Scotiabank Trinidad And Tobago Limited

Separate Financial Statements as at 31 October, 2021

Scotiabank®

Independent Auditors' Report to the Shareholders of Scotiabank Trinidad and Tobago Limited

Opinion

We have audited the separate financial statements of Scotiabank Trinidad and Tobago Limited ("the Company"), which comprise the separate statement of financial position as at October 31, 2021, the separate statements of profit or loss and 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 separate financial statements present fairly, in all material respects, the unconsolidated financial position of the Company as at October 31, 2021 and its unconsolidated financial performance and its unconsolidated 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 Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants, International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) 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 the IESBA Code.

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

Key Audit Matters

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

Expected Credit Losses

See Notes 3(f), 5, 6, 8, 9 and 27 to the separate financial statements for disclosures of related accounting policies, judgements, estimates and balances.

Description of key audit matter

The Company's Allowance for Credit Loss (ACL) was $305 million as at October 31, 2021. The Company applies a three-stage approach to measure the ACL, using an expected credit loss (ECL) approach as required under IFRS 9 Financial Instruments.

The Company's ACL calculations are outputs of complex models. The ACL calculation reflects a probability-weighted outcome that considers multiple scenarios based on the Company's view of forecasts of future events and economic conditions (assumptions). The probability of default (PD), loss given default (LGD) and exposure at default (EAD) inputs used to estimate ACL are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio.

The Company assesses when there has been a significant increase in credit risk subsequent to origination or where the financial asset is in default. If there has been a significant increase in credit risk or the financial asset is in default, lifetime ACL is recorded; otherwise, ACL equal to 12 month expected credit losses is recorded. The estimation of ECL for each stage and the assessment of significant increases in credit risk consider information about past events and current conditions as well as forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgement.

Qualitative adjustments or overlays may also be recorded by the Company using expert credit judgement where the inputs and models do not capture all relevant risk factors.

Measurement of individual provisions including the assessment of probability weighted scenarios and the impact COVID-19 had on exit strategies, collateral valuations, and time to collect.

We identified the assessment of the ACL as a key audit matter. Significant auditor judgement was required because of the use of complex models and there is a high degree of measurement uncertainty due to the significant judgements inherent in the Company's methodology such as judgements about forward-looking information, including the impact of the COVID-19 pandemic. These judgements impact certain inputs, assumptions, qualitative adjustments or overlays, and when there has been a significant increase in credit risk. Assessment of the ACL also required significant auditor attention and complex auditor judgement to apply and evaluate the results of audit procedures. This required specialised skills, industry knowledge, and relevant experience.

How the matter was addressed in our audit

The following are the primary procedures we performed to address this key audit matter.

<u>Control testing</u>

With the involvement of our credit risk, economics, and information technology professionals with specialised skills, industry knowledge and relevant experience, we evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's ACL process. This included internal controls related to:

(1) periodic validation and performance monitoring of models used to derive key modelled inputs into the ACL calculation being PD, LGD and EAD;

(2) the review of the macroeconomic variables and probability weighting of scenarios used in the ACL models;

(3) the assessment to identify whether there has been a significant increase in credit risk;

(4) the assessment of qualitative adjustments or overlays;

(5) information technology controls over the inputs (PD, LGD, EAD) into the ACL models driving the ACL calculation; and

(6) the Company's monitoring over the ACL calculation whereby senior credit executives review and challenge (1) to (4) above using expert credit judgement.

Additionally, for non-retail loans, we tested certain internal controls related to loan reviews, including the determination of loan risk grades and write-offs.

<u>Substantive testing</u>

We involved credit risk, economics, and information technology professionals with specialised skills, industry knowledge and relevant experience who assisted in:

(1) evaluating the methodology and macroeconomic variables used in certain inputs into the models including the determination of significant increases in credit risk by assessing compliance with IFRS 9 and recalculating model monitoring tests in respect of certain inputs and thresholds used for significant increases in credit risk;

(2) recalculating a sample of ECL models and related inputs;

(3) evaluating scenarios and probability-weighted outcome assumptions used in the ACL calculation by assessing the appropriateness of the underlying macroeconomic variables including consideration of alternative inputs for certain variables; and

(4) assessing the qualitative adjustments or overlays by applying our knowledge of the industry and credit judgement to evaluate the appropriateness of the Company's underlying considerations;

(5) evaluating whether management has adequately incorporated the impact of COVID-19 in the assumptions.

We re-performed credit assessments of high risk Stage 3 Non-retail loans. For each loan selected, we challenged the Company's credit risk rating and assumptions, taking into account our assessment of the customer's financial position and the valuation of security, and the impact on the credit allowance. To do this, we used the information on the loan file, and performed our own assessment of recoverability. Exercising our judgement, our procedures included using our understanding of relevant industries and the macroeconomic environment and comparing data and assumptions used by the Bank in recoverability assessments to externally sourced evidence, such as property sales and external valuations of collateral held. Where relevant we assessed the forecasted timing of future cash flows in the context of underlying valuations and challenged key assumptions in the valuations.

Finally, we assessed the disclosure in the separate financial statements considering whether it satisfies the requirements of IFRSs.

Based on the audit procedures performed, we concluded that the methodology and assumptions used by management to determine the ECLs were reasonable.

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

Management is responsible for the preparation and fair presentation of the separate 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 separate 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 Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate 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 separate 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 separate 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 separate 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 separate financial statements, including the disclosures, and whether the separate 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.

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

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

The engagement partner on the audit resulting in this independent auditors' report is Marissa Quashie.

KPMG

Chartered Accountants

Port of Spain

Trinidad and Tobago

December 17, 2021

Statement of Management's Responsibilities
Scotiabank Trinidad and Tobago Limited

Management is responsible for the following:

- Preparing and fairly presenting the accompanying separate financial statements of Scotiabank Trinidad and Tobago Limited (the Company), which comprise the separate statement of financial position as at October 31, 2021, the separate statements of profit or loss and 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 separate financial statements, management utilised 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 separate financial statements have been authorised for issue, if later.

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

Gayle Pazos	Reshard Mohammed
Managing Director	Chief Financial Officer
Date: December 17, 2021	Date: December 17, 2021

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Separate Statement of Financial Position

October 31, 2021 ($ thousands)

	Notes	2021	2020
		$	$
ASSETS			
Cash on hand and in transit		218,702	150,566
Loans and advances to banks and related companies	5	856,027	437,609
Treasury Bills	6	3,314,437	3,321,253
Deposits with Central Bank	7	3,046,104	4,357,607
Loans to customers	8	15,303,234	15,769,349
Investment securities	9	1,459,386	778,954
Miscellaneous assets	10	17,017	75,249
Taxation recoverable		4,916	4,916
Investment in subsidiary companies		92,951	92,951
Investment in associated companies		2,553	3,475
Property and equipment	11.1	359,519	398,499
Deferred tax asset	16.1	59,372	142,487
Defined benefit pension fund asset	12.1	129,516	12,794
Total assets		**24,863,734**	**25,545,709**
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from customers	13	20,241,852	20,868,861
Deposits from subsidiaries		104,899	377,990
Deposits from banks and other related companies	14	143,889	46,920
Other liabilities	15	591,825	566,857
Taxation payable		49,070	71,968
Deferred tax liability	16.1	33,047	27,542
Post-employment medical and life benefits obligation	12.1	175,485	154,260
Total liabilities		21,340,067	22,114,398
EQUITY			
Stated capital	17	267,563	267,563
Statutory reserve fund	18	812,563	802,563
Investment revaluation reserve		4,957	8,530
Retained earnings		2,438,584	2,352,655
Total equity		3,523,667	3,431,311
Total liabilities and equity		**24,863,734**	**25,545,709**

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

These separate financial statements were approved for issue by the Board of Directors on December 14, 2021 and signed on its behalf by:

Derek Hudson, Chairman

Gayle Pazos, Managing Director

Separate Statement of Profit or Loss and Other Comprehensive Income

For the year ended October 31, 2021 ($ thousands)

	Notes	2021	2020
		$	$
REVENUE			
Interest income calculated using the effective interest method	20	1,132,887	1,260,507
Interest expense	21	(21,594)	(36,957)
Net interest income		1,111,293	1,223,550
Other income	22	723,933	517,148
Fee and commission expense		(115,131)	(121,768)
Net other income		608,802	395,380
Total revenue		1,720,095	1,618,930
NON-INTEREST EXPENSES			
Salaries and other staff benefits		253,819	282,594
Premises and technology		131,229	147,044
Communication and marketing		39,574	56,199
Other expenses	23	244,720	238,885
Total non-interest expenses		669,342	724,722
Net impairment loss on financial assets	8.6	112,971	226,974
Profit before taxation		937,782	667,234
Income tax expense	24.1	290,929	242,478
Profit for the year		646,853	424,756
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to profit or loss			
Remeasurement of post-employment benefits asset/obligation	12.7	101,968	(4,119)
Related tax	24.3	(35,689)	1,442
		66,279	(2,677)
Items that are or may be reclassified subsequently to profit or loss			
Remeasurement of instruments that existed throughout the year		(12,792)	(14,526)
Remeasurement of purchased Investments		7,303	12,002
Related tax	24.3	1,916	866
Net movement in fair value reserve		(3,573)	(1,658)
Other comprehensive income (loss) for the year, net of tax		62,706	(4,335)
Total comprehensive income		709,559	420,421

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

Separate Statement of Changes in Equity

For the year ended October 31, 2021 ($ thousands)

	Notes	Stated Capital	Statutory Reserve Fund	Investment Revaluation Reserve	Retained Earnings	Total Equity
		$	$	$	$	$
Balance as at October 31, 2020		**267,563**	**802,563**	**8,530**	**2,352,655**	**3,431,311**
Profit for the year		-	-	-	646,853	646,853
Other comprehensive income, net of tax						
Re-measurement of post-employment benefits asset/obligations	24.3	-	-	-	66,279	66,279
Fair value re-measurement of debt instruments at FVOCI	24.3	-	-	(3,573)	-	(3,573)
Total comprehensive income		-	-	(3,573)	713,132	709,559
Transactions with equity owners of Scotiabank						
Transfer to statutory reserve	18	-	10,000	-	(10,000)	-
Dividends paid	19	-	-	-	(617,203)	(617,203)
Balance as at October 31, 2021		**267,563**	**812,563**	**4,957**	**2,438,584**	**3,523,667**
Balance as at October 31, 2019		**267,563**	**732,563**	**10,188**	**2,511,973**	**3,522,287**
Profit for the year		-	-	-	424,756	424,756
Other comprehensive income, net of tax						
Re-measurement of post-employment benefits asset/obligation	24.3	-	-	-	(2,677)	(2,677)
Fair value re-measurement of debt instruments at FVOCI	24.3	-	-	(1,658)	-	(1,658)
Total comprehensive income		-	-	(1,658)	422,079	420,421
Transactions with equity owners of Scotiabank						
Transfer to statutory reserve	18	-	70,000	-	(70,000)	-
Dividends paid	19	-	-	-	(511,397)	(511,397)
Balance as at October 31, 2020		**267,563**	**802,563**	**8,530**	**2,352,655**	**3,431,311**

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

Separate Statement of Cash Flows

For the year ended October 31, 2021 ($ thousands)

	Notes	2021	2020
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		646,853	424,756
Adjustments for:			
- Interest income	20	(1,132,887)	(1,260,507)
- Interest expense	21	21,594	36,957
- Depreciation and amortisation	11.1	30,123	30,439
- Loss (gain) on disposal of property and equipment		4,947	(5,583)
- Tax expense	24.1	290,929	242,478
Changes in:			
- Primary reserve deposits with Central Bank	7	147,923	239,245
- Net pension cost		14,481	54,513
- Allowance for credit losses	8.5	(96,087)	124,280
- Loans to customers		503,808	(266,576)
- Miscellaneous assets		58,232	(59,901)
- Deposits from customers		(627,795)	1,833,453
- Other liabilities		96,969	67,154
- Deposits from subsidiaries		(273,091)	161,746
- Deposits from banks and other related companies		(120,666)	(41,607)
Interest received		1,228,632	1,131,452
Interest paid		(20,808)	(43,010)
Medical, life and pension contributions and benefits paid		-	(32,386)
Taxation paid		(258,025)	(287,985)
Net cash from operating activities		515,132	2,348,918
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Treasury Bills		(3,904,863)	(5,793,998)
Proceeds from redemption of Treasury Bills		5,090,177	5,690,209
Purchase of investment securities		(5,853,779)	(872,729)
Proceeds from redemption of investment securities		5,169,108	468,781
Purchase of property and equipment		(37,010)	(36,754)
Proceeds from disposal of share in associate company		3,134	-
Proceeds from disposal of property and equipment		-	14,000
Net cash from (used in) investing activities		466,767	(530,491)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of lease liabilities		(18,224)	(21,259)
Dividend from subsidiary		155,000	-
Dividends paid	19.3	(617,203)	(511,397)
Net cash used in financing activities		(480,427)	(532,656)
Net increase in cash and cash equivalents		501,472	1,285,771
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		2,574,755	1,288,984
CASH AND CASH EQUIVALENTS, END OF YEAR		3,076,227	2,574,755
CASH AND CASH EQUIVALENTS REPRESENTED BY			
Cash on hand and in transit		218,702	150,566
Loans and advances to banks and related companies	5	856,027	437,609
Surplus deposits with Central Bank	7	823,000	1,986,580
Treasury bill with original maturity date not exceeding 3 months	6	1,178,498	-
		3,076,227	2,574,755

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

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Notes to the Separate Financial Statements

1. Incorporation and Business Activities

Scotiabank Trinidad and Tobago Limited ("Scotiabank" or "the Bank") is incorporated in the Republic of Trinidad and Tobago and offers a complete range of banking and financial services as permitted under the Financial Institutions Act, 2008. Scotiabank is domiciled in Trinidad and Tobago and its registered office is located at 56-58 Richmond Street, Port of Spain.

