Scotia Investments Trinidad and Tobago Limited

FINANCIAL STATEMENTS AS AT OCTOBER 31, 2020

Scotiabank™

Statement of Management's Responsibilities Scotia Investments Trinidad and Tobago Limited

Management is responsible for the following:

- Preparing and fairly presenting the accompanying financial statements of Scotia Investments Trinidad and Tobago Limited, which comprise the statement of financial position as at October 31, 2020, the statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information;
- Ensuring that the Company keeps proper accounting records;
- Selecting appropriate accounting policies and applying them in a consistent manner;
- Implementing, monitoring and evaluating the system of internal control that assures security of the Company's assets, detection/prevention of fraud, and the achievement of the Company's operational efficiencies;
- Ensuring that the system of internal control operated effectively during the reporting period;
- Producing reliable financial reporting that complies with laws and regulations, including the Companies Act; and
- Using reasonable and prudent judgement in the determination of estimates.

In preparing these financial statements, management utilized the International Financial Reporting Standards, as issued by the International Accounting Standards Board and adopted by the Institute of Chartered Accountants of Trinidad and Tobago. Where International Financial Reporting Standards presented alternative accounting treatments, management chose those considered most appropriate in the circumstances.

Nothing has come to the attention of management to indicate that the Company will not remain a going concern for the next twelve months from the reporting date, or up to the date the accompanying financial statements have been authorized for issue, if later.

Management affirms that it has carried out its responsibilities as outlined above.

Jarod Perryman
Director-Wealth
Date: December 10, 2020

Reshard Mohammed
VP, CFO and CAO
Date: December 10, 2020

Independent Auditors' Report to the Shareholder of Scotia Investments Trinidad and Tobago Limited

Opinion

We have audited the accompanying financial statements of Scotia Investments Trinidad and Tobago Limited (the Company) which comprise the statement of financial position as at October 31, 2020, the statements of profit or loss, other comprehensive income, changes in 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 present fairly, in all material respects, the financial position of the Company, as at October 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 Scotia Investments Trinidad and Tobago Limited in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Trinidad and Tobago, and we have fulfilled our other ethical responsibilities in accordance with these requirements and with the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

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.

As part of an audit in accordance with ISAs, we exercise professional judgement 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 Company'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.

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.

KPMG

Chartered Accountants
Port of Spain
Trinidad and Tobago
December 10, 2020

STATEMENT OF FINANCIAL POSITION OCTOBER 31, 2020

	Notes	2020 $	2019 $
ASSETS			
Cash and cash equivalents		5,649,949	5,548,704
Other receivables	9	606,483	287,147
Investment securities	8	33,993,749	39,953,282
Taxation recoverable		-	275,478
Deferred tax asset	15	99	613
Total assets		40,250,280	46,065,224
LIABILITIES AND EQUITY			
LIABILITIES			
Accounts payable and accrued liabilities		724,227	989,055
Deferred tax liability	15	52,500	-
Total liabilities		776,727	989,055
EQUITY			
Stated capital	11	30,000,000	30,000,000
Statutory reserve fund	12	1,951,000	1,449,000
Investment revaluation reserve		125,168	98,154
Retained earnings		7,397,385	13,529,015
Total equity		39,473,553	45,076,169
Total liabilities and equity		40,250,280	46,065,224

The accompanying notes are an integral part of these financial statements.

Steve Ragobar, Director

Savon Persad, Director

STATEMENT OF PROFIT OR LOSS YEAR ENDED OCTOBER 31, 2020

	Notes	2020 $	2019 $
REVENUE			
Interest income calculated using the effective interest method		730,928	1,009,607
Fee and commission income	16	7,200,469	6,716,631
Total revenue		7,931,397	7,726,238
EXPENSES			
Salaries and staff benefits		1,457,654	1,708,126
Premises and technology		152,749	315,845
Communications and marketing		780	2,262
Other expenses	14	1,276,663	1,375,067
Impairment losses on financial instruments	10	859	1,786
Total expenses		2,888,705	3,403,086
Profit before taxation		5,042,692	4,323,152
TAXATION	15	672,322	588,712
PROFIT FOR THE YEAR		4,370,370	3,734,440

The accompanying notes are an integral part of these financial statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME YEAR ENDED OCTOBER 31, 2020

	2020 $	2019 $
PROFIT FOR THE YEAR	4,370,370	3,734,440
OTHER COMPREHENSIVE INCOME		
Items that are or may be reclassified subsequently to profit or loss		
Movement in fair value reserve (FVOCI debt instruments):		
Debt instruments at FVOCI – net change in fair value	79,514	50,012
Related tax	(52,500)	-
	27,014	50,012
TOTAL COMPREHENSIVE INCOME	4,397,384	3,784,452

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY YEAR ENDED OCTOBER 31, 2020

