

THE BANK OF NOVA SCOTIA

Unaudited Financial Information Disclosure Statement as at April 30, 2019

SECTION A - BRANCH INFORMATION (HONG KONG OFFICE ONLY)

I. Profit and loss information	6 mths ended Apr-30-19 HKD'000	6 mths ended Apr-30-18 HKD'000
Interest income	407,572	296,024
Interest expense	<u>(304,982)</u>	<u>(276,792)</u>
Net interest income	102,590	19,232
Gains less losses arising from trading in foreign currencies	17,993	190,420
Gains less losses from other trading activities	(287)	1,995
Fees and commission income	56,711	32,283
Others	<u>(2,108)</u>	<u>221</u>
Operating income	174,899	244,151
Staff expenses	<u>(102,545)</u>	<u>(105,776)</u>
Other expenses	<u>(53,605)</u>	<u>(45,610)</u>
Operating expenses	(156,150)	(151,386)
Profit before taxation	18,749	92,765
Taxation charge	<u>(4,550)</u>	<u>(17,544)</u>
Profit after taxation	14,199	75,221
II. Balance Sheet	Apr-30-19 HKD'000	Oct-31-18 HKD'000
Assets		
Cash and balances with banks	2,149,414	4,383,561
Placements with banks which have a residual contractual maturity of more than one month but not more than 12 months	3,625,452	3,621,296
Amount due from overseas offices of the institution	15,009,430	13,363,206
Trade bills	6,801,211	5,704,594
Loans and receivables		
Loans and advances to customers	9,225,420	9,472,536
Accrued interest and other accounts	<u>348,281</u>	<u>1,460,087</u>
Investment securities	3,482,898	2,947,037
Other investments	2,041,477	2,715,934
Total assets	42,683,583	43,668,251
Liabilities	Apr-30-19 HKD'000	Oct-31-18 HKD'000
Deposits and balances from banks	10,308,775	9,089,332
Deposits from customers		
Demand deposits and current accounts	71,747	333,538
Savings deposits	18,677	33,577
Time, call and notice deposits	<u>15,212,729</u>	<u>16,145,508</u>
Amount due to overseas offices of the institution	15,856,951	16,829,838
Certificates of deposit issued	784,480	-
Other liabilities	430,224	1,236,458
Total liabilities	42,683,583	43,668,251

Impairment allowance for impaired assets

Collective impairment allowances for impaired assets are maintained at overseas Head Office (The Bank of Nova Scotia, "the Bank") , while individual impairment allowances are booked in the Hong Kong Office.

No individual impairment allowance was booked for exposures maintained in the Hong Kong Office as at April 30, 2019 (October 31, 2018: Nil).

The Bank applies a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9 effective November 1, 2017. The impairment allowances pertaining to the exposures classified in Stages 1 and 2 under IFRS 9 are treated as collective impairment allowances and those classified in Stage 3 under IFRS 9 are treated as individual impairment allowances.

The Bank's allowance for credit losses calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception. The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

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

- Stage 1 – Where there has not been a significant increase in credit risk (SIR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.
- Stage 2 – When a financial instrument experiences a SIR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.
- Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

III. Impaired Assets

No advances to customers, banks and other financial institutions were impaired as at April 30, 2019 (October 31, 2018: Nil).

a. *Overdue advances*

No advances to customers, banks, other financial institutions and other assets were overdue as at April 30, 2019 (October 31, 2018: Nil)

b. *Rescheduled advances*

No advances to customers, banks and other financial institutions were rescheduled as at April 30, 2019 (October 31, 2018: Nil).

c. *Reposessed assets*

	Apr-30-19 HKD'000	Oct-31-18 HKD'000
Reposessed assets - held for use	<u>39</u>	<u>39</u>

Reposessed assets considered to be held for use is measured initially at fair value and accounted for in the same manner as a similar asset acquired in the normal course of business.

IV. Off-Balance Sheet Exposures

a. *Contingent liabilities and commitments*

	Apr-30-19 HKD'000	Oct-31-18 HKD'000
- Direct credit substitutes	839,030	983,215
- Trade-related contingencies	938,795	798,000
- Other commitments	3,405,351	3,444,746
- Others	624,864	117,684
Total	<u>5,808,040</u>	<u>5,343,645</u>

b. *Derivatives*

	Apr-30-19 HKD'000	Oct-31-18 HKD'000
Notional Amounts:		
- Exchange rate contracts	73,583,432	150,047,532
- Interest rate contracts	2,163,203	2,842,761
- Others	4,726,441	4,047,185
Total	<u>80,473,076</u>	<u>156,937,478</u>

	Apr-30-19 HKD'000	Oct-31-18 HKD'000
Fair value:		
- Exchange rate contracts	1,118,906	921,501
- Interest rate contracts	3,306	16,626
- Others	46,441	226,146
Total	<u>1,168,653</u>	<u>1,164,273</u>

No bilateral netting arrangements were made for the above derivative transactions.