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

Scotiabank and its wholly-owned subsidiaries are together referred to as the Group. The Group has interests in one associated company. The subsidiaries and associated company and their principal activities are detailed below:

Name of Companies	Country of Incorporation	Percentage of Equity Held
Subsidiaries		
ScotiaLife Trinidad and Tobago Limited	Republic of Trinidad and Tobago	100%
Scotia Investments Trinidad and Tobago Limited	Republic of Trinidad and Tobago	100%

ScotiaLife Trinidad and Tobago Limited (ScotiaLife) is registered to conduct ordinary long-term insurance business under the Insurance Act, 1980.

Scotia Investments Trinidad and Tobago Limited's (Scotia Investments) principal activity is the provision of asset management services.

Name of Companies	Country of Incorporation	Percentage of Equity Held
Associated company		
InfoLink Services Limited	Republic of Trinidad and Tobago	25%

InfoLink Services Limited offers clearing and switching facilities for the electronic transfer of funds.

Scotiabank previously held 14% equity in Trinidad and Tobago Interbank Payment Systems Limited (TTIPS), whose principal activity is the operation of an automated clearing house that provides for collection, distribution and settlement of electronic credits and debits. The Bank's interest in TTIPS was sold to InfoLink Services Limited on April 30, 2021.

Scotiabank does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which the subsidiaries operate. The supervisory frameworks require subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of Scotiabank and comply with other ratios.

These separate financial statements were authorised for issue by Scotiabank's Board of Directors on December 14, 2021.

2. Basis of Preparation

(a) Basis of accounting
These separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

(b) Basis of measurement
These separate financial statements are prepared on the historical cost basis, modified for the inclusion of:

- financial instruments at fair value through profit or loss (FVTPL).
- financial assets measured at fair value through other comprehensive income (FVOCI).
- net defined benefit asset (obligation) is recognised at fair value of plan assets, adjusted by re-measurements through other comprehensive income (OCI), less the present value of the defined benefit obligation adjusted by experience gains (losses) on revaluation, limited as explained in Note 3(j) and Note 12.

(c) Functional and presentation currency
Items included in these separate financial statements of Scotiabank are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). These separate financial statements are presented in Trinidad and Tobago dollars, rounded to the nearest thousand, which is Scotiabank's functional and presentation currency.

3. Significant Accounting Policies

The significant accounting policies adopted in the preparation of these separate financial statements have been applied consistently to all periods presented in the separate financial statements, except for those changes described in Note 3(q) and are set out below:

(a) Investment in subsidiaries and associates
The investments in the subsidiary companies and in the associated companies are accounted for by the cost method. Consolidated financial statements have been prepared by Scotiabank and are available to users of these separate financial statements.

'Subsidiaries' are investees controlled by Scotiabank. Scotiabank 'controls' an investee when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The investment in subsidiaries is included in the separate financial statements from the date on which control commences until the date on which control ceases.

Associates are those entities in which Scotiabank has significant influence, but not control or joint control, over the financial and operating policies. They are recognised at cost, which includes transaction costs, as Scotiabank is exempt from using the equity method.

(b) Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefit will flow to Scotiabank and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured as the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duties. Scotiabank has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to credit risk.

The specific recognition criteria described below must also be met before revenue is recognised.

Interest income and expenses
Interest income and interest expense are accounted for on the accrual basis for financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis, other than non-accrual loans. The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial assets or liability (or, where appropriate, a shorter period) to the gross carrying amount of the financial asset or the amortised cost of the financial liability. When calculating the effective interest rate for financial instruments, other than purchased or orginated credit-impaired assets, Scotiabank estimates the future cash flows considering all contractual terms of the financial instrument, but not future credit losses. For purchased or orginated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

When a loan is classified as non-accrual, accrued but uncollected interest is reversed against income of the current period. Thereafter, interest income is recognised only after the loan reverts to performing status.

Scotiabank's calculation of the effective interest rate includes all material fees received, transaction costs, discounts or premiums that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset.

Amortised cost and gross carrying amount

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

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

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, accrued but uncollected interest is reversed against income of the current period.
If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves. For information on when financial assets are credit-impaired, see Note 3(f).

Presentation

Interest income and expense calculated using the effective interest method presented in profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost
- interest on debt instruments measured at FVOCI

Interest income and expense on all trading assets and liabilities are considered to be incidental to Scotiabank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Other income
Other income comprises various fees and commissions and trading income. Fees and commissions that are material to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.

Deposit and payment services
Scotiabank provides deposit and payment services to retail and commercial customers. Revenue from account servicing fees is recognised over time as the services are provided. Transaction based fees are charged to the customer's account and recognised when the transaction takes place.

Card revenues
Scotiabank offers a full suite of credit cards for retail and commercial customers for their cash management and financing needs. Revenues include cardholder fees, interchange fees and merchant fees. Revenues are mainly transaction based and recognised when the card transaction takes place.

Credit fees
Scotiabank provides working capital financing and trade services including letters of credit. Transaction based fees are recognised when the transaction takes place. Loan origination fees are recognised over the term of the loan unless immaterial.

Wealth management services
Revenue from wealth management services include fees earned by Scotiabank on trust and fiduciary activities in which Scotiabank holds or invests assets on behalf of its customers. Revenue is recognised over time as the services are provided.

Other fees and commissions
Other fees and commissions are recognised in income as the related services are performed.

Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities and includes all fair value changes, interest, dividends and foreign exchange differences.

(c) Foreign currency transactions
Transactions in foreign currencies are translated at the rate of exchange ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the rate of exchange ruling at the reporting date. Resulting translation differences and profits and losses from trading activities are included in the profit or loss.

Foreign currency differences arising from the translation of equity investments in respect of which on initial recognition an election has been made to present subsequent changes in fair value in OCI are recognised in OCI.

(d) Financial assets and financial liabilities
Financial instruments carried on the separate statement of financial position include cash on hand and in transit, loans and advances to banks and related companies, investment securities including treasury bills, loans and leases to customers, deposits from customers and deposits from banks, subsidiaries and other related parties.

The standard treatment for recognition, de-recognition, classification and measurement of Scotiabank's financial instruments is set out below in notes (i) – (iv), whilst additional information on specific categories of Scotiabank's financial instruments is disclosed in Notes 3(e), 3(f), 3(h), 3(k), 3(l) and 3(m).

(i) *Recognition*
Scotiabank initially recognises loans and advances and deposits on the date that they are originated. All other financial assets and financial liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date which is the date on which Scotiabank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value (for an item not at FVTPL) 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 recognised immediately in profit or loss.

(ii) *Classification and measurement*
Scotiabank classifies its financial assets into the following categories: fair value through profit or loss; fair value through other comprehensive income (FVOCI) and amortised cost. Management determines the classification of its financial assets at initial recognition. Financial assets include both debt and equity instruments.

Classification of debt instruments is determined based on the business model under which the asset is held and the contractual cash flow characteristics of the instrument.

Business model assessment

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

- Held to collect: The objective of the business model is to hold assets and collect contractual cash flows. Any sales of the asset are incidental to the objective of the model.
- Held to collect and for sale: Both collecting contractual cash flows and sales are integral to achieving the objectives of the business model.
- Other business model: The business model is neither held to collect nor held to collect and for sale.

Scotiabank assesses business models at a portfolio level reflective of how groups of assets are managed together to achieve a particular business objective. For the assessment of a business model, Scotiabank takes into consideration the following factors:

- How the performance of assets in a portfolio is evaluated and reported to heads and other key decision makers within Scotiabank's business lines;
- How compensation is determined for Scotiabank's business lines' management that manages the assets;
- Whether the assets are held for trading purposes i.e., assets that Scotiabank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking;
- The risks that affect the performance of assets held within a business model and how those risks are managed; and
- The frequency and volume of sales in prior periods and expectations about future sales activity.

Contractual cash flow characteristics assessment

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

Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instrument due to repayments or amortisation 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 Scotiabank identifies any contractual features that could significantly modify the cash flows of the instrument such that they are no longer consistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Debt instruments measured at amortised cost

Debt instruments are measured at amortised cost if they are held within a business model whose objective is to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. After initial measurement, debt instruments in this category are carried at amortised cost. Interest income on these instruments is recognised in interest income using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. Amortised cost is calculated by taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate.

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Impairment on debt instruments measured at amortised cost is calculated using the expected credit loss approach. Loans and debt securities measured at amortised cost are presented net of the allowance for credit losses (ACL) in the statement of financial position.

Debt instruments measured at FVOCI

Debt instruments are measured at FVOCI if they are held within a business model whose objective is to hold for collection 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, unrealised gains and losses on debt instruments measured at FVOCI are recorded in other comprehensive income (OCI), unless the instrument is designated in a fair value hedge relationship.

Impairment on debt instruments measured at FVOCI is calculated using the expected credit loss approach. The ACL on debt instruments measured at FVOCI does not reduce the carrying amount of the asset in the separate statement of financial position, which remains at its fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI with a corresponding charge to Net impairment loss on financial assets in profit or loss. The accumulated allowance recognised 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 separate statement of financial position, with transaction costs recognised immediately in the profit or loss as part of other income. Realised and unrealised gains and losses are recognised as part of other income in profit or loss.

Equity instruments measured at FVTPL

Equity instruments are measured at FVTPL, unless an election is made to designate them at FVOCI upon purchase, with transaction costs recognised immediately in profit or loss as part of other income. Subsequent to initial recognition, the changes in fair value are recognised as part of other income in profit or loss.

Equity instruments measured at FVOCI

At initial recognition, there is an irrevocable option for Scotiabank to classify non-trading equity instruments at FVOCI. This election is used for certain equity investments for strategic or longer term investment purposes. This election is made on an instrument-by-instrument basis and is not available to equity instruments that are held for trading purposes.

Gains and losses on these instruments including when derecognised/sold are recorded in OCI and are not subsequently reclassified to profit or loss. As such, there is no specific impairment requirement. Dividends received are recorded in other income in the profit or loss. Any transaction costs incurred upon purchase of the security are added to the cost basis of the security and are not reclassified to profit or loss on sale of the security.

Financial liabilities

Scotiabank classifies its financial liabilities, other than financial guarantees and undrawn loan commitments, as measured at amortised cost or fair value through profit or loss (FVTPL).

Subsequent to initial recognition, all non-trading financial liabilities are measured at amortised cost.

Determination of fair value

Fair value of a financial asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal, or in its absence, the most advantageous market to which Scotiabank has access at the measurement date.

Scotiabank values instruments carried at fair value using quoted market prices, where available. Unadjusted quoted market prices for identical instruments represent a Level 1 valuation. When quoted market prices are not available, Scotiabank maximises the use of observable inputs within valuation models. When all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3.

Inception gains and losses are only recognised where the valuation is dependent only on observable market data, otherwise, they are deferred and amortised over the life of the related contract or until the valuation inputs become observable.

(iii) *Derecognition*
Scotiabank derecognises 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 from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or in which Scotiabank 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 derecognised), and the sum of:

(i) the consideration received (including any new asset obtained less any new liability assumed); and

(ii) any cumulative gain or loss that had been recognised in other comprehensive income (OCI)

is recognised in Profit or Loss.

Scotiabank enters into transactions whereby it transfers assets recognised on its separate 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 financial assets are not derecognised. Transfers of assets with retention of all or substantially all of the risks and rewards include, for example, securities lending and repurchase transactions.

In transactions in which Scotiabank neither retains nor transfers substantially all of the risks and reward of ownership of a financial asset and it retains control of the financial asset, Scotiabank continues to recognise the financial 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.

Scotiabank derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

(iv) *Offsetting*
Financial assets and financial liabilities are offset and the net amount presented in the separate statement of financial position when, and only when, Scotiabank has a current legally enforceable right to set off the amounts and it intends to either settle them on a net basis or to realise 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.

(e) Cash and cash equivalents
Cash comprises cash in hand and in transit, and deposits with banks and related companies that may be accessed on demand. Cash equivalents comprise 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 measured at amortised cost. 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) Impairment of financial assets
Scotiabank applies a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9, for the following categories of financial instruments that are not measured at fair value through profit or loss.

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

(i) *Expected credit loss impairment model*
Scotiabank's calculations for the allowance for credit losses are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected credit loss (ECL) 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.