	Stated Capital $	Statutory Reserve Funds $	Investment Revaluation Reserve Funds $	Retained Earnings $	Total Equity $
Balance as at November 1, 2018	30,000,000	999,000	48,142	10,244,575	41,291,717
Profit for the year	-	-	-	3,734,440	3,734,440
Other comprehensive income:					
Fair value reserve (FVOCI debt instruments): Debt instruments at FVOCI – net change in fair value	-	-	50,012	-	50,012
Total comprehensive income	-	-	50,012	3,734,440	3,784,452
Transactions with equity owners of SITTL:					
Transfer to statutory reserve (Note 12)	-	450,000	-	(450,000)	-
Balance as at October 31, 2019	**30,000,000**	**1,449,000**	**98,154**	**13,529,015**	**45,076,169**
Balance as at November 1, 2019	30,000,000	1,449,000	98,154	13,529,015	45,076,169
Profit for the year	-	-	-	4,370,370	4,370,370
Other comprehensive income:					
Fair value reserve (FVOCI debt instruments): Debt instruments at FVOCI – net change in fair value	-	-	27,014	-	27,014
Total comprehensive income	-	-	27,014	4,370,370	4,397,384
Transactions with equity owners of SITTL:					
Dividends paid	-	-	-	(10,000,000)	(10,000,000)
Transfer to statutory reserve (Note 12)	-	502,000	-	(502,000)	-
Balance as at October 31, 2020	**30,000,000**	**1,951,000**	**125,168**	**7,397,385**	**39,473,553**

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS YEAR ENDED OCTOBER 31, 2020

	2020 $	2019 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	5,042,692	4,323,152
Adjustments for:		
- Other receivables	(319,336)	(84,943)
- Accounts payable and accrued liabilities	(120,590)	479,588
- Allowance for credit losses	859	(71)
Tax refund received	275,478	-
Taxation paid	(816,906)	(576,521)
Net cash from operating activities	4,062,197	4,141,205
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of investment securities	39,857,023	29,970,946
Purchase of investment securities	(33,817,975)	(39,903,276)
Net cash from (used in) investing activities	6,039,048	(9,932,330)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(10,000,000)	-
Net cash used in financing activities	(10,000,000)	-
Net increase (decrease) in cash and cash equivalents	101,245	(5,791,125)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,548,704	11,339,829
CASH AND CASH EQUIVALENTS, END OF YEAR	5,649,949	5,548,704
CASH AND CASH EQUIVALENTS REPRESENTED BY:		
Cash at bank	5,649,949	5,548,704
	5,649,949	5,548,704

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS OCTOBER 31, 2020

1. Incorporation and Business Activities

Scotia Investments Trinidad and Tobago Limited (SITTL) was incorporated in the Republic of Trinidad and Tobago, on August 23, 2007. On May 27, 2015 SITTL became a wholly owned subsidiary of Scotiabank Trinidad and Tobago Limited (Scotiabank). SITTL is licensed under the Financial Institutions Act, 2008 (FIA). SITTL's principal activity is the provision of asset management services. The address of its registered office is 56-58 Richmond Street, Port of Spain.

SITTL's ultimate parent company is The Bank of Nova Scotia, which is incorporated and domiciled in Canada.

On December 8, 2020 the Board of Directors of Scotia Investments Trinidad and Tobago Limited authorized the financial statements for issue.

2. Basis of Accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board. This is the first set of SITTL's financial statements in which IFRS 16 Leases has been applied. There was however no impact on the financial statements.

These financial statements have been prepared on a going concern basis which assumes that SITTL will be able to meet the mandatory repayment terms of its current liabilities. SITTL has recognized profits of $4,370,370 after tax for the year ended October 31, 2020, and as at that date, total assets exceed total liabilities by $39,473,553.

3. Basis of Measurement

These financial statements are prepared on the historical cost basis modified for the inclusion of investments measured at fair value through other comprehensive income (FVOCI).

4. Functional and Presentation Currency

Items included in these financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). These financial statements are presented in Trinidad and Tobago dollars which is SITTL's functional and presentation currency.

5. Use of Accounting Estimates and Judgements

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, contingent assets and contingent liabilities at the date of the financial statements and income and expenses during the reporting period. Actual results could differ from these estimates.

Judgements made by management in the application of IFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year are discussed on the page that follows.

(a) Determining fair values with significant unobservable input
The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 6(c)(iii). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(b) Identification and measurement of impairment
At each reporting date, SITTL assesses whether there is objective evidence that financial assets not carried at fair value are impaired by determining whether there has been a significant increase in credit risk.

6. Significant Accounting Policies

The significant accounting policies adopted in the preparation of these financial statements are set out below.