V. **Segmental Information**

a. **Analysis of loans and advances to customers by sectors**

	Apr-30-19		Oct-31-18	
	HKD'000	% of loans and advances covered by collateral	HKD'000	% of loans and advances covered by collateral
Industrial, commercial & financial				
- Property investment	200,000	-	200,000	-
- Wholesale and retail trade	630,173	-	665,265	-
- Manufacturing	-	-	51,539	-
- Transport and Transport equipment	186,314	100.0%	215,792	100.0%
- Others	66,748	-	80,188	-
Loans and advances for use in Hong Kong	1,083,235	17.2%	1,212,784	17.8%
Loans and advances for use outside Hong Kong	8,142,185	13.9%	8,259,752	19.5%
Total loans and advances to customers	9,225,420	14.3%	9,472,536	19.3%

b. **Non-bank Mainland exposures**

	Apr-30-19 HKD'000		
	On-Balance sheet exposure	Off-Balance sheet exposure	Total
- Central government, central government-owned entities and their subsidiaries and JV	540,542	300,000	840,542
- PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JV	145,168	916,686	1,061,854
- PRC nationals residing outside Mainland China or other entities incorporated outside Mainland China where the credit is granted or use in Mainland China	-	250,655	250,655
- Other entities of central government not reported above	-	113	113
Total	685,710	1,467,454	2,153,164
Total Asset after provision	42,683,583		
On-balance sheet exposures as % of total asset	1.61%		
	Oct-31-18 HKD'000		
	On-Balance sheet exposure	Off-Balance sheet exposure	Total
- Central government, central government-owned entities and their subsidiaries and JV	565,922	176,000	741,922
- PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JV	269,162	715,327	984,489
- PRC nationals residing outside Mainland China or other entities incorporated outside Mainland China where the credit is granted or use in Mainland China	49,057	201,098	250,155
- Other entities of central government not reported above	-	476	476
Total	884,141	1,092,901	1,977,042
Total assets after provision	43,668,251		
On-balance sheet exposures as % of total assets	2.02%		

c. Analysis of advances to customers by geographic areas according to the location of counterparties after risk transfer :

	Apr-30-19 (HKD millions)	Oct-31-18 (HKD millions)
Hong Kong	4,917	4,895
Rest of Asia Pacific	4,308	4,543
Others	-	35
	<u>9,225</u>	<u>9,473</u>

d. International Claims

The following table provides a breakdown of international claims by major countries and geographical segments. Only major countries or geographical locations with not less than 10% of the total international claims after taking into account any recognized risk transferred are disclosed.

	Apr-30-19 (HKD millions)				Total
	Banks	Official Sector	Non-bank private sector		
			Non-bank Financial Institutions	Non-financial Private Sector	
Developed Countries	15,161	1,338	-	921	17,420
<i>of which Canada</i>	15,133	-	-	-	15,133
Offshore Centres	1,092	-	-	6,452	7,544
<i>of which Hong Kong</i>	699	-	-	5,286	5,985
Developing Asia and Pacific	10,659	354	162	3,013	14,188
<i>of which China</i>	10,659	354	162	323	11,498

	Oct-31-18 (HKD millions)				Total
	Banks	Official Sector	Non-bank private sector		
			Non-bank Financial Institutions	Non-financial Private Sector	
Developed Countries	15,901	1,213	-	1,427	18,541
<i>of which Canada</i>	15,825	-	-	213	16,038
Offshore Centres	749	-	-	6,379	7,128
<i>of which Hong Kong</i>	326	-	-	4,735	5,061
Developing Asia and Pacific	9,671	442	-	2,736	12,849
<i>of which China</i>	9,324	442	-	300	10,066

VI. Currency risk

The following position constitutes more than 10% (either positive or negative) of the total net position in all foreign currencies.

	Apr-30-19 (HKD millions)			
	USD	CNY	GOLD	TOTAL
Spot assets	23,923	678	5,217	29,818
Spot liabilities	(24,228)	(662)	(6,243)	(31,133)
Forward purchases	16,286	21,747	29,354	67,387
Forward sales	(15,223)	(21,774)	(28,430)	(65,427)
Net long (short) position	<u>758</u>	<u>(11)</u>	<u>(102)</u>	<u>645</u>

	Oct-31-18 (HKD millions)			
	USD	CNY	GOLD	TOTAL
Spot assets	25,648	906	5,328	31,882
Spot liabilities	(26,961)	(840)	(6,091)	(33,892)
Forward purchases	20,632	20,234	31,387	72,253
Forward sales	(19,283)	(20,318)	(30,545)	(70,146)
Net long (short) position	<u>36</u>	<u>(18)</u>	<u>79</u>	<u>97</u>

There were no structural assets and liabilities as at April 30, 2019 (October 31, 2018: Nil).