(ii) *Measurement of expected credit loss*
The probability of default (PD), exposure at default (EAD), and loss given default (LGD) inputs used to estimate expected credit losses are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio. Details of these statistical parameters/inputs are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life, if the facility has not been previously derecognised and is still in the portfolio.
- EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

(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 judgement.

(iv) *Macroeconomic factors*
In its models, Scotiabank 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 judgement.

(v) *Multiple forward-looking scenarios*
Scotiabank determines its allowance for credit losses using three probability-weighted forward-looking scenarios. Scotiabank considers both internal and external sources of information and data in order to achieve unbiased projections and forecasts. Scotiabank 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 Scotiabank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Scotiabank 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 (SIR)*
At each reporting date, Scotiabank assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking macroeconomic factors.

The common assessments for SIR on retail and non-retail portfolios include macroeconomic outlook, management judgement, and delinquency and monitoring. Forward-looking macroeconomic factors are a key component of the macroeconomic outlook. The importance and relevance of each specific macroeconomic factor depends on the type of product, characteristics of the financial 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 adjudication criteria for a particular group of borrowers; changes in portfolio composition; and natural disasters impacting certain portfolios. With regards to delinquency and monitoring, there is a rebuttable presumption that the credit risk of the financial instrument has increased since initial recognition when contractual payments are more than 30 days overdue.

Retail portfolio – For retail exposures, a significant increase in credit risk cannot be assessed using forward looking information at an individual account level. Therefore, the assessment must be done at the segment level. Segment migration thresholds exist for each PD model by product, which considers the proportionate change in PD as well as the absolute change in PD. The thresholds used for PD migration are reviewed and assessed at least annually, unless there is a significant change in credit risk management practices in which case the review is brought forward.

Non-retail portfolio – Scotiabank uses a risk rating scale (IG codes) for its non-retail exposures. All non-retail exposures have an IG code assigned that reflects the probability of default of the borrower. Both borrower specific and non-borrower specific (i.e. macroeconomic) forward-looking information is considered and reflected in the IG rating. Significant increase in credit risk is evaluated based on the migration of the exposures among IG codes.

(vii) *Expected life*
When measuring expected credit loss, Scotiabank considers the maximum contractual period over which Scotiabank is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment, and extension and rollover options. For certain revolving credit facilities, such as credit cards, the expected life is estimated based on the period over which Scotiabank is exposed to credit risk and how the credit losses are mitigated by management actions.

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

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the financial assets;
- Debt instruments measured at fair value through other comprehensive income: no allowance is recognised in the separate 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;
- Off-balance sheet credit risks include undrawn lending commitments, letters of credit and letters of guarantee: as a provision in other liabilities.

(ix) *Modified financial assets*
If the terms of a financial asset are modified or an existing financial asset is replaced with a new one, an assessment is made to determine if the existing financial asset should be derecognised. Where a modification does not result in derecognition, the date of origination continues to be used to determine SIR. Where a modification results in derecognition, the new financial asset is recognised at its fair value on the modification date. The modification date is also the date of origination for this new asset.

Scotiabank may modify the contractual terms of loans for either commercial or credit reasons. The terms of a loan in good standing may be modified for commercial reasons to provide competitive pricing to borrowers. Loans are also modified for credit reasons where the contractual terms are modified to grant a concession to a borrower that may be experiencing financial difficulty.

For all financial assets, modifications of the contractual terms may result in derecognition of the original asset when the changes to the terms of the loans are considered substantial. These terms include interest rate, authorised amount, term, or type of underlying collateral. The original loan is derecognised and the new loan is recognised at its fair value. The difference between the carrying value of the derecognised asset and the fair value of the new asset is recognised in profit or loss.

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

(x) *Definition of default*
Scotiabank 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 reorganisation; and
- measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan.

Scotiabank considers that default has occurred and classifies the financial asset as impaired when it is more than 90 days past due, with the exception of credit card receivables that are treated as defaulted when 180 days past due, unless reasonable and supportable information demonstrates that a more lagging default criterion is appropriate.

(xi) *Write-off policy*
Scotiabank 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 realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier. Credit card receivables 180 days past due are written-off. In subsequent periods, any recoveries of amounts previously written off are credited to the provision for credit losses in profit or loss.

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(g) Property and equipment

(i) *Recognition and measurement*
Property and equipment are carried at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other cost directly attributable to bringing the asset to a working condition for its intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Scotiabank has not incurred any significant expenditure on software that is not an integral part of related hardware as classified under property and equipment.

Any gain or loss on disposal of an item of property and equipment is recognised within other income in profit or loss.

(ii) *Subsequent cost*
The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to Scotiabank over a period exceeding one year and its cost can be measured reliably. The cost of the day-to-day servicing of property and equipment is recognised in profit or loss as incurred.

(iii) *Depreciation*
Depreciation and amortisation are provided, on the straight-line basis, over the estimated useful lives of the respective assets at the following rates:

Buildings	-	40 years
Equipment and furniture	-	3 to 10 years
Leasehold improvements	-	over the term of the respective leases, or if shorter, the life of the asset.

Depreciation methods, useful lives and residual values are reviewed, and adjusted if appropriate, at each reporting date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

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

(i) *As a lessee*
The Bank recognises a right-of-use ("ROU") asset and a lease liability at the lease commencement date. An ROU asset represents a lessee's right to use an underlying asset for the lease term. The ROU asset is initially measured at cost, which is based on the initial amount of the lease liability, and any direct costs incurred, any lease payments made at or before the commencement date net of lease incentives received, and estimated decommissioning costs.

The ROU asset is subsequently measured at cost less accumulated depreciation and accumulated impairment losses, if any. The ROU asset is depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the ROU asset or the end of the lease term. The depreciation is recorded in Depreciation and Amortisation in the Separate Statement of Income. In addition, the ROU asset is adjusted for certain re-measurements of the lease liability.

At commencement date, the Bank initially measures the lease liability at the present value of the future lease payments, discounted using the Bank's incremental borrowing rate. The Bank's discount rate is based on the borrowing rate on its debt of different maturities that match the term of the lease. The discount rate is also dependent on the Bank's credit risk and economic environment in which the lease is entered.

The lease liability is subsequently measured at amortised cost using the effective interest method. It is re-measured if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the ROU asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents ROU assets in "Property and equipment" and lease liabilities in "Other liabilities" in the Separate Statement of Financial Position.

(ii) *Short-term leases and leases of low-value assets*
The Bank has elected not to recognise ROU assets and lease liabilities for short-term leases of assets that have a lease term of 12 months or less and leases of low-value assets. The Bank recognises the lease payment associated with these leases as an expense on a straight-line basis over the lease term.

(iii) *Determining lease term*
The Bank's expectation of exercising the option to renew a lease is determined by assessing if the Bank is "reasonably certain" to exercise that option. The Bank will be reasonably certain to exercise an option when factors create a significant economic incentive to do so. This assessment requires a significant level of judgement as it is based on current expectations of future decisions. The Bank considers the following criteria when determining whether it has an economic incentive that makes it reasonably certain to exercise an option: key locations for its branch network, locations on which the Bank has spent significant capital on renovation work, contribution to profit, value of locations based on current economic environment and the remaining term of existing leases.

(iv) *As a lessor*
When the Bank acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

(i) Taxation
Income tax expense comprises current tax and the change in deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised 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 recognised 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 realised.

Deferred tax is calculated on the basis of the tax rate that is expected to apply to the period when the asset is realised 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, Scotiabank 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 Scotiabank 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 recognised for unused tax losses to the extent that it is probable that future taxable profits will be available against which they can be used.

(j) Employee benefits

(i) *Short-term*
Employee benefits are all forms of consideration given by Scotiabank in exchange for service rendered by employees. These include current or short-term benefits such as salaries, bonuses, NIS contributions, annual leave, and non-monetary benefits such as medical care and loans; post-employment benefits such as pensions; and other long-term employee benefits such as termination benefits.

Employee benefits that are earned as a result of past or current service are recognised in the following manner: short-term employee benefits are recognised as a liability, net of payments made, and charged as an expense. Post-employment benefits are accounted for as described below.

(ii) *Post-employment*
Independent qualified actuaries carried out a valuation of Scotiabank's significant post-employment benefits as at October 31, 2018. The results of that valuation were projected to October 31, 2021 and have been included in the calculation of the post-employment benefit asset and liability as necessary. The next valuation due as at October 31, 2021 is currently in progress.

Pension obligations

Scotiabank operates a non-contributory defined benefit pension plan covering the majority of its employees. The funds of the plan are administered by fund managers appointed by the trustees of the plan. The pension plan is generally funded by payments from Scotiabank, taking account of the recommendations of independent qualified actuaries.

Scotiabank's net pension obligation is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of the defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for Scotiabank, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. Scotiabank determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability (asset) during the period as a result of contributions and benefit payments.

Net interest expense and other expenses related to defined benefit plans are recognised in personnel expenses in profit or loss.

The existing defined-benefit pension plan was closed to future pension service accrual as of October 31, 2020. Pension benefits accrued up to October 31, 2020 for Scotiabank's employees will continue to be administered under the defined-benefit pension plan and paid on retirement as per existing policies. The financial statements will continue to reflect the current defined benefit pension fund asset/liability position until the obligations are fulfilled.

On November 1, 2020, Scotiabank began operating a defined contribution pension plan in which all future pension service will be earned for Scotiabank's employees. This new plan is non-contributory but additional voluntary contributions will be permitted. The total contributions paid for the period ending October 31, 2021 were $19.8 million (2020: NIL).

Other post-employment benefits

Scotiabank provides post-employment medical and life assurance benefits for retirees. The entitlement to this benefit is usually based on the employees remaining in service up to retirement age and the completion of a minimum service period. The method of accounting used to recognise the liability is similar to that for the defined benefit plan.

(k) Acceptances, guarantees and letters of credit
Financial guarantees are contracts that require Scotiabank to make specified payments to reimburse the holder for a loss that occurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument.

'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Scotiabank's commitments under acceptances, guarantees and letters of credit have been excluded from these separate financial statements because they do not meet the criteria for recognition.

These commitments as at October 31, 2021 total $798 million (2020: $1,071 million). In the event of a call on these commitments, Scotiabank has equal and offsetting claims against its customers. Scotiabank measures allowance for credit losses on loan commitments. Refer to Note 3(f).

(l) Assets under administration
Assets that are not beneficially owned by Scotiabank, but are under its administration, have been excluded from these separate financial statements. Assets under administration as at October 31, 2021 totaled $3,638 billion (2020: $3,220 billion).

(m) Deposit liabilities
Deposits from customers are Scotiabank's source of funds. Deposits are initially measured at fair value and subsequently measured at their amortised cost using the effective interest method.

The estimated fair values of deposit liabilities are assumed to be equal to their carrying values, since the rates of interest that they bear are not materially different from current market rates and discounting the contractual cash flows would approximate the carrying values.

(n) Dividends
Dividend income is recognised when the right to receive income is established.

Dividends that are proposed and declared after the reporting date are not shown as a liability on these separate statement of financial position but are disclosed as a note to these separate financial statements. Dividends from subsidiaries are presented in other income.

(o) Impairment of non-financial assets
The carrying amounts of Scotiabank's assets, other than deferred tax assets (see Note 3 (i)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists for that asset, that asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in Profit or Loss.

The recoverable amount of other assets is the greater of their value in use and their fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(p) Provisions
A provision is recognised, if as a result of a past event, Scotiabank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

A provision for bank levies is recognised when the condition that triggers the payment of the levy is met. If a levy obligation is subject to a minimum activity threshold so that the obligatory event is reaching a minimum activity, then a provision is recognised when that minimum activity threshold is reached.

(q) New, revised and amended standards and interpretations that became effective during the year
Certain new, revised and amended standards and interpretations came into effect during the current financial year. Scotiabank has assessed them and has adopted those which are relevant to its financial statements:

- **Amendments to IFRS 3, Business Combinations**

  Amendments to IFRS 3, Business Combinations, became effective on January 1, 2020 and confirmed that a business must include inputs and a process, and clarified that the process must be substantive and that the inputs and process must together significantly contribute to creating outputs. The amendments narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs.

  The new standard added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

  This is not applicable to Scotiabank and thus had no impact.

- **Amendments to IFRS 7 Financial Instruments: Disclosures, IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement**

  Amendments to IFRS 7 Financial Instruments: Disclosures, IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement became effective on January 1, 2020 and modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. It amends the requirements for hedge accounting to support the provision of useful financial information during the period of uncertainty caused by the phasing out of interest-rate benchmarks such as interbank offered rates (IBORs) on hedge accounting.

  The adoption of amendments to IFRS 7, IFRS 9 and IAS 39 did not result in any changes to the separate financial statements.

- **Amendments to IFRS 16 Leases**

  Amendments to IFRS 16 Leases became effective on June 1, 2020 and provide lessees with an exemption from assessing whether a COVID-19-related rent concession (a rent concession that reduces lease payments due on or before June 30, 2021) is a lease modification.

  The adoption of amendments to IFRS 16 did not result in any changes to the separate financial statements.