(a) Revenue recognition

(i) Investment securities

Interest income is accounted for on the accrual basis for all investments using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial assets or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability and is not revised subsequently. When calculating the effective interest rate, SITTL estimates the future cash flows considering all contractual terms of the financial instrument, but not the future credit losses.

(ii) Fees and commissions

Fees and commissions comprise mainly income from asset management services provided to related party entities. Fees are charged to customers monthly on the basis of portfolio size and revenue is recognized over time as the related services are performed.

(b) Foreign currency

Transactions in foreign currencies are translated at the rate of exchange ruling at the transaction date. Foreign currency monetary assets and liabilities are translated at the rate of exchange ruling at the reporting date. Resulting translation differences and profits and losses from trading activities are included in profit or loss.

(c) Financial assets and financial liabilities

Financial instruments carried on the statement of financial position include cash and cash equivalents, investment securities, other receivables and accounts payable. The standard treatment for recognition, derecognition, classification and measurement of SITTL's financial instruments is noted below in notes (i) – (vii), whilst additional information on specific categories of SITTL's financial instruments is discussed in Notes 6(d) - 6(f):

(i) Recognition

SITTL initially recognizes financial assets and financial liabilities (including assets and liabilities designated at fair value through profit or loss (FVTPL)) on the trade date, which is the date on which SITTL becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue. For financial assets or financial liabilities measured at fair value through profit or loss, transaction costs are recognized immediately in profit or loss.

(ii) Classification

On initial recognition, a financial asset is classified as measured at amortized cost, FVOCI or FVTPL.

A financial asset is at amortized cost if it meets both of the following conditions and is not designated as at FVTPL;

- the assets are held within a business model, whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL;

- the assets is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, SITTL may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

SITTL makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the SITTL's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how SITTL's stated objective for managing the financial assets is achieved and how cash flows are realized.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the SITTL's continuing recognition of the assets.

Financial assets that are held-for-trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flow are solely payments of principal and interest

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

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

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

If SITTL identifies any contractual features that could significantly modify the cash flows of the instrument such that they are no longer consistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Debt instruments measured at FVOCI

Debt instruments are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the assets' cash flows represent payments that are solely payments of principal and interest.

Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVOCI are recorded in other comprehensive income (OCI), unless the instrument is designated in a fair value hedge relationship. When designated in a fair value hedge relationship, any changes in fair value due to changes in the hedged risk are recognized in Other Income in the Statement of Profit or Loss. Upon derecognition, realized gains and losses are reclassified from OCI and recorded in Other Income in profit or loss. Foreign exchange gains and losses that relate to the amortized cost of the debt instrument are recognized in the profit or loss.

Premiums, discounts and related transaction costs are amortized over the expected life of the instrument to Interest income in profit or loss using the effective interest rate method.

Impairment on debt instruments measured at FVOCI is calculated using the expected credit loss approach. The accumulated credit losses on debt instruments measured at FVOCI does not reduce the carrying amount of the asset in the Statement of Financial Position, which remains at its fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI with a corresponding charge to Net impairment loss on financial assets in profit or loss. The accumulated allowance recognized in OCI is recycled to profit or loss upon derecognition of the debt instrument.

Debt instruments measured at FVTPL

Debt instruments are measured at FVTPL if assets:

(i) Are held for trading purposes;

(ii) Are held as part of a portfolio managed on a fair value basis; or

(iii) Whose cash flows do not represent payments that are solely payments of principal and interest.

These instruments are measured at fair value in the Statement of Financial Position, with transaction costs recognized immediately in profit or loss as part of Other Income. Realized and unrealized gains and losses are recognized as part of Other Income in profit or loss.

Financial liabilities

SITTL classifies its financial liabilities as measured at amortized cost.

(iii) Fair value measurement

'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 SITTL has access at that date. The fair value of a liability reflects its non-performance risk.

When available, SITTL measures the fair value of an instrument using the quoted price in an active market for that instrument. 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.

If there is no quoted price in an active market, then SITTL uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.
The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If SITTL determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then SITTL measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by SITTL on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position), for the particular risk exposure. Portfolio-level adjustments e.g. bid ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

SITTL recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(iv) Derecognition

Financial assets

SITTL derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which SITTL neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income (OCI) is recognized in profit or loss.

SITTL enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognized.

In transactions in which SITTL neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, SITTL continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

SITTL derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

(v) Amortized cost measurement

Amortized cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

(vi) Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, SITTL evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

If the cash flows of the modified asset earned at amortized cost are not substantially different, then the modification does not result in derecognition of the financial asset.

Financial liabilities

SITTL derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss.

(vii) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position only when SITTL has a legally enforceable right to set off the amounts and it intends to either settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis when permitted under IFRS, or for gains and losses arising from a group of similar transactions.

(d) Impairment of financial assets

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

- Amortized cost financial assets;
- Debt securities classified as at FVOCI;

(i) Expected credit loss impairment model

SITTL'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 (SICR) 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.

