

Available for sale assets are initially recognised and subsequently measured at fair value in the balance sheet. Gains and losses arising from changes in the fair value are recognised as a separate component of the shareholders' equity until the financial assets are derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is transferred to the profit and loss account.

The AFS securitisation position held at the reporting date does not trade in an active market and is fair valued using a model that requires the use of significant unobservable inputs. This requires greater management judgment for valuation purposes. This valuation is considered as Level 3 in the fair value hierarchy. The unobservable inputs used in this valuation primarily include the amount of cash flows and discount rate assumptions. These assumptions are reviewed on an ongoing basis by Management.

If Management revise its estimates of payments or receipts, they adjust the carrying amount of the financial asset to reflect actual and revised estimated cash flows. They recalculate the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The adjustment is recognised in profit or loss as income or expense.

Credit Risk

The securitisations are subject to a credit risk capital charge under the standardised approach and the capital charge is as shown in the securitisation positions table above.

Leverage

The leverage ratio is a transparent, comparable measure not affected by risk weightings. It is calculated as Tier 1 capital divided by total exposure as per CRD IV article 429(2). The Company is using the fully phased in definition of capital for the purposes of this disclosure and the requirements set out in the Commission Delegated Regulation (EU) 2015/62.

At 31 October 2016 the leverage ratio was 37.7%, significantly above both the regulatory minimum and the internal minimum requirement set by the Board of Directors. The leverage ratio decreased marginally by 1.6% during the year and no factor had a material impact on the leverage ratio year on year. Total leverage exposure value has increased by US\$0.47bn.

The level of leverage is monitored by the Company's Risk Committee of the Board and Risk Management Committee and is assessed alongside capital and capital ratios.

Summary reconciliation of accounting assets and leverage ratio exposures	31 October 2016	31 October 2015
	USD '000s	USD '000s
Total assets as per published financial statements	6,559	6,263
Adjustments for derivative financial instruments	20	13
Adjustments for SFTs	1	18
Adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	820	623
Other adjustments	3	14
Total leverage ratio exposure	7,398	6,931

Leverage ratio common disclosure

USD 'millions

	2016	2015
On-balance sheet exposures (excluding derivatives and SFTs)		
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	6,305	6,229
(Asset amounts deducted in determining Tier 1 capital)	(3)	-
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	6,302	6,229
Derivative exposures		
Replacement cost associated with all derivatives transactions (i.e net of eligible cash variation margin)	115	13
Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	35	47
(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
Total derivative exposures	150	61
Securities financing transaction exposures		
Counterparty credit risk exposure for SFT assets	126	18
Total securities financing transaction exposures	126	18
Other off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	1,667	1,294
(Adjustments for conversion to credit equivalent amounts)	(847)	(671)
Other off-balance sheet exposures	820	623
Capital and total exposures		
Tier 1 capital	2,787	2,727
Total leverage ratio exposures	7,398	6,931
Leverage ratio		
Leverage ratio	37.7%	39.3%
Choice on transitional arrangements and amount of derecognised fiduciary items		
Choice on transitional arrangements for the definition of the capital measure	FULL IMPACT	

Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

USD '000s

	2016	2015
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	6,305	6,229
Trading book exposures	869	970
Banking book exposures, of which:	5,436	5,260
Covered Bonds	138	158
Exposures treated as sovereigns	755	315
Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	236	238
Institutions	362	579
Corporate	3,515	3,566
Exposures in default	30	51
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	399	354