- **Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors**

  Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors became effective on January 1, 2020 and clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

  The adoption of amendments to IAS 1 and IAS 8 did not result in any changes to the separate financial statements.

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(r) New, revised and amended standards not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2022. Scotiabank has not early-adopted any of them and therefore they have not been applied in preparing these separate financial statements. The new standards and amendments listed below are those that are most likely to have an impact on Scotiabank's performance, financial position or disclosures.

Effective November 1, 2021

- Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

Effective November 1, 2022

- Onerous Contracts Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements to IFRS Standards 2018-2020
- Property, Plant and Equipment: Proceeds Before Intended Use (Amendments to IAS 16)
- Reference to the Conceptual Framework (Amendments to IFRS 3)

Effective November 1, 2023

- Classification of liabilities as current or non-current (Amendments to IAS 1)
- Amendments to IFRS 17
- Disclosure of Accounting Policies (Amendments to IAS 1)
- Definition of Accounting Estimate (Amendments to IAS 8)
- Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12 Income Taxes)

The Bank does not expect the adoption of these new, revised and amended standards to have a significant impact.

4. Use of Judgements and Estimates

In preparing these separate financial statements, management has made judgements, estimates and assumptions that affect the application of Scotiabank's accounting policies and the reported amount of assets, liabilities, income and expenses and contingent assets and contingent liabilities. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

(a) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in these separate financial statements are described below:

Classification of financial assets

Scotiabank's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

(b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the next financial year to amounts reported as at and for the year ended October 31, 2021 is included below:

(i) *Allowances for credit losses*
Scotiabank's allowance calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs. Some of the key drivers include the following:

- Changes in risk ratings of the borrower or instrument reflecting changes in their credit quality;
- Changes in the volumes of transactions;
- Changes in the forward-looking macroeconomic environment reflected in the variables used in the models such as GDP growth, unemployment rates, commodity prices, and house price indices, which are most closely related with credit losses in the relevant portfolio;
- Changes in macroeconomic scenarios and the probability weights assigned to each scenario; and
- Borrower migration between the three stages, which can result from changes to any of the above inputs and assumptions.

(ii) *Determining fair values with significant unobservable inputs*
The determination of fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(d)(ii). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(iii) *Measurement of defined benefit obligations*
The key actuarial assumptions which underpin the value of Scotiabank's defined benefit obligations are described in Note 12.12.

5. Loans and Advances to Banks and Related Companies

	2021 $	2020 $
Due from related companies	62,748	34,138
Due from other banks	687,468	305,340
Cheques and other instruments in the course of clearing	105,829	98,441
	856,045	437,919
Allowance for credit losses (Note 8.6)	(18)	(310)
	856,027	437,609
Maturity of assets		
Assets with original maturity date less than 3 months	856,027	437,609
Analysis of movement in loss allowance		
Allowance, beginning of year	310	259
Impairment/credit charge for the year (Note 8.6)	(292)	51
Allowance, end of year	18	310

6. Treasury Bills

	2021 $	2020 $
Government of Trinidad and Tobago	1,718,853	1,722,443
Government of United States of America	1,511,160	1,520,336
Government of Canada	84,424	78,474
	3,314,437	3,321,253
Maturity of assets		
Assets with original maturity date over 3 months	2,135,939	3,321,253
Assets with original maturity date less than 3 months	1,178,498	-

7. Deposits with Central Bank

In accordance with the Financial Institutions Act, 2008, Scotiabank is required to hold and maintain, as a non-interest bearing deposit with the Central Bank of Trinidad and Tobago (CBTT), a cash reserve balance equivalent to 14% (2020: 14%) of total prescribed liabilities in the primary reserve. The surplus deposits are held in the CBTT to facilitate interbank settlements, local investment trades and other local transactions.

The details of all reserves are described below.

	2021 $	2020 $
Primary reserve	2,223,104	2,371,027
Surplus deposits	823,000	1,986,580
	3,046,104	4,357,607

8. Loans to Customers

	2021 $	2020 $
Loans and advances to customers	15,492,354	15,996,162
ECL allowance	(304,528)	(400,615)
Total loans net of ECL allowance	15,187,826	15,595,547
Interest receivable	115,408	173,802
Total loans to customers	15,303,234	15,769,349

8.1 *Loans and Advances to Customers*

2021	Gross loans $	ECL allowance $	Interest receivable $	Carrying amount $
Loans and advances to customers				
Commercial loans	4,422,228	(37,120)	32,943	4,418,051
Retail loans	11,070,126	(267,408)	82,465	10,885,183
	15,492,354	(304,528)	115,408	15,303,234

2020	Gross loans $	ECL allowance $	Interest receivable $	Carrying amount $
Loans and advances to customers				
Commercial loans	4,638,107	(45,714)	50,394	4,642,787
Retail loans	11,358,055	(354,901)	123,408	11,126,562
	15,996,162	(400,615)	173,802	15,769,349

8.2 *Concentration of credit*

Scotiabank monitors concentrations of credit risk by sector based on the volume of loans granted to retail and commercial customers based on their industry sector. An analysis of concentrations of credit risk from loans to customers is shown below.

	2021 $	2020 $
Consumer	4,196,603	4,746,233
Mortgages - residential	6,868,350	6,476,529
Mortgages - commercial	201,505	225,499
Manufacturing and assembly	866,178	1,014,401
Business and personal services	866,633	880,149
Distributive trades	893,459	606,686
Energy and petrochemical	898,185	944,824
Communication and transport	42,373	59,898
Construction and engineering	596,667	611,235
Hospitality industry	20,902	17,369
Financial services	37,886	408,576
Agriculture	3,613	4,763
	15,492,354	15,996,162

8.3 *Impaired loans*

Gross impaired loans represent those loans which are recognised as Stage 3.

2021	Gross impaired loans $	Allowance for credit losses $	Net $
Loans and advances to customers			
Commercial loans	85,513	(27,612)	57,901
Retail loans	267,409	(72,741)	194,668
	352,922	(100,353)	252,569

2020	Gross impaired loans $	Allowance for credit losses $	Net $
Loans and advances to customers			
Commercial loans	94,522	(32,620)	61,902
Retail loans	255,094	(115,347)	139,747
	349,616	(147,967)	201,649

8.4 *Allowance for credit losses*

2021	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Loans and advances to customers				
Commercial loans	(5,867)	(3,641)	(27,612)	(37,120)
Retail loans	(53,107)	(141,560)	(72,741)	(267,408)
	(58,974)	(145,201)	(100,353)	(304,528)

2020	Stage 1 $	Stage 2 $	Stage 3 $	Total $
Loans and advances to customers				
Commercial loans	(8,768)	(4,326)	(32,620)	(45,714)
Retail loans	(89,867)	(149,687)	(115,347)	(354,901)
	(98,635)	(154,013)	(147,967)	(400,615)

8.5 *Analysis of movement of ECL allowance*

	2021 $	2020 $
Allowance, beginning of year	400,615	276,335
Impairment charge for the year	155,560	256,168
Write-offs	(251,647)	(131,888)
Net (decrease) increase in ECL allowance for the year	(96,087)	124,280
Allowance, end of year	304,528	400,615

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8.6 *Net impairment loss on financial assets*

	2021 $	2020 $
Impairment (reversal) charge for the year:		
- Loans and advances to customers	155,560	256,168
- Undrawn credit commitments	(140)	23
- Loans and advances to banks and related companies	(292)	51
- Debt FVOCI	638	(95)
- Modification losses	1,126	11,362
Recoveries	(43,921)	(40,535)
	112,971	226,974

9. Investment Securities

	2021 $	2020 $
Debt instruments measured at FVOCI:		
- Government and state-owned enterprises debt securities	1,282,088	748,956
- Corporate debt securities	153,428	-
	1,435,516	748,956
*Equity instruments designated as FVOCI:		
- Unlisted equity securities	10,048	10,274
Equity instruments measured at FVTPL:		
- Listed equity securities and mutual funds	5,010	10,384
Interest receivable	8,812	9,340
Total investment securities	1,459,386	778,954

The analysis of credit quality of investment securities is disclosed in Note 27.1(iv).

Equity instruments designated as FVOCI

The following table shows investments in equity securities that are designated at FVOCI. The FVOCI designation was made because the investments are expected to be held for the long term for strategic purposes.

	Fair value at October 31, 2021 $	Dividend income Recognised October 2021 $
Investment in Trinidad and Tobago Stock exchange	10,048	-

None of these strategic investments were disposed of during the year ended October 31, 2021 (2020: NIL), and there were no transfers of any cumulative gain or loss within equity relating to these investments (2020: NIL). The change in fair value on these investments was $226,632 for the year ended October 31, 2021 (2020: $608,563).

	Fair value at October 31, 2020 $	Dividend income Recognised October 2020 $
Investment in Trinidad and Tobago Stock exchange	10,274	-

10. Miscellaneous Assets

	2021 $	2020 $
Accounts receivable and prepayments	2,980	37,286
Clearing items in transit	9,492	37,715
Other assets	4,545	248
	17,017	75,249

11.1 Property and Equipment

	Land $	Buildings $	Leasehold Improvements $	Equipment & Furniture $	Capital Work in Progress $	Total $
October 31, 2021						
Cost						
At beginning of year	16,396	314,641	71,684	253,642	25,867	682,230
Additions	-	1,827	2,544	27,649	4,990	37,010
Adjustments to right of use assets due to lease modifications	-	(15,623)	-	-	-	(15,623)
Disposals/Transfers	-	-	(9,269)	(13,778)	(23,897)	(46,994)
At end of year	16,396	300,845	64,959	267,513	6,960	656,673
Accumulated depreciation						
At beginning of year	-	71,502	19,199	193,030	-	283,731
Charge for year	-	16,171	1,175	12,777	-	30,123
Disposals	-	-	(5,079)	(11,621)	-	(16,700)
At end of year	-	87,673	15,295	194,186	-	297,154
Net book value	**16,396**	**213,172**	**49,664**	**73,327**	**6,960**	**359,519**

As at October 31, 2021, property and equipment includes right-of-use assets of $109 million related to leased branches and office premises.

	Land $	Buildings $	Leasehold Improvements $	Equipment & Furniture $	Capital Work in Progress $	Total $
October 31, 2020						
Cost						
At beginning of year	18,656	165,736	71,371	254,159	14,798	524,720
Recognition of right-of-use asset on initial application of IFRS 16	-	151,242	-	-	-	151,242
Adjusted balance at beginning of year	18,656	316,978	71,371	254,159	14,798	675,962
Additions	-	1,701	622	15,345	19,086	36,754
Disposals/Transfers	(2,260)	(4,038)	(309)	(15,862)	(8,017)	(30,486)
At end of year	16,396	314,641	71,684	253,642	25,867	682,230
Accumulated depreciation						
At beginning of year	-	56,511	18,041	195,783	-	270,335
Charge for year	-	17,356	1,158	11,925	-	30,439
Disposals	-	(2,365)	-	(14,678)	-	(17,043)
At end of year	-	71,502	19,199	193,030	-	283,731
Net book value	**16,396**	**243,139**	**52,485**	**60,612**	**25,867**	**398,499**

As at October 31, 2020, property and equipment includes right-of-use assets of $139 million related to leased branches and office premises.

11.2 Capital Commitment

	2021 $	2020 $
Contracts for outstanding capital expenditure not provided for in the separate financial statements	-	-
Other capital expenditure authorised by the Directors not yet contracted for	-	-

12. Defined Benefit Pension Fund and Other Post-Employment Benefits Obligations

As at October 31, 2020 Scotiabank contributed to a non-contributory defined benefit pension plan (the Plan), which entitles a retired employee to receive an annual pension payment. Employees may retire at age 63 and are entitled to receive annual payments based on a percentage of their final salary. Employees may retire earlier than age 63 under certain conditions.

The Plan exposes Scotiabank to actuarial risks, such as longevity risk, currency risk, interest rate risk and market risk.

The Plan is fully funded by Scotiabank, the assets of the Plan being managed separately by the Trustee. The funding requirements are based on the pension fund's actuarial measurement performed by an independent qualified actuary.

Scotiabank does not expect to pay contributions to its defined benefit pension fund from 2021 onwards as the fund is broadly in balance and the defined benefit component of the Plan was closed to future service accrual from November 1, 2020. Members will earn benefits on a defined contribution basis from this date.

The Bank provides a post-employment medical plan to employees who either retire due to ill-health or retire from the Bank and whose age at retirement plus service completed is at least 75 years.

Pensioners who retire after June 1, 2008 are currently eligible for post-retirement life insurance. The sum assured for those who retired prior to June 1, 2008 is equal to 100% of their salary at retirement up to age 65 when it reduces to 50% of salary.