(ii) Measurement of ECL

ECL is a probability-weighted estimate of credit losses.

The probability of default (PD), exposure at default (EAD), and loss given default (LGD) inputs are used to estimate expected credit losses are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio.

Details of these statistical parameters/inputs are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life, if the facility has not been previously derecognized and is still in the portfolio.

- EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

(iii) Forward-looking information

The estimation of expected credit losses for each stage and the assessment of significant increases in credit risk consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information may require significant judgment.

(iv) Macroeconomic factors

In its models, SITTL relies on a broad range of forward-looking economic information as inputs, such as: GDP growth, unemployment rates and central-bank interest rates. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays may be made as temporary adjustments using expert credit judgment.

(v) Multiple forward-looking scenarios

SITTL determines its allowance for credit losses using three probability-weighted forward-looking scenarios. SITTL considers both internal and external sources of information and data in order to achieve unbiased projections and forecasts. SITTL prepares the scenarios using forecasts generated by Scotiabank Economics (SE). The forecasts are created using internal and external models which are modified by SE as necessary to formulate a 'base case' view of the most probable future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The process involves the development of two additional economic scenarios and consideration of the relative probabilities of each outcome.

The 'base case' represents the most likely outcome and is aligned with information used by SITTL for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. SITTL has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables, credit risk, and credit losses.

*(vi) Assessment of significant increase in credit risk (*SICR*)*

At each reporting date, SITTL assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers quantitative and qualitative information, and the impact of forward-looking macroeconomic factors.

The common assessments for SICR include macroeconomic outlook, management judgement, and delinquency and monitoring. Forward-looking macroeconomic factors are a key component of the macroeconomic outlook. The importance and relevance of each specific macroeconomic factor depends on the type of product, characteristics of the financial instruments and the borrower and the geographical region. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap. Examples of situations include changes in portfolio composition; and natural disasters impacting certain portfolios. With regards to delinquency and monitoring, there is a rebuttable presumption that the credit risk of the financial instrument has increased since initial recognition when contractual payments are more than 30 days overdue.

(vii) Expected life

When measuring expected credit loss, SITTL considers the maximum contractual period over which SITTL is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment, and extension and rollover options.

(viii) Presentation of allowance for credit losses in the Statement of Financial Position

- Financial assets measured at amortized cost: as a deduction from the gross carrying amount of the financial assets;

- Debt instruments measured at fair value through other comprehensive income: no allowance is recognized in the Statement of Financial Position because the carrying value of these assets is their fair value. However, the allowance determined is presented in the accumulated other comprehensive income;

(ix) Definition of default

SITTL considers a financial instrument to be in default as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. This includes events that indicate:

- significant financial difficulty of the borrower;

- default or delinquency in interest or principal payments;

- high probability of the borrower entering a phase of bankruptcy or a financial reorganization;

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

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

(x) Write-off policy

SITTL writes off an impaired financial asset (and the related impairment allowance), either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, write-off is generally after receipt of any proceeds from the realization of security. In subsequent periods, any recoveries of amounts previously written off are credited to the provision for credit losses in profit or loss.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits with banks and related companies and short-term highly liquid investments with maturities of three months or less when purchased, including treasury bills and other bills eligible for rediscounting with the Central Bank of Trinidad and Tobago.

Cash and cash equivalents are carried at amortized cost in the statement of financial position. The carrying value approximates the fair value due to its highly liquid nature and the fact that it is readily converted to known amounts of cash in hand and is subject to insignificant risk of change in value.

(f) Investment securities

The "investment securities" caption in the statement of the financial position includes debt securities measured at FVOCI and debt securities measured at amortized cost.

Debt securities measured at amortized cost are initially measured at fair value plus incremental direct transaction costs and subsequently at their amortized cost using the effective interest method.

For debt securities measured at FVOCI, gains and losses are recognized in OCI, except for the following, which are recognized in profit or loss in the same manner as for financial assets measured at amortized cost:

- interest revenue using the effective interest method;
- ECL and reversals; and.
- foreign exchange gains and losses.

When debt security measured at FVOCI is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss.

(g) Taxation

Income tax expense comprises current tax and the change in deferred tax. It is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in OCI. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the higher of tax rate enacted by the reporting date and business levy, green fund levy and any adjustment of tax payable for previous years.

Deferred tax is recognized on all temporary differences arising between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities which affect neither accounting nor taxable income (loss). Net deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is calculated on the basis of the tax rate that is expected to apply to the period when the asset is realized or the liability is settled. The effect on deferred tax of any changes in the tax rate is charged to profit or loss, except to the extent that it relates to items previously charged or credited directly to equity.

In determining the amount of current and deferred tax, SITTL considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes SITTL to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact income tax expense in the period in which such a determination is made.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that future taxable profits will be available against which they can be used.