VII. Liquidity Risk Management

Liquidity risk is the risk that the Bank is unable to meet its financial obligations in a timely manner. Financial obligations include liabilities to depositors, payments due under derivative contracts, and lending and investment commitments.

Effective liquidity risk management is essential to maintain the confidence of depositors and counterparties, manage the Bank's cost of funds and to support core business activities, even under adverse circumstances.

Liquidity risk is managed within the framework of policies and limits that are approved by senior management and Head Office. Senior management receives reports on risk exposures and performance against approved limits. The Asset-Liability Committee (ALCO) provides senior management oversight of liquidity risk.

The key elements of the Bank's liquidity risk management framework are:

- Measurement and modeling – the Bank's liquidity model measures and forecasts cash inflows and outflows, including off-balance sheet cash flows on a daily basis. Risk is managed by a set of key limits over the maximum net cash outflow by currency over specified short-term horizons (cash gaps), a minimum level of core liquidity, and liquidity stress tests.

- Reporting – support the ALCO with analysis, risk measurement, stress testing, monitoring and reporting for their oversight of all significant liquidity risks.

- Stress testing – the Bank performs liquidity stress testing on a regular basis, to evaluate the effect of both industry-wide and Bank-specific disruptions on the Bank's liquidity position. Liquidity stress testing has many purposes including:

- Helping the Bank to understand the potential behavior of various on-balance sheet and off-balance sheet positions in circumstances of stress; and
- Based on this knowledge, facilitating the development of risk mitigation and contingency plans.

The Bank's liquidity stress tests consider the effect of changes in funding assumptions, depositor behavior and the market value of liquid assets. The Bank performs industry standard stress tests, the results of which are reviewed by senior management and are considered in making liquidity management decisions.

- Contingency planning – the Bank maintains a liquidity contingency plan that specifies an approach for analyzing and responding to actual and potential liquidity events. The plan outlines an appropriate 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 Bank actively manages the diversification of its deposit liabilities by source, type of depositor, instrument, term and geography.

- Core liquidity – the Bank 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 Bank-specific events. The Bank also maintains liquid assets to support its intra-day settlement obligations in payment, depository and clearing systems.

The following analysis shows the liquidity position for the year ended **Apr 30, 2019** and its comparative year:

	<u>3 mths ended Apr-30-19</u>	<u>3 mths ended Apr-30-18</u>
Average liquidity maintenance ratio ("LMR") for the year	<u>47.0%</u>	<u>46.8%</u>

The average liquidity maintenance ratio is the simple average of each calendar month's average ratio and has been computed in accordance with the Banking (Liquidity) Rule.

SECTION B - BANK INFORMATION (CONSOLIDATED BASIS)

1. <u>Capital and capital adequacy</u>	Apr-30-19 CAD millions	Oct-31-18 CAD millions
Shareholders' equity:		
Capital stock		
- Preferred shares	3,884	4,184
- Common shares and other reserves	18,679	18,638
Retained earnings	43,056	41,414
Accumulated other comprehensive income	1,836	992
Non-controlling interest	<u>2,792</u>	<u>2,452</u>
	<u>70,247</u>	<u>67,680</u>
Total capital ratio	14.7%	14.3%

Capital adequacy ratio is calculated by dividing the components of capital by risk-weighted assets (includes assets which are subject to market risk). Capital adequacy is governed by the requirements of the Office of the Superintendent of Financial Institutions (OSFI) which are consistent with international standards set by the Bank for International Settlements (BIS).

2. **Other financial information**

	Apr-30-19 CAD millions	Oct-31-18 CAD millions
Total assets	1,058,169	998,493
Total liabilities	987,922	930,813
Total advances	583,815	551,834
Total customer deposits	668,640	636,547
Total deposits from banks	43,642	39,987
	6 mths ended Apr-30-19 CAD millions	6 mths ended Apr-30-18 CAD millions
Pre-tax profit	5,629	5,844
After-tax profit	4,506	4,514

Disclosure Statement Available to The Public

To comply with the Banking (Disclosure) Rules, the disclosure statement is available under the "Regulatory Disclosures" Section on the Head Office's website www.scotiabank.com/global/en/country/hong-kong.html

The Bank of Nova Scotia, Hong Kong Branch

Andy. S.C. POON
Chief Executive

July 31, 2019

Note: In the event of any difference in interpretation or meaning between the Chinese and English version of this Statement, the English version shall prevail.