12.1 Amounts recognised in the separate statement of financial position are as follows:

	Defined Benefit Pension Fund 2021 $	Defined Benefit Pension Fund 2020 $	Post-Employment Medical and Life Benefits 2021 $	Post-Employment Medical and Life Benefits 2020 $
Defined benefit obligation	(804,157)	(844,253)	(175,485)	(154,260)
Fair value of plan assets	933,673	857,047	-	-
Net asset (liability)	129,516	12,794	(175,485)	(154,260)

12.2 Reconciliation of change in defined benefit obligation:

	Defined Benefit Pension Fund 2021 $	Defined Benefit Pension Fund 2020 $	Post-Employment Medical and Life Benefits 2021 $	Post-Employment Medical and Life Benefits 2020 $
Defined benefit obligation at beginning of year	(844,253)	(822,144)	(154,260)	(145,618)
Current service cost	-	(41,233)	(6,856)	(6,761)
Interest cost	(45,491)	(42,315)	(8,328)	(7,514)
Transferred-in DC balances	(244)	-	-	-
Experience adjustments	16,491	(9,128)	5,379	235
Actuarial gains/(losses)	33,764	37,280	(19,431)	(723)
Benefits paid	35,576	33,287	8,011	6,121
Defined benefit obligation at end of year	(804,157)	(844,253)	(175,485)	(154,260)

12.3 Reconciliation of the fair value of plan assets:

	Defined Benefit Pension Fund 2021 $	Defined Benefit Pension Fund 2020 $
Plan assets at beginning of year	857,047	846,421
Interest income	46,193	44,409
Gain (loss) on plan assets (excluding interest income)	65,715	(32,292)
Bank contributions	-	32,386
Benefits paid	(35,576)	(33,287)
Expenses paid	-	(590)
Transferred-in DC balances	294	-
Plan assets at end of year	933,673	857,047

The post-employment medical and life benefits are funded by Scotiabank. There are no assets explicitly set aside for this Plan.

12.4 The actual return on plan assets is as follows:

	Defined Benefit Pension Fund 2021 $	Defined Benefit Pension Fund 2020 $
Interest income	46,193	44,409
Gain (loss) on plan assets (excluding interest income)	65,715	(32,292)
Actual return on plan assets	111,908	12,117

12.5 The movement in the asset and liability recognised in the separate statement of financial position as at October 31 comprised:

	Defined Benefit Pension Fund 2021 $	Defined Benefit Pension Fund 2020 $	Post-Employment Medical and Life Benefits 2021 $	Post-Employment Medical and Life Benefits 2020 $
Opening defined benefit liability	12,794	24,277	(154,260)	(145,618)
Net pension costs	702	(40,238)	(15,184)	(14,275)
Re-measurement recognised in other comprehensive income	116,020	(3,631)	(14,052)	(488)
Bank contributions paid	-	32,386	-	-
Benefits paid	-	-	8,011	6,121
Closing defined benefit asset (liability)	129,516	12,794	(175,485)	(154,260)

12.6 The amount recognised in the statement of profit or loss comprised:

	Defined Benefit Pension Fund 2021 $	Defined Benefit Pension Fund 2020 $	Post-Employment Medical and Life Benefits 2021 $	Post-Employment Medical and Life Benefits 2020 $
Current service cost	-	(41,233)	(6,856)	(6,761)
Net interest on net defined benefit asset (liability)	702	2,094	(8,328)	(7,514)
Administration expenses	-	(1,099)	-	-
Net pension cost	702	(40,238)	(15,184)	(14,275)

12.7 The amount recognised in other comprehensive income comprised:

	Re-measurements recognised in Other Comprehensive Income 2021 $	Re-measurements recognised in Other Comprehensive Income 2020 $
Defined benefit pension Fund	116,020	(3,631)
Post-employment medical and life benefits	(14,052)	(488)
	101,968	(4,119)

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12.8 Experience history:

	Defined Benefit Pension Fund 2021 $	2020 $
Defined benefit obligation	(804,157)	(844,253)
Fair value of Plan assets	933,673	857,047
Surplus	129,516	12,794
Experience adjustment on plan assets	116,020	(3,631)

12.9 Experience history:

	Post-Employment Medical and Life Benefits 2021 $	2020 $
Defined benefit obligation	(175,485)	(154,260)
Deficit	(175,485)	(154,260)
Experience adjustment on plan liabilities	(14,052)	(488)

12.10 Asset allocation:

	Defined Benefit Pension Fund 2021	2020
Equity securities	42%	36%
Debt securities	53%	57%
Property	2%	2%
Other	3%	5%
Total	100%	100%

The post-employment medical and life benefits are funded by Scotiabank. There are no assets explicitly set aside for this plan.

12.11 Composition of plan assets:

	2021 $	2020 $
Locally listed equities	203,160	180,000
Overseas equities	187,419	130,749
TT$ denominated bonds	391,126	379,868
US$ denominated bonds	99,442	108,164
Property	20,271	20,900
Mortgages	4,042	1,335
Cash and cash equivalents	28,213	36,031
Total	933,673	857,047

All equities have quoted prices in active markets. The fair value of all TT$ and US$ denomination government bonds and corporate bonds are calculated by discounting expected future proceeds using a constructed yield curve. The majority of the Plan's government bonds were issued by the Government of Trinidad and Tobago, which also guarantees many of the corporate bonds held by the Plan. As at October 31, 2021, the Plan held $30.6 million worth of Scotiabank's shares and property assets carried at $20.3 million were occupied by Scotiabank. There are no asset-liability matching strategies used by the Plan.

12.12 The principal actuarial assumptions of the Pension Plan and Post-Employment benefits were:

	2021 %	2020 %
Discount rate:		
- Active members and deferred pensioners	5.75	5.50
- Current pensioners	5.75	5.50
Rate of inflation	4.25	4.25
Future salary increases	4.00	4.00
Future pension increases	0.00	0.00

Assumptions regarding future mortality are based on published statistics and mortality tables. The current longevities underlying the values of the defined benefit obligation at the reporting date are as follows:

	2021	2020
Longevity at age 60 for current pensioners (in years)		
Males	21.8	21.8
Females	26.1	26.0
Longevity at age 60 for current members age 40 (in years)		
Males	22.7	22.7
Females	27.0	27.0

At October 31, 2021, the weighted-average duration of the defined benefit obligation is 18.0 years (2020: 18.0 years).

12.13 Sensitivity analysis:

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	Effect on Net Defined Benefit Pension Fund Obligation Increase $	Decrease $
Discount rate (1% movement)	(115,099)	150,022
Future salary increases (1% movement)	57,047	(47,575)

An increase of 1 year in the assumed life expectancies shown above would increase the defined benefit obligation at year-end by $12.5 million.

These sensitivities were calculated by re-calculating the defined benefit obligation using the revised assumptions.

	Effect on Post-Employment Medical and Life Benefits Obligation Increase $	Decrease $
Discount rate (1% movement)	(25,742)	33,325
Medical cost increases (1% movement)	32,577	(25,556)

An increase of 1 year in the assumed life expectancies shown above would increase the defined benefit obligation at year-end by $5.2 million.

These sensitivities were calculated by re-calculating the defined benefit obligation using the revised assumptions.

13. Deposits from customers

	2021 $	2020 $
13.1 Deposit balances	20,239,852	20,867,647
Interest payable	2,000	1,214
	20,241,852	20,868,861

	2021 $	2020 $
13.2 ***Concentration of liabilities***		
Personal	12,448,906	12,025,320
Commercial	7,117,166	7,752,381
Financial institutions	673,780	1,089,946
	20,239,852	20,867,647

14. Deposits from Banks and Other Related Companies

	2021 $	2020 $
Related companies	134,368	40,186
Banks	9,521	6,734
	143,889	46,920

15. Other Liabilities

	2021 $	2020 $
Deferred Income	160,972	137,578
Accrued charges and other payables	286,665	269,234
Lease Liabilities (Note 26)	115,037	141,627
Other	28,737	17,864
Impairment allowance – Undrawn credit commitments	414	554
	591,825	566,857
Analysis of movement in loss allowance		
Allowance, beginning of year	554	531
Impairment (reversal) charge for the year (Note 8.6)	(140)	23
Allowance, end of year	414	554

16. Deferred Taxation

16.1 The net deferred tax asset is attributable to the following items:

	2021 $	2020 $
Deferred tax liability		
Property and equipment	30,533	22,566
Investment securities at FVOCI	2,514	4,549
Miscellaneous assets	-	427
	33,047	27,542
Deferred tax asset		
Allowance for credit losses	32,060	86,972
Post-employment benefit asset/obligation	18,893	49,513
Miscellaneous liabilities	8,419	6,002
	59,372	142,487
Net deferred tax asset	(26,325)	(114,945)

16.2 The movement in the deferred tax amount comprised:

	2021 $	2020 $
Balance at beginning of year	(114,945)	(58,693)
Amounts recognised in OCI		
- Investment securities at FVOCI (Note 24.3)	(1,916)	(866)
- Post-employment benefit asset/obligation (Note 24.3)	35,689	(1,442)
Amounts recognised in profit or loss		
- Current year's deferred tax (Note 24.1)	54,847	(53,944)
Balance at end of year	(26,325)	(114,945)

17. Stated Capital

	2021 $	2020 $
Authorised		
Authorised capital consists of an unlimited number of ordinary shares of no par value		
Issued and fully paid up shares		
176,343,750 (2020: 176,343,750) ordinary shares	267,563	267,563

18. Statutory Reserve Fund

In accordance with the Financial Institutions Act, 2008, Scotiabank is required to transfer, at the end of each financial year, no less than 10 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.

The balance shown for the statutory reserve fund is as follows:

	2021 $	2020 $
Balance, beginning of year	802,563	732,563
Amount transferred	10,000	70,000
Balance, end of year	812,563	802,563

19. Dividends

19.1 Subsequent to October 31, 2021, the Board of Directors, in a meeting on December 14, 2021, resolved that Scotiabank pay a final dividend of $0.85 per share, bringing the total dividends in respect of the current financial year to $3.50 per share (2020: $2.25 per share). These separate financial statements do not reflect the final dividend, which will be accounted for as an appropriation of retained earnings in the year ending October 31, 2022.

19.2 Dividends paid and proposed are analysed as follows:

	2021 ¢ per share	2021 $	2020 ¢ per share	2020 $
Dividends paid				
First interim dividend	60	105,807	60	105,805
Second interim dividend	60	105,806	40	70,538
Third interim dividend	145	255,698	40	70,538
	265	467,311	140	246,881
Dividends proposed				
Final dividend	85	149,892	85	149,892
Total dividends paid and proposed	350	617,203	225	396,773

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19.3 Reconciliation of dividends paid and proposed to dividends paid during the year:

	2021		2020	
	¢ per share	$	¢ per share	$
Total dividends paid and proposed	350	617,203	225	396,773
Dividends proposed	(85)	(149,892)	(85)	(149,892)
Dividends paid during the year in respect of prior year	85	149,892	150	264,516
Dividends paid during the year	350	617,203	290	511,397

20. Interest Income Calculated Using the Effective Interest Method

	2021 $	2020 $
Loans to customers	1,090,904	1,198,967
Investment securities	41,983	61,540
	1,132,887	1,260,507

21. Interest Expense

	2021 $	2020 $
Deposits from customers	15,026	28,975
Interest on lease liability (Note 26)	6,568	7,448
Other interest expense	-	534
	21,594	36,957

22. Other Income

	2021 $	2020 $
Deposit and payment services	66,748	53,844
Card revenues	151,862	161,619
Credit fees	26,534	25,058
Wealth management services	6,301	5,340
Net trading income	273,463	222,062
Dividend income from subsidiary	155,000	10,000
Other fees and commissions	44,025	39,225
	723,933	517,148

The following table provides information about contract receivables and contract liabilities from contracts with customers:

	2021 $	2020 $
Contract receivables, which are included in 'other assets'	-	-
Contract liabilities, which are included in 'other liabilities'	-	-

23. Other Expenses

	2021 $	2020 $
Deposit insurance premium	32,857	30,006
Directors' fees	2,706	2,366
Other operating expenses	209,157	206,513
	244,720	238,885

24. Taxation

24.1 Taxation charge

	2021 $	2020 $
Current tax	231,008	290,998
Deferred tax: origination and reversal of temporary differences	54,847	(53,944)
Change in estimates related to prior years	-	(718)
Green Fund levy	5,074	6,142
	290,929	242,478

24.2 Taxation reconciliation

The tax on the operating profit differs from the theoretical amount that would arise using the basic tax rate of the home country of Scotiabank.

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

	2021 $	%	2020 $	%
Profit before taxation	937,782	100	667,234	100
Computed tax calculated at the statutory rate of 35% (2020: 35%)	328,224	35	233,532	35
Tax effect of items that are adjusted in determining taxable profit:				
- Tax effect of non-taxable income	(57,634)	(6)	(6,977)	(1)
- Tax effect of non-deductible costs	15,265	2	10,499	1
- Green Fund levy	5,074	1	6,142	1
- Change in estimates related to prior years	-	-	(718)	-
Tax charge and effective tax rate	290,929	31	242,478	36

24.3 Amounts recognised in OCI:

	Before Tax $	Tax (Expense) Benefit $	Net of Tax $
2021			
Fair value re-measurement of investments at FVOCI	(5,489)	1,916	(3,573)
Re-measurements of post-employment benefits obligation/asset	101,968	(35,689)	66,279
	96,479	(33,773)	62,706
2020			
Fair value re-measurement of investments at FVOCI	(2,524)	866	(1,658)
Re-measurements of post-employment benefits obligation/asset	(4,119)	1,442	(2,677)
	(6,643)	2,308	(4,335)

25. Commitments and Contingent Liabilities

In the normal course of business, various commitments and contingent liabilities are outstanding (see Note 3(k)), which are not reflected in these separate financial statements. These include commitments to extend credit, which, in the opinion of management, do not represent unusual risk, and no material losses are anticipated as a result of these transactions.