(h) Pension plan

SITTL's parent company, Scotiabank, has, for all eligible staff, accounted for the effects of adopting International Accounting Standard IAS 19 (Revised 2007) – Employee Benefits. As such no financial effect of IAS 19 is included in these financial statements.

(i) Assets under administration

Assets that are not beneficially owned by SITTL but are under its administration have been excluded from these financial statements. Assets under administration as at October 31, 2020 totaled $12,500,877 (2019: $15,446,837).

(j) Assets under management

Assets that are not beneficially owned by SITTL but are under its management have been excluded from these financial statements. Assets under management as at October 31, 2020 totaled $3,214,738,991 (2019: $2,928,276,308).

(k) New and forthcoming standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2020 and earlier application is permitted; however, SITTL has not early adopted the new or amended standards in preparing these financial statements.

- *Amendments to References to Conceptual Framework in IFRS Standards*, effective for accounting periods beginning on or after January 1, 2020, have been amended for companies that use the Conceptual Framework to develop accounting policies when no IFRS Standard applies to a particular transaction.

- *Amendments to IFRS 3 Business Combinations, Definition of a Business*, effective for accounting periods beginning on or after January 1, 2020, have been amended to introduce clarifications and narrowing of the current definition of a business. The amendments may require a complex assessment to decide whether a transaction is a business combination or an asset acquisition. This assessment involves using an optional concentration test to get an asset acquisition. The concentration test is a simplified assessment that results in an asset acquisition, if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If the concentration test is not applied or failed, then the assessment focuses on the existence of a substantive process. The amendment applies to businesses acquired in annual reporting periods beginning on or after January 1, 2020.

- *Amendment to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*, effective for accounting periods beginning on or after January 1, 2020, have been amended to clarify the definition of 'material' and to align the definition used in the Conceptual Framework and the IFRS standards themselves.

- *IFRS 16, Leases – Covid -19 Related Rent Concessions*. The amendment exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the covid-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to covid-19-related rent concessions that reduce lease payments due on or before June 30, 2021.

The preceding standards and interpretations are not expected to have a significant impact on SITTL financial statements.

7. Changes in Significant Accounting Policies

IFRS 16 Leases

SITTL has initially applied IFRS 16 from November 1, 2019.

(i) Definition of a lease

Previously, SITTL determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. SITTL now assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, SITTL elected to apply the practical expedient to grandfather the assessment of which transactions are leases. SITTL elected to also apply IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16.

Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after November 1, 2019.

(ii) As a lessee

SITTL does not lease property and office equipment. SITTL previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to SITTL. Under IFRS 16, SITTL does not recognize any right-of-use assets and lease liabilities for the current financial period.

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

Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments..

SITTL considered a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, SITTL:

- did not recognize right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognize right-of-use assets and liabilities for leases of low value assets;
- excluded initial direct costs from the measurement of the right-of-use assets at the date of initial application; and
- used hindsight when determining the lease term.

Leases classified as operating leases under IAS 17

Previously, SITTL classified property and office equipment leases as operating leases under IAS 17.

(iii) As a lessor

SITTL was not a lessor of any property and equipment leases.

(iv) Impact on transition

On transition to IFRS 16, there has been no impact to the financial statements for the year ended October 31, 2020.

	2020	2019
	$	$
8. Investment Securities		
Debt instruments measured at FVOCI		
- Government debt securities	33,993,749	39,953,282

	2020	2019
	$	$
9. Other Receivables		
Accrued interest	62,515	2,978
Accrued management fees	468,423	210,000
Other recoverables	75,545	74,169
	606,483	287,147

10. Impairment Loss Allowance

	2020 $	2019 $
Investment securities	836	1,715
Interest bearing account	23	71
	859	1,786

11. Stated Capital

	2020 $	2019 $
Authorized		
Authorized capital consists of an unlimited number of ordinary shares		
Issued and fully paid		
(2020: 3) (2019: 3) Ordinary shares of no par value	30,000,000	30,000,000

12. Statutory Reserve Fund

In accordance with the Financial Institutions Act, 2008, SITTL is required to transfer at the end of each financial year no less than ten percent of its net income after taxation to a Statutory Reserve Fund until the amount standing to the credit of the Statutory Reserve Fund is not less than its paid-up capital.

	2020 $	2019 $
The movement in the statutory reserve fund is as follows:		
Balance, beginning of year	1,449,000	999,000
Amount transferred	502,000	450,000
Balance, end of year	1,951,000	1,449,000

13. Related Party Balances and Transactions

A party is related to SITTL if:

(a) The party is a subsidiary or an associate of SITTL;

(b) The party is, directly or indirectly, either under common control or subject to significant influence with SITTL, or has significant influence over or joint control of SITTL;

(c) The party is a close family member of a person who is part of key management personnel or who controls SITTL;

(d) The party is controlled or significantly influenced by a member of key management personnel or by a person who controls SITTL;

(e) The party is a joint venture in which SITTL is a venture partner;

(f) The party is a member of SITTL's key management personnel;

(g) The party is a post-employment benefit plan for SITTL's employees;

(h) The party, or any member of a group of which it is a part, provides key management personnel services to SITTL.

Related party transactions include but are not limited to the following:
- Data processing and information technology support
- Technical and management services
- Operations support
- Transaction processing support
- Assets under administration
- Assets under management

	2020 $	2019 $
Outstanding Balances		
Cash and cash equivalents, investments and other assets		
Bank of Nova Scotia and its related entities	5,649,949	5,548,704
Total interest and other income		
Bank of Nova Scotia and its related entities	7,203,227	6,718,547
Total expenses		
Director fees	81,600	81,600
Bank of Nova Scotia and its related entities	909,397	967,508
	990,997	1,049,108
Off Balance Sheet: Assets under management	**3,214,738,991**	**2,928,276,308**

14. Other Expenses

	2020 $	2019 $
Support services	909,397	967,508
Professional fees	238,505	217,035
Supervisory fees	100,000	100,000
Miscellaneous expenses	28,761	90,524
	1,276,663	1,375,067

15. Taxation

15.1 *Provision for taxation*

	2020 $	2019 $
Deferred tax		
Origination and reversal of temporary differences	-	12,727
	-	12,727
Current tax		
Current tax	648,360	542,542
Green Fund levy	23,962	22,991
Business levy	-	10,452
Total provision for taxation	672,322	588,712

15.2 *Reconciliation of provision for taxation*

The following is a reconciliation of the application of the effective tax rate with the provision for taxation:

	2020 $	2019 $
Profit before taxation	5,042,692	4,323,152
Computed tax using applicable tax rate	1,512,808	1,296,946
Tax effect of non-taxable income	(865,268)	(741,677)
Green Fund levy	23,962	22,991
Business levy	-	10,452
Prior year under provision	820	-
Taxation	672,322	588,712

15.3 *Deferred taxation*

The deferred tax asset and deferred tax liabilities in the statement of financial position are attributable to the following:

	November 1, 2019 $	(Credit) to OCI $	October 31, 2020 $
Deferred tax asset			
Allowances for credit losses	613	(514)	99
Deferred tax liabilities			
Movement is fair value reserve (debt instruments at FVOCI)	-	(52,500)	(52,500)

16. Fees and Commission Income

	2020 $	2019 $
Management fees	7,199,753	6,715,830
Other income	716	801
	7,200,469	6,716,631

Management fees included fees earned by SITTL in relation to its asset management services provided.

17. Financial Risk Management

SITTL has exposure to the following risks from its use of financial instruments:
- Credit risk
- Market risk
- Liquidity risk
- Operational risk

This note presents information about SITTL's exposure to each of the above risks, SITTL's objectives, policies and processes for measuring and managing risk, and SITTL's management of capital.

Risk management framework

SITTL utilizes the risk management framework used by Scotiabank Trinidad and Tobago Limited which is as follows:

The Board of Directors has overall responsibility for the establishment and oversight of SITTL's risk management framework. The Scotiabank Group has established the Group Asset Liability Committee (ALCO), Credit and Operational Risk committees, which are responsible for developing and monitoring SITTL's risk management policies in their specified areas.

SITTL's risk management policies are established to identify and analyze the risks faced by SITTL, to set appropriate risk limits and controls, and to monitor risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. Scotiabank, through its training and management standards and procedures, aim to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Scotiabank Group Audit Committee is responsible for monitoring compliance with SITTL's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by SITTL. The Scotiabank Audit Committee is assisted in these functions by the Internal Audit function. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

17.1 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 SITTL. Credit risk is created in SITTL's investment activities where counterparties have repayment, or other obligations to SITTL.

Credit risk is managed through strategies, policies, and limits that are approved by the Board of Directors, which routinely reviews the quality of the major portfolios and all the larger credits.

SITTL's credit policies and limits are structured to ensure broad diversification across various types of credits. Limits are set for individual borrowers, particular industries and certain types of lending. These various limits are determined by taking into account the relative risk of the borrower or industry.

SITTL's credit processes include:
- A centralized credit review system that is independent of the customer relationship function.
- Senior management which considers all major risk exposures; and
- An independent review by the Internal Audit Department.
- Furthermore, SITTL's management conducts a full financial review for each investment at least annually, so that they remain fully aware of investments' risk profiles.