As at October 31, 2021, there were certain legal proceedings against Scotiabank. Based upon legal advice, the Directors do not expect the outcome of those actions to have a material effect on Scotiabank's separate financial position at that date or profit or loss for the year then ended.

26. Leases

The Bank leases a number of branch and office premises. The length of the leases varies but are typically run for a period of three to five years.

Information about leases for which the Bank is a lessee is presented below:

Right-of-use assets

Right-of-use assets relate to branch and office premises that are presented within property and equipment.

	2021 $	2020 $
Balance at November 1	138,580	151,242
Depreciation charge for the year	(13,487)	(14,619)
Additions	3,680	1,957
Lease modifications	(15,860)	-
Leases terminated	(3,443)	-
Balance at October 31	109,470	138,580

Maturity analysis – contractual undiscounted cash flows

At October 31, 2021, the future maturity lease payments under non-cancellable operating leases were payable as follows:

	2021 $	2020 $
Gross finance lease liabilities:		
Less than one year	17,783	18,596
Between one and five years	81,937	71,851
Over 5 years	143,254	192,772
Interest	(28,217)	(51,145)
Present value of minimum lease payments	115,037	141,627

	2021 $	2020 $
Finance lease liabilities are payable as follows:		
Less than one year	17,783	18,596
One to five years	81,937	71,851
More than five years	43,534	102,325
Total undiscounted lease liabilities	143,254	192,772
Lease liabilities included in the statement of financial position	115,037	141,627

	2021 $	2020 $
(i) Amounts recognised in profit or loss		
Opening leases under IFRS 16		
Interest on lease liabilities	6,568	7,448
Expenses relating to leases of low-value assets	218	219

27. Financial Risk Management

Scotiabank has exposure to the following risks from its use of financial instruments:

(a) Credit risk
- (i) Collateral held and other credit enhancements and their financial effects
- (ii) Exposure to credit risk
- (iii) Changes to the allowance for credit losses
- (iv) Analysis of credit quality

(b) Market risk
- (i) Exposure to currency risks
- (ii) Exposure to interest rate risk
- (iii) Exposure to equity price risk

(c) Liquidity risk
- (i) Exposure to liquidity risk
- (ii) Maturity analysis for financial liabilities and financial assets.

(d) Capital management

(e) Operational risk

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

Risk management framework

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

Scotiabank's risk management policies are established to identify and analyse the risks faced by Scotiabank, 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, aims 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 Scotiabank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by Scotiabank. The Scotiabank Group Audit Committee is assisted in these functions by the Group 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 Group Audit Committee.

27.1 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 Scotiabank. Credit risk is created in Scotiabank's direct lending operations, and in its funding, investment and trading activities where counterparties have repayment or other obligations to Scotiabank.

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.

Scotiabank'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.

Scotiabank's credit processes include:
- A centralised credit review system that is independent of the customer relationship function;
- Senior management, which considers all major risk exposures; and
- An independent review by Scotiabank's Internal Audit Department.

Relationship managers develop and structure individual proposals at branches and commercial centres. Furthermore, they conduct a full financial review for each customer at least annually, so that Scotiabank remains fully aware of customers' risk profiles. The Credit Risk Management department analyses and adjudicates on commercial and corporate credits over a certain size and exceptions to established credit policies. In assessing credit proposals, Scotiabank is particularly sensitive to the risks posed to credit quality by environmental exposures.

Retail credits are normally authorised in branches within established criteria using a credit scoring system. The Credit Risk Management department adjudicates on those retail credits that do not conform to the established criteria. The retail portfolios are reviewed regularly for early signs of possible difficulties.

These credit scoring models are subject to ongoing review to assess their key parameters and to ensure that they are creating the desired business and risk results. Proposed changes to these models or their parameters require analysis and recommendation by the credit risk unit independent of the business line, and approval by the appropriate management credit committee.

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A centralised collection unit utilises an automated system for the follow-up and collection of delinquent accounts. All delinquent accounts are aggressively managed with slightly greater emphasis being placed on the larger dollar accounts given that they represent a potential larger loss exposure to Scotiabank. The centralised collections unit is also responsible for the monitoring and trending of delinquency by branch, business lines and any other parameters deemed appropriate. Adverse trends, when identified, are analysed and the appropriate corrective action implemented. Maximum delinquency targets are set for each major product line and the collections unit works towards ensuring delinquency levels are below these targets. Inputs, assumptions and techniques used for estimating impairment is described in Note 3(f).

COVID-19 Pandemic

On March 11, 2020, the World Health Organisation declared COVID-19 a global pandemic. Governments and regulatory bodies in affected countries, including Trinidad and Tobago, have imposed a number of measures designed to contain the outbreak, including government-mandated social distancing measures, travel restrictions, quarantines, and stay at home directives. The Bank is closely monitoring the potential effects and impact of the pandemic, which is an evolving situation.

The COVID-19 pandemic has had disruptive effects in the global economy, as well as causing increased volatility and disruption in financial markets, interruption to supply chains, increased unemployment levels and changes to the macroeconomic environment. The disruptive effects of the pandemic have contributed to economic slowdowns both domestically and globally, leading to lower GDP growth.

Governments and central banks around the world, including Trinidad and Tobago, have taken, significant measures to provide economic assistance to individual households and businesses, stabilize the markets, and support economic growth. The success of these measures is unknown, and they may not be sufficient to fully mitigate the negative impact of the pandemic or avert continued recessionary conditions.

In addition to the impact that the COVID-19 pandemic has on the Bank's business, it may also continue to increase financial stress on the Bank's customers. This could lead to increased pressure on our individual customers, as well as on the financial performance of the Bank's small business, commercial and corporate clients in conjunction with operational constraints due to the impacts of social distancing, including but not limited to branch closures or reduced operating hours, lost sales opportunities and/or increased operating costs. A substantial amount of the Bank's business involves making loans or otherwise committing resources to borrowers, including individuals and companies in various industries and governments. The COVID-19 pandemic's impact on such borrowers could have significant adverse effects on the Bank's financial results, businesses, financial condition or liquidity, including by influencing the recognition of credit losses in our loan portfolios and increasing our allowance for credit losses, particularly if businesses remain closed or operate at reduced capacities and as more customers are expected to draw on their lines of credit or seek additional loans to help finance their businesses.

The COVID-19 pandemic's significant impact to economies around the world, with regions in different stages of lockdown and re-opening, resulted in continued uncertainty on timing of recovery.

The allowance for credit losses, using an expected credit loss approach as required under IFRS 9 (the standard), is estimated using complex models and incorporates inputs, assumptions and techniques that require a high degree of judgement. These include assessment of significant increase in credit risk, the forecast of macroeconomic variables for multiple scenarios and probability weightings of the scenarios. In the current economic environment resulting from COVID-19, the models in isolation may not capture all the uncertainty as well as the impact of public support programs by the government. Therefore, management has applied significant expert credit judgement in the determination of the allowance for credit losses.

IFRS 9 requires the consideration of past events, current conditions and reasonable and supportable forward-looking information over the life of the exposure to measure expected credit losses. Furthermore, to assess significant increase in credit risk, the Standard requires that entities assess changes in the risk of a default occurring over the expected life of a financial instrument when determining staging. The IASB and global regulators issued guidance for entities, consistent with IFRS 9, to consider the exceptional circumstances of the COVID-19 pandemic. This includes significant government support, the high degree of uncertainty around historical long-term economic trends used in determining reasonable and supportable forward-looking information.

The Bank's models are calibrated to consider past performance and macroeconomic forward-looking variables as inputs. Expert credit judgement is applied to consider the exceptional circumstances in this period, including consideration of the significant government assistance programs in the assessment of underlying credit deterioration and migration of balances to progressive stages.

Consistent with the requirements of IFRS 9, the Bank considered both quantitative and qualitative information in the assessment of significant increase in credit risk. Utilisation of a payment deferral program was not considered an immediate trigger, in keeping with IASB and regulatory guidance, for an account to migrate to a progressive stage, given the purpose of these programs is to provide temporary cash flow relief to the Bank's customers.

The Bank has generated a forward-looking base case scenario and three alternate forward-looking scenarios (1 optimistic, 2 pessimistic) as key inputs into the expected credit loss provisioning models. In these scenarios the Bank considered recovery time periods ranging from more immediate (V shape), mid-term (U shape) to longer-term (L shape) periods. Probability weights were assigned to scenarios with a higher weighting assigned collectively to the two pessimistic scenarios.

(i) Collateral held and other credit enhancements, and their financial effects

Collateral
Scotiabank, as part of its credit risk management strategy, employs the practice of taking security in respect of funds advanced to its clients. Scotiabank, through its ALCO and its Credit Risk department, develops and reviews policies related to the categories of security and their valuation that are acceptable to Scotiabank as collateral. The principal collateral types are as follows:

- Mortgages over residential and commercial property.
- Charges over business assets such as premises, inventory and accounts receivable.
- Charges over debt instruments and equity instruments.

Scotiabank does not routinely update the valuation of collateral held. Valuation of collateral is updated when the credit risk of a loan deteriorates significantly.

For each loan, the value of collateral is capped at the nominal amount of the loan that it is held against.

Repossessed collateral
Scotiabank enforces its power of sale agreements over various types of collateral (as noted above) as a consequence of failure by borrowers or counter-parties to honour their financial obligations to Scotiabank. Appraisals are obtained for the current value of the collateral as an input to the impairment measurement, and once repossessed, the collateral is sold as soon as practicable. The proceeds net of disposal cost are applied to the outstanding debt.

(ii) Exposure to credit risk

Scotiabank's maximum exposure to credit risk before collateral held or credit enhancements is detailed below:

	2021	2020
	$	$
Credit risk recognised on the statement of financial position		
Cash on hand and in transit	218,702	150,566
Loans and advances to banks and related companies	856,027	437,609
Treasury Bills	3,314,437	3,321,253
Deposits with Central Bank	3,046,104	4,357,607
Loans to customers	15,303,234	15,769,349
Investment securities (excluding equities)		
- Debt instruments measured at FVOCI	1,444,328	758,296
	24,182,832	24,794,680

	2021	2020
	$	$
Credit risk not recognised on the separate statement of financial position		
Acceptances, guarantees and letters of credit	797,659	1,070,613
Undrawn credit commitments	2,898,520	3,413,189
	3,696,179	4,483,802
Total credit risk exposure	27,879,011	29,278,482

(iii) Changes to the allowance for credit losses

The following table presents the changes to the allowance for credit losses on loans. Explanation of terms 'Stage 1', 'Stage 2', and 'Stage 3' is included in Note 3(d).

	2021			
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Retail loans				
Balance at beginning of the year	89,867	149,687	115,347	354,9015
Re-measurement	(56,675)	62,877	144,250	150,452
Newly originated or purchased	24,615	-	-	24,615
Derecognition and maturities	(12,370)	(45,530)	-	(57,900)
Changes in models and methodologies	-	-	-	-
Transfers to (from):				
- Stage 1	28,622	(27,424)	(1,198)	-
- Stage 2	(20,647)	29,297	(8,650)	-
- Stage 3	(305)	(27,347)	27,652	-
Gross write offs	-	-	(247,360)	(247,360)
Recoveries	-	-	42,700	42,700
Other movements	-	-	-	-
Balance at end of year	53,107	141,560	72,741	267,408

	2020			
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Retail loans				
Balance at beginning of the year	59,282	119,981	58,242	237,405
Re-measurement	(32,180)	90,909	135,518	194,247
Newly originated or purchased	24,759	-	-	24,759
Derecognition and maturities	(8,901)	(9,784)	-	(18,685)
Changes in models and methodologies	3,699	7,512	10,188	21,399
Transfers to (from):				
- Stage 1	75,546	(72,556)	(2,990)	-
- Stage 2	(19,053)	48,419	(29,366)	-
- Stage 3	(324)	(33,094)	33,418	-
Gross write offs	-	-	(128,328)	(128,328)
Recoveries	-	-	39,169	39,169
Other movements	(12,961)	(1,600)	(504)	(15,065)
Balance at end of year	89,867	149,687	115,347	354,901

	2021			
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Commercial loans				
Balance at beginning of the year	8,768	4,326	32,620	45,714
Re-measurement	(2,488)	(424)	(247)	(3,159)
Newly originated or purchased	18,565	-	-	18,565
Derecognition and maturities	(19,178)	(10)	-	(19,188)
Changes in models and methodologies	(58)	13	-	(45)
Transfers to (from):				
- Stage 1	(11)	11	-	-
- Stage 2	284	(284)	-	-
- Stage 3	-	-	-	-
Gross write offs	(15)	9	(5,697)	(5,703)
Recoveries	-	-	936	936
Other movements	-	-	-	-
Balance at end of year	5,867	3,641	27,612	37,120

	2020			
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Commercial loans				
Balance at beginning of the year	4,334	6,131	28,465	38,930
Re-measurement	3,650	(1,147)	7,864	10,367
Newly originated or purchased	9,929	-	-	9,929
Derecognition and maturities	(9,289)	6	-	(9,284)
Changes in models and methodologies	57	(341)	-	(285)
Transfers to (from):				
- Stage 1	314	(314)	-	-
- Stage 2	(25)	25	-	-
- Stage 3	-	-	-	-
Gross write offs	-	-	(3,560)	(3,560)
Recoveries	-	-	1,366	1,366
Other movements	(202)	(34)	(1,515)	(1,751)
Balance at end of year	8,768	4,326	32,620	45,714

(iv) Analysis of credit quality

Loans and advances to customers

The following table presents the carrying value of exposures by risk rating:

	2021			
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Retail loans				
Very low	48,453	-	-	48,453
Low	6,523,536	10,497	-	6,534,033
Medium	2,445,343	52,836	-	2,498,179
High	681,713	545,303	-	1,227,016
Very high	144	421,904	-	422,048
Loans not graded	40,146	32,842	-	72,988
Default	-	-	267,409	267,409
Total	9,739,335	1,063,382	267,409	11,070,126
Allowance for credit losses	(53,107)	(141,560)	(72,741)	(267,408)
Carrying value	9,686,228	921,822	194,668	10,802,718

	2020			
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Retail loans				
Very low	41,876	-	-	41,876
Low	6,122,379	7,542	-	6,129,921
Medium	2,717,471	29,811	-	2,747,282
High	1,042,507	591,352	-	1,633,859
Very high	100	435,192	-	435,292
Loans not graded	88,305	26,426	-	114,731
Default	-	-	255,094	255,094
Total	10,012,638	1,090,323	255,094	11,358,055
Allowance for credit losses	(89,867)	(149,687)	(115,347)	(354,901)
Carrying value	9,922,771	940,636	139,747	11,003,154

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	2021			
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Commercial loans				
Very low	489,306	66,372	-	55,678
Low	912,929	130,997	-	1,043,926
Medium	2,519,161	188,632	-	2,707,793
High	-	29,318	-	29,318
Very high	-	-	-	-
Loans not graded	-	-	-	-
Default	-	-	85,513	85,513
Total	3,921,396	415,319	85,513	4,422,228
Allowance for credit losses	(5,867)	(3,641)	(27,612)	(37,120)
Carrying value	3,915,529	411,678	57,901	4,385,108

	2020			
	Stage 1	Stage 2	Stage 3	Total
	$	$	$	$
Commercial loans				
Very low	489,306	66,372	-	555,678
Low	912,929	130,997	-	1,043,926
Medium	2,726,030	188,633	-	2,914,662
High	-	29,318	-	29,318
Very high	-	-	-	-
Default	-	-	94,522	94,522
Total	4,128,265	415,320	94,522	4,638,107
Allowance for credit losses	(8,768)	(4,326)	(32,620)	(45,714)
Carrying value	4,119,497	410,994	61,902	4,592,393

Probability of default (PD) measures the likelihood that a borrower will default within a one-year time horizon. Each category of PD grades is assigned a PD range as follows:

Category of (PD) grades	PD Range
Exceptionally low	0.0000% - 0.0499%
Very low	0.0500% - 0.1999%
Low	0.20000% - 0.9999%
Medium low	1.0000% - 2.9999
Medium	3.0000% - 9.9999%
High	10.0000% - 19.9999%
Extremely high	20.0000% - 99.9999%
Default	100%

Investment securities

The credit quality of FVOCI debt instruments as well as loan commitments and financial guarantee contracts are all classified as "very low". See Note 8.6 for ECL allowance.

Cash equivalents and loans and advances to banks and related parties

Scotiabank held cash equivalents and loans and advances to banks and related parties of $1,074,729 (2020: $588,175). Cash equivalents and loans and advances to banks and related parties are held with reputable financial institutions with no history of default.

27.2 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 Scotiabank to market risk. This includes, asset liability management, while also approving limits for funding and investment activities, and reviewing Scotiabank's interest rate strategies and performance against established limits.

Scotiabank measures and controls market risk primarily through the use of risk sensitivity analysis. This method of stress testing provides an indication of the potential size of losses that could arise in extreme conditions. These tests are conducted by the market risk function, the results of which are reviewed by senior management.

All market risk limits are reviewed at least annually. The key sources of Scotiabank's market risk are as follows:

27.2.1 Currency risk

Scotiabank 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 and foreign currency options and other derivative instruments which all carry inherent risks. Currency exposure resides mainly in trading activity where Scotiabank buys and sells currencies in the spot and forward markets to assist customers in meeting their business needs. Trading portfolios are managed with the intent to buy and sell over short periods of time, rather than to hold positions for investment. Explicit limits are established by currency, position and term. Daily reports are independently reviewed for compliance. There were no changes to the policies and procedures for managing foreign exchange when compared with last year.

The results of the sensitivity analyses conducted as at October 31, on the possible impact on net profits before tax and on equity, of fluctuations of the US dollar foreign exchange rate relative to the TT dollar are presented below.

Change in currency rate	Effect on PBT		Effect on equity	
	2021	2020	2021	2020
	$	$	$	$
Increase of 1%	647	827	420	538
Decrease of 1%	(647)	(827)	(420)	(538)

Concentration of assets and liabilities by currency

Scotiabank has the following significant currency positions, shown in TT$ equivalents:

	2021			
	TT	US	Other	Total
	$	$	$	$
Financial Assets				
Cash on hand and in transit	206,272	10,245	2,185	218,702
Loans and advances to banks and related companies	105,469	461,459	289,099	856,027
Treasury Bills	1,718,857	1,511,158	84,422	3,314,437
Deposits with Central Bank	3,046,104	-	-	3,046,104
Loans to customers	13,600,450	1,702,784	-	15,303,234
Investment securities	740,278	719,093	15	1,459,386
Total financial assets	19,417,430	4,404,739	375,721	24,197,890
Financial Liabilities				
Deposits from customers	16,050,332	3,820,661	370,859	20,241,852
Deposits from subsidiaries	98,793	6,106	-	104,899
Deposits from banks and other related companies	10,446	133,443	-	143,889
Lease liabilities	115,037	-	-	115,037
Total financial liabilities	16,274,608	3,960,210	370,859	20,605,677
Net financial position	3,142,822	444,529	4,862	3,592,213
Undrawn credit commitments	2,891,135	7,385	-	2,898,520

	2020			
	TT	US	Other	Total
	$	$	$	$
Financial Assets				
Cash on hand and in transit	125,770	21,068	3,728	150,566
Loans and advances to banks and related companies	99,732	155,217	182,660	437,609
Treasury Bills	1,722,276	1,520,336	78,641	3,321,253
Deposits with Central Bank	4,357,607	-	-	4,357,607
Loans to customers	14,118,065	1,651,284	-	15,769,349
Investment securities	306,696	472,180	78	778,954
Total financial assets	20,730,146	3,820,085	265,107	24,815,338
Financial Liabilities				
Deposits from customers	16,919,330	3,689,107	260,424	20,868,861
Deposits from subsidiaries	372,264	5,726	-	377,990
Deposits from banks and other related companies	10,559	36,361	-	46,920
Lease liabilities	141,627	-	-	141,627
Total financial liabilities	17,443,780	3,731,194	260,424	21,435,398
Net financial position	3,286,366	88,891	4,683	3,379,940
Undrawn credit commitments	3,398,206	14,983	-	3,413,189

27.2.2 Interest rate risk

Interest rate risk arises when there is a mismatch between positions which are subject to interest rate adjustments within a specific period. In Scotiabank's funding, lending and investment activities, fluctuations in interest rates are reflected in interest rate margins and consequently its earnings. A negative gap, which is not unusual, occurs when more liabilities than assets are subject to rate changes during a prescribed period of time. Interest rate risk is managed through the matching of funding products with financing services, regular review of structural gaps which may exist and monitoring market conditions through a centralised treasury operation. The interest rates on a material amount of Scotiabank's assets can be repriced as and when required.

The results of the sensitivity analysis conducted as at October 31 on the impact on net profits before tax and on equity as a consequence of a reasonably possible change in interest rates at that date, are presented below:

Sensitivity of projected net interest income

	100bp parallel decrease	25bp parallel decrease	25bp parallel increase	100bp parallel increase
	$	$	$	$
2021				
At October 31	41,722	10,431	(10,432)	(41,728)
Average for the period	38,592	9,648	(9,648)	(38,593)
Maximum for the period	49,207	12,302	(12,302)	(49,207)
Minimum for the period	31,898	7,974	(7,974)	(31,898)
2020				
At October 31	34,854	8,714	(8,714)	(34,854)
Average for the period	31,190	7,797	(7,797)	(31,190)
Maximum for the period	34,854	8,714	(8,714)	(34,854)
Minimum for the period	26,761	6,690	(6,690)	(26,761)

Interest Sensitivity of Financial Assets and Financial Liabilities

The following table summarises carrying amounts of financial assets and financial liabilities on the separate statement of financial position, in order to arrive at Scotiabank's interest rate gap on the earlier of contractual repricing and maturity dates:

	2021					
	Due on demand	Due in one year	Due in two to five years	Over five years	Non-interest bearing	Total
	$	$	$	$	$	$
Financial Assets						
Cash on hand and in transit	-	-	-	-	218,702	218,702
Loans and advances to banks and related companies	62,748	-	-	-	793,279	856,027
Treasury Bills	-	3,314,437	-	-	-	3,314,437
Deposits with Central Bank	-	-	-	-	3,046,104	3,046,104
Loans to customers	406,037	5,949,525	3,309,395	5,515,315	122,962	15,303,234
Investment securities	15,152	67,634	1,376,600	-	-	1,459,386
Total financial assets	483,937	9,331,596	4,685,995	5,515,315	4,181,047	24,197,890
Financial Liabilities						
Deposits from customers	13,893,894	1,327,043	115,939	-	4,904,976	20,241,852
Deposits from banks,subsidiaries and related companies	115,572	-	-	-	131,216	248,788
Lease liabilities	-	25,102	38,930	51,005	-	115,037
Total financial liabilities	14,009,466	1,352,145	154,869	51,005	5,038,192	20,605,677
Net Gap	(13,525,529)	7,979,451	4,531,126	5,464,310		
Cumulative Gap	(13,525,529)	(5,546,078)	(1,014,952)	4,449,358		

	2020					
	Due on demand	Due in one year	Due in two to five years	Over five years	Non-interest bearing	Total
	$	$	$	$	$	$
Financial Assets						
Cash on hand and in transit	-	-	-	-	150,566	150,566
Loans and advances to banks and related companies	34,138	-	-	-	403,471	437,609
Treasury Bills	-	3,321,253	-	-	-	3,321,253
Deposits with Central Bank	-	-	-	-	4,357,607	4,357,607
Loans to customers	454,040	7,085,361	3,237,566	4,869,579	122,803	15,769,349
Investment securities	20,659	7,757	750,538	-	-	778,954
Total financial assets	508,837	10,414,371	3,988,104	4,869,579	5,034,447	24,815,338
Liabilities						
Deposits from customers	13,887,029	1,505,196	154,760	-	5,321,876	20,868,861
Deposits from banks, subsidiaries and related companies	385,179	-	-	-	39,731	424,910
Lease liabilities	-	13,662	52,788	75,177	-	141,627
Total financial liabilities	14,272,208	1,518,858	207,548	75,177	5,361,607	21,435,398
Net Gap	(13,763,371)	8,895,513	3,780,556	4,794,402		
Cumulative Gap	(13,763,371)	(4,867,858)	(1,087,302)	3,707,100		

Equity price risk

Equity price risk is the risk that the fair value of equities decreases as a result of equity indices and/or the value of individual equities.

The effect on equity will arise from changes in stock prices for those stocks that are categorised as fair value through other comprehensive income, whereas the impact on income will arise from those categorised as held for trading.

Scotiabank is exposed to an insignificant amount of equity price risk.

*Registered trademark of The Bank of Nova Scotia, used under licence.

27.3 Liquidity risk

Liquidity risk is the risk that Scotiabank is unable to meet its financial obligations in a timely manner at reasonable prices. Financial obligations include liabilities to depositors, payments due under contractual arrangements, settlement of securities, borrowing and repurchase transactions and lending and investing commitments.

Liquidity risk arises from fluctuations in cash flows. The objective of the liquidity management process is to ensure that Scotiabank honours all of its financial commitments as they fall due. Scotiabank, through its Treasury function, measures and forecasts its cash flow commitments and ensures that sufficient liquidity is available to meet its needs. The ALCO monitors Scotiabank's liquidity management process, policies and strategies.