SITTL's maximum exposure to credit risk is detailed below:

	2020 $	2019 $
Cash resources	5,649,949	5,548,704
Investment securities		
- Debt instruments measured at FVOCI	33,993,749	39,953,282
Other receivables	606,483	287,147
	40,250,181	45,789,133

	2020 Stage 1 $	2020 Stage 2 $	2020 Total $	2019 Stage 1 $	2019 Stage 2 $	2019 Total $
Investment securities measured at FVOCI						
Balance at November 1	1,715	-	1,715	-	-	-
Net measurement of loss allowance	836	-	836	1,715	-	1,715
Balance at October 31	2,551	-	2,551	1,715	-	1,715
Interest bearing account at amortized cost						
Balance at November 1	-	71	71	-	-	-
Net measurement of loss allowance	-	23	23	-	71	71
Balance at October 31	-	94	94	-	71	71
Total	2,551	94	2,645	1,715	71	1,786

17.2 Market risk

Market risk refers to the risk of loss resulting from changes in market prices such as interest rates, foreign exchange market prices and other price risks.

The Scotiabank Group Asset Liability Committee (ALCO) provides senior management oversight of the various activities that expose SITTL to market risk. This includes, asset liability management, while also approving limits for funding and investment activities, and reviewing SITTL's interest rate strategies and performance against established limits.

17.2.1 ***Currency risk***

SITTL has no significant foreign exchange exposure since assets are funded by liabilities in the same currency. Foreign currency transactions have not required the use of interest rate swaps, foreign currency options and other derivative instruments which all carry inherent risks.

Concentration of Assets and Liabilities

SITTL has the following currency positions:

2020	TT $	US $	Total $
Assets			
Cash resources	5,622,763	27,280	5,650,043
Investment securities	33,993,749	-	33,993,749
Deferred tax- ECL allowance	99	-	99
Expected credit losses	(94)	-	(94)
Other receivables	606,483	-	606,483
Total assets	40,223,000	27,280	40,250,280
Liabilities			
Accounts payable and accrued liabilities	696,947	27,280	724,227
Deferred tax liability	52,500	-	52,500
Total liabilities	749,446	27,280	776,726
Net balance sheet position	39,473,553	-	39,473,553

2019	TT $	US $	Total $
Assets			
Cash resources	5,521,610	27,165	5,548,775
Investment securities	39,953,282	-	39,953,282
Deferred tax- ECL allowance	613	-	613
Expected credit losses	(71)	-	(71)
Taxation recoverable	275,478	-	275,478
Other receivables	287,147	-	287,147
Total assets	46,038,059	27,165	46,065,224
Liabilities			
Accounts payable and accrued liabilities	961,890	27,165	989,055
Net balance sheet position	45,076,169	-	45,076,169

17.2.2 ***Interest rate risk***

There is no significant interest rate risk exposure to SITTL.

17.2.3 ***Liquidity rate risk***

There is no significant liquidity risk exposure to SITTL.

17.3 Capital management

SITTL's capital management policies seek to achieve several objectives:

• SITTL's compliance capital requirements as set by the Central Bank of Trinidad and Tobago ;
• Ensure SITTL's ability to continue as a going concern;
• To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by SITTL's management. SITTL employs techniques derived from the guidelines developed by the Basel Committee on Banking Supervision as implemented by the Central Bank of Trinidad and Tobago (CBTT). The required information is filed with the regulatory authority on a monthly basis. In 2020, CBTT promulgated the use of Basel II rules for the calculation of capital adequacy, which was previously calculated based on Basel I rules up to 2019. These financial statements present capital ratios calculated using the new Basel II rules in 2020. Comparative ratios were not restated and were calculated using Basel I rules.

SITTL's regulatory capital consists of the sum of the following elements:

- *Tier 1 capital.* Tier 1 capital comprises shareholder equity and retained earnings and is a measure of SITTL's financial position. Deductions such as losses incurred in the current year of operations, whether audited or unaudited and whether or not publicly disclosed are made from Tier 1.
- *Tier 2 capital.* Tier 2 capital comprises revaluation reserves created by the revaluation of investments.

The Basel II framework expands the rules for minimum capital requirements established under Basel I by incorporating the credit risk of assets to determine regulatory capital ratios. It consists of three pillars:

- *Capital adequacy requirements.* Takes into consideration operational risks in addition to credit risks associated with risk-weighted assets.
- *Supervisory review.* Mandates periodic assessments of internal capital adequacy in accordance with the institution's risk profile.
- *Market discipline.* Ensures market discipline by obligation to disclose relevant market information.

The following table summarizes the net worth as at October 31. SITTL complied with all the externally imposed capital requirements to which it is subject

	2020	2019
	$	$
Tier 1 capital		
Share capital	30,000,000	30,000,000
Statutory reserve fund	1,951,000	1,449,000
Retained earnings	7,397,385	13,529,015
Total qualifying Tier 1 capital	39,348,385	44,978,015
Tier 2 capital		
Investment revaluation reserve	125,168	98,154
Total qualifying Tier 2 capital	125,168	98,154
Total Qualifying Capital	39,473,553	45,076,169
Risk weighted assets:		
On balance sheet	5,119,000	6,659,500
Total risk weighted assets	15,429,000	6,659,500
Total regulatory capital to risk weighted assets	225.04%	675.40%
Minimum regulatory capital	12.5%	8%

17.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with SITTL's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risk arises from all of SITTL's operations.