To fulfill this objective, Scotiabank maintains diversified sources of funding, sets prudent limits and ensures immediate access to liquid assets. Scotiabank relies on a broad range of funding sources and applies prudent limits to avoid undue concentration. The principal sources of funding are capital, core deposits from retail and commercial customers and wholesale deposits raised in the interbank and commercial markets. Scotiabank's extensive branch network provides a strong foundation for diversifying its funding and raising the level of core deposits. Fallback techniques include access to local interbank and institutional markets and stand-by lines of credit with external parties.

The table below shows a maturity analysis of financial instruments using discounted cash flows of financial assets and financial liabilities based on their contractual maturity dates as at October 31:

2021	Due on demand	Up to one year	Two to five years	Over five years	Total
	$	$	$	$	$
Financial Assets					
Cash on hand and in transit	218,702	-	-	-	218,702
Loans and advances to banks and related companies	856,027	-	-	-	856,027
Treasury Bills	-	3,314,437	-	-	3,314,437
Deposits with Central Bank	3,046,104	-	-	-	3,046,104
Loans to customers	528,999	5,949,525	3,309,395	5,515,315	15,303,234
Investment securities (excluding equities)	-	67,634	1,376,694	-	1,444,328
Total financial assets	4,649,832	9,331,596	4,686,089	5,515,315	24,182,832
Liabilities					
Deposits from customers	18,798,869	1,327,043	115,940	-	20,241,852
Deposits from banks, subsidiaries and other related companies	248,788	-	-	-	248,788
Lease liabilities	-	25,102	38,930	51,005	115,037
Total financial liabilities	19,047,657	1,352,145	154,870	51,005	20,605,677
Net Gap	**(14,397,825)**	**7,979,451**	**4,531,219**	**5,464,310**	**3,577,155**
Cumulative Gap	**(14,397,825)**	**(6,418,374)**	**(1,887,155)**	**3,577,155**	

The table below shows the contractual maturities of financial guarantee contracts:

2020	Due on demand	Up to one year	Two to five years	Over five years	Total
	$	$	$	$	$
Financial guarantee contracts	-	795,990	1,226	443	797,659

2020	Due on demand	Up to one year	Two to five years	Over five years	Total
	$	$	$	$	$
Financial Assets					
Cash on hand and in transit	150,566	-	-	-	150,566
Loans and advances to banks and related companies	437,609	-	-	-	437,609
Treasury Bills	-	3,321,253	-	-	3,321,253
Deposits with Central Bank	4,357,607	-	-	-	4,357,607
Loans to customers	576,843	7,085,361	3,237,566	4,869,579	15,769,349
Investment securities (excluding equities)	-	7,757	750,539	-	758,296
Total financial assets	5,522,625	10,414,371	3,988,105	4,869,579	24,794,680
Financial Liabilities					
Deposits from customers	19,208,905	1,505,196	154,760	-	20,868,861
Deposits from banks, subsidiaries and other related companies	424,910	-	-	-	424,910
Lease liabilities	-	13,662	52,788	75,177	141,627
Total financial liabilities	19,633,815	1,518,858	207,548	75,177	21,435,398
Net Gap	**(14,111,190)**	**8,895,513**	**3,780,557**	**4,794,402**	**3,359,282**
Cumulative Gap	**(14,111,190)**	**(5,215,677)**	**(1,435,120)**	**3,359,282**	

The table below shows the contractual maturities of financial guarantee contracts:

2020	Due on demand	Up to one year	Two to five years	Over five years	Total
	$	$	$	$	$
Financial guarantee contracts	-	1,062,334	7,837	442	1,070,613

The table below summarises the maturity profile of financial liabilities based on their undiscounted cash flows at October 31. The balances include both principal and interest cash flows over the remaining term to maturity and therefore would differ from the carrying amounts in the separate statement of financial position.

2021	Due on demand	Due in one year	Due in two to five years	Over five years	Total contractual cash flows	Total carrying value
	$	$	$	$	$	$
Deposits from customers	18,798,869	1,327,692	116,149	-	20,242,710	20,241,852
Deposits from banks, subsidiaries and related companies	248,788	-	-	-	248,788	248,788
Lease liabilities	-	17,783	81,937	45,534	143,254	115,037
Total financial liabilities	19,047,657	1,345,475	198,086	45,534	20,634,752	20,605,677

2020	Due on demand	Due in one year	Due in two to five years	Over five years	Total contractual cash flows	Total carrying value
	$	$	$	$	$	$
Deposits from customers	19,208,905	1,508,267	155,905	-	20,873,077	20,868,861
Deposits from banks, subsidiaries and related companies	424,910	-	-	-	424,910	424,910
Lease liabilities	-	18,596	71,851	102,325	192,772	141,627
Total financial liabilities	19,633,815	1,526,863	227,756	102,325	21,490,759	21,435,398

27.4 Capital management

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

- Compliance with capital requirements as set by the Central Bank of Trinidad and Tobago
- Ensuring Scotiabank's ability to continue as a going concern
- Maintaining a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management. The Bank 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 separate 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.

The Bank's regulatory capital up to 2019 consisted of the sum of the following elements:

- *Tier 1 capital.* Tier 1 capital comprises shareholder equity and retained earnings and is a measure of the Bank'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 summarises the composition of regulatory capital and the ratios for Scotiabank as at October 31.

	2021	2020
	$	$
Equity		
Tier 1 regulatory capital	3,432,781	3,582,099
Tier 2 regulatory capital	82,051	101,350
Investment in subsidiaries	(92,951)	(92,951)
Qualifying capital	3,421,881	3,590,498
Risk weighted assets		
On balance sheet	15,346,569	14,899,610
Off balance sheet	3,605,009	3,021,261
Total risk weighted assets	18,951,578	17,920,871
Total regulatory capital to risk weighted assets - Actual	18.06%	20.04%
Total regulatory capital to risk weighted assets - Minimum	10.0%	10.0%

27.5 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with Scotiabank'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 Scotiabank's operations.

Scotiabank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to Scotiabank'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 Operational Risk Committee. This responsibility is supported by the development of overall Scotiabank standards for the management of operational risk in the following areas:

- 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.

Compliance with Scotiabank standards is supported by a programme of periodic review undertaken by 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 Scotiabank.

28. Fair Value of Financial Assets and Financial Liabilities and Other Contracts

The fair value of financial instruments that are recognised on the statement of financial position and the fair value of financial instruments that are not recognised on the statement of financial position are based on the valuation methods and assumptions set out in the significant accounting policies Note 3(d)(ii).

(a) Valuation models

Scotiabank classifies fair value using the following three-level fair value hierarchy based on the extent to which one or more significant inputs are observable or not observable:

- 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 for similar instruments; quoted prices for identical or similar instruments in 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 judgement 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.

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.

Scotiabank recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred. There were no transfers between levels during the year.

(b) Financial instruments measured at fair value

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 categorised::

2021	Level 1	Level 2	Level 3	Total
	$	$	$	$
Financial Assets				
Treasury Bills	-	3,314,437	-	3,314,437
Investment securities	306,675	1,143,899	-	1,450,574
	306,675	4,458,336	-	4,765,011

*Registered trademark of The Bank of Nova Scotia, used under licence.

	2020			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Financial Assets				
Treasury Bills	-	3,321,253	-	3,321,253
Investment securities	-	769,614	-	769,614
	-	4,090,867	-	4,090,867

The fair value of level 2 instruments was determined using discounted cash flow analysis. The estimated future cash flows are discounted using a discount rate based on quoted market prices for securities with similar credit, maturity and yield characteristics.

(c) Financial instruments not measured at fair value

The table below is an analysis of financial instruments **not** measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorised. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Level 1	Level 2	Level 3	Total Fair Value	Carrying Amount
	$	$	$	$	$
2021					
Financial Asset					
Loans to customers	-	12,594,597	-	12,594,597	15,187,826
Financial Liabilities					
Deposits from customers	-	20,241,852	-	20,241,852	20,241,852
Lease liabilities	-	115,037	-	115,037	115,037
	-	20,356,889	-	20,356,889	20,356,889
2020					
Financial Asset					
Loans to customers	-	15,269,745	-	15,269,745	15,595,547
Financial Liabilities					
Deposits from customers	-	20,868,861	-	20,868,861	20,868,861
Lease liabilities	-	141,627	-	141,627	141,627
	-	21,010,488	-	21,010,488	21,010,488

(a) Cash on hand and in transit

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

(b) Loans and advances to banks and related companies

Amounts due from banks and related companies are negotiated at market rates for relatively short tenors and are assumed to have discounted cash flow values that approximate the carrying values.

(c) Deposits with Central Bank

The fair value of deposits with Central Bank is determined to approximate to their carrying value using discounted cash flow analysis. A significant portion of the deposits is receivable on demand.

(d) Loans to customers

Loans and advances to customers are granted at market rates and their values are not adversely affected by unusual terms. The estimated future cash flows are discounted using a discount rate based on market rates at the reporting date for similar type facilities.

(e) Deposits from customers, banks, subsidiaries and related companies

Customer deposits and deposits from banks and related companies are negotiated at market rates. Deposits that are fixed rate facilities are at rates that approximate market rates and are assumed to have discounted cash flow values that approximate the carrying values.

(f) Lease liabilities

The fair value is approximate to the carrying value which is determined using the discounted cash flow analysis. The present value of the future lease payments is discounted using the incremental borrowing rate.

The instruments above are classified into level 2 in the fair value hierarchy.

29. Classification of Financial Assets and Financial Liabilities

The following table provides a reconciliation between line items in the Separate Statement of Financial Position and the categories of financial instruments:

	2021				
	FVTPL	FVOCI Debt	FVOCI Equity	Amortised Cost	Total
	$	$	$	$	$
Financial Assets					
Cash and cash equivalents	-	-	-	218,702	218,702
Loans and advances to banks and related companies	-	-	-	856,027	856,027
Treasury Bills	-	3,314,437	-	-	3,314,437
Deposits with Central Bank	-	-	-	3,046,104	3,046,104
Loans to customers	-	-	-	15,303,234	15,303,234
Investment securities	5,010	1,435,516	10,048	-	1,450,574
Total financial assets	5,010	4,749,953	10,048	19,424,067	24,189,078
Financial Liabilities					
Deposits from customers	-	-	-	20,241,852	20,241,852
Deposits from banks, subsidiaries and other related companies	-	-	-	248,788	248,788
Lease liabilities	-	-	-	115,037	115,037
Total financial liabilities	-	-	-	20,632,267	20,632,267

	2020				
	FVTPL	FVOCI Debt	FVOCI Equity	Amortised Cost	Total
	$	$	$	$	$
Financial Assets					
Cash and cash equivalents	-	-	-	150,566	150,566
Loans and advances to banks and related companies	-	-	-	437,609	437,609
Treasury Bills	-	3,321,253	-	-	3,321,253
Deposits with Central Bank	-	-	-	4,357,607	4,357,607
Loans to customers	-	-	-	15,769,349	15,769,349
Investment securities	10,384	748,956	10,274	-	769,614
Total financial assets	10,384	4,070,209	10,274	20,715,131	24,805,998
Financial Liabilities					
Deposits from customers	-	-	-	20,868,861	20,868,861
Deposits from banks, subsidiaries and other related companies	-	-	-	424,910	424,910
Lease liabilities	-	-	-	141,627	141,627
Total financial liabilities	-	-	-	21,435,398	21,435,398

30. Related Party Balances and Transactions

A party is related to Scotiabank if:

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

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

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

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

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

(f) The party is a member of Scotiabank's or its parent's key management personnel;

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

(h) The party, or any member of a bank of which it is a part, provides key management personnel services to Scotiabank or its Parent.

A number of banking transactions have been entered into with related parties in the normal course of business. These transactions were conducted at market rates, on commercial terms and conditions, except for certain loans made available to officers. Loans deemed to be below market rates in accordance with personal income tax legislation are taxed in accordance with legal requirements.

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
- Delinquent account collection services.

	2021	2020
	$	$
(i) Outstanding balances		
Loans, investments and other assets		
Directors and key management personnel	12,774	13,267
Bank of Nova Scotia and other related entities	102,104	36,138
	114,878	49,405
Provision for amounts due from related parties	-	-
Deposits and other liabilities		
Directors and key management personnel	8,554	5,670
Bank of Nova Scotia and other related entities	278,044	459,031
	286,598	464,701

	2021	2020
	$	$
(ii) Transactions		
Interest and other income		
Directors and key management personnel	359	217
Bank of Nova Scotia and other related entities	155,729	10,416
	156,088	10,633
Interest and expenses		
Directors and key management personnel	2,713	2,368
Bank of Nova Scotia and other related entities	179,869	164,630
	182,582	166,998

(iii) Key management compensation

Key management comprises individuals responsible for planning, directing and controlling the activities of Scotiabank. Compensation paid to such individuals is as follows:

	2021	2020
	$	$
Short-term benefits	27,080	26,806
Share based payment	4,953	4,139
	32,033	30,945

In the normal course of business, Scotiabank sells loans to ScotiaLife at market rates. Scotiabank did not sell any loans during the year ended October 31, 2021 (2020:NIL). The individual loans are with parties unrelated to Scotiabank and are sold without recourse.

31. Events after the Reporting Date

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

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