SITTL's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to SITTL's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Scotiabank Operational Risk Committee. This responsibility is supported by the development of overall Scotiabank standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions
- Reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Periodic assessment of operational risks, the adequacy of controls and procedures to address the risks identified
- Reporting of operational losses and proposed remedial action.
- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance where this is effective.

SITTL monitors and assesses the actual and potential impact of the COVID-19 pandemic on the various financial risks to which it is exposed. SITTL's operations, income and operating costs have not been affected by the onset of COVID-19 and there have been no material changes to the level of market risk and liquidity risk faced by SITTL as a result of the pandemic. To the extent that the issuers of debt instruments held in SITTL's portfolio are negatively affected by COVID-19, this would impact the level of credit risk to which the Company is exposed. SITTL's model for calculating expected credit losses (ECL) includes the impact of the COVID-19 pandemic by incorporating credit rating downgrades and forward-looking macroeconomic scenarios. SITTL continues to monitor, assess and take appropriate risk-mitigating measures as the pandemic evolves.

Compliance with the Scotiabank standards is supported by a programme of periodic review undertaken by Scotiabank's Internal Audit. The results of Internal Audit reviews are discussed with management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of SITTL.

18. Fair Value of Financial Assets and Liabilities

The fair value of financial instruments are based on the valuation methods and assumptions set out in the significant accounting policies Note 6(c).

(a) Valuation models

SITTL measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1 – Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2 – Valuation techniques based on observable inputs either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets that are considered less active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3 – Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique included inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other inputs used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

There were no transfers between levels during the year.

(b) Financial instruments not measured at fair value

The table below is an analysis of financial instruments that are not presented on SITTL's statement of financial position at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorized:

2020	Level 1	Level 2	Level 3	Total Fair Value	Total Carrying Value
	$	$	$	$	$
Assets					
Cash resources	-	5,649,949	-	5,649,949	5,649,949
Other receivables	-	606,483	-	606,483	606,483
	-	6,256,432	-	6,256,432	6,256,432
Liabilities					
Accounts payable and accrued liabilities	-	724,227	-	724,227	724,227

2019	Level 1	Level 2	Level 3	Total Fair Value	Total Carrying Value
	$	$	$	$	$
Assets					
Cash resources	-	5,548,704	-	5,548,704	5,548,704
Other receivables	-	287,147	-	287,147	287,147
	-	5,835,851	-	5,835,851	5,835,851
Liabilities					
Accounts payable and accrued liabilities	-	989,055	-	989,055	989,055

Due to the judgement used in applying a wide range of acceptable valuation techniques and estimations in the calculation of fair value amounts, fair values are not necessarily comparable among financial institutions. The calculation of estimated fair values is based upon market conditions at a specific point in time and may not be reflective of future fair values.

The fair values of these financial assets and financial liabilities have been determined to approximate their carrying value on the following basis:

(a) Cash resources

These amounts are short-term in nature and are taken to be equivalent to fair value.

(b) Other receivables

These amounts are short term in nature and are taken to be equivalent to fair value.

(b) Accounts payable and accrued liabilities

These amounts are short term in nature and are taken to be equivalent to fair value.

(c) Financial instruments measured at fair value – Fair value hierarchy

The table below is an analysis of financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorized:

2020	Level 1	Level 2	Level 3	Total
	$	$	$	$
Assets				
Investment securities	-	33,993,749	-	33,993,749

2019	Level 1	Level 2	Level 3	Total
	$	$	$	$
Assets				
Investment securities	-	39,953,282	-	39,953,282

Level 2 instruments are valued using discounted cash flow model. The model considers key inputs from observable yield curves at the end of the reporting period.

19. Impact of COVID-19

On March 11, 2020 the World Health Organization declared the outbreak of Corona Virus (COVID-19) a pandemic due to it rapidly spreading across the Globe. The situation has adversely impacted global commercial activities and asset prices and has led to economic uncertainties. The rapid development and fluidity of this situation precludes any prediction as its ultimate impact, which may have a continued adverse impact on economic and market conditions and trigger a period of global economic slowdown. Up to the date of approval of the financial statements, the Board of Directors does not believe there is any significant financial impact on these financial statements as a result of this continuing event.

20. Events after the Reporting Date

There are no events occurring after the reporting date and before the date of approval of the financial statements by the Board of Directors that require adjustments to or disclosure in these financial statements.