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, 2018, 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, 2018 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 the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Trinidad and Tobago, and we have fulfilled our other ethical responsibilities in accordance with these requirements and with 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Allowance for impairment of loans to customers

- ***The risk*** – The allowance for impairment of loans to customers is considered to be a matter of most significance as it required the application of judgement and the use of subjective assumptions by management. The Company records both general and specific impairment allowances of loans to customers, in accordance with the Company's policy requirements for the incorporation of historical loss data and qualitative factors on loan grading respectively.

  Loans to customers contributed to 64% of the Company's total assets. The Company's gross loan portfolio comprises clients from the two business groups, i.e. Corporate and Retail banking. The loan portfolio and characteristics of these two groups differ, therefore requiring a different approach in the assessment for specific impairment allowances by management.

  The Company's loan portfolio consists of large loans, requiring management to monitor the borrowers' repayment abilities individually based on their knowledge for any allowance for impairment. It also consists of smaller loan values and a greater number of customers. These loans are not monitored individually and are grouped by product into homogenous portfolios. Portfolios are monitored through historical delinquency statistics, for the allowance for impairment assessment.

- ***How the matter was addressed in our audit*** – Our audit procedures include understanding and testing of the design and operating effectiveness of the key controls over the Company's impairment process, such as:

  - Controls over the completeness and accuracy of the data used to determine impaired loans;
  - The process of loan downgrading, including management review of the recoverable value calculations.

Our procedures to assess management's provision for impairment allowances, in response to the risks specific to the two groups included the following:

<u>Corporate Loans</u>

We challenged management's identification of impaired loans by reviewing a sample of loans and assessing whether or not they were appropriately classified, based on the criteria for determining objective evidence of impairment.

We selected a sample of non-performing loans and assessed management's forecast of recoverable cash flows, valuation of collaterals, estimates of recovery on default and other sources of repayment. We evaluated the consistency of key assumptions applied and challenged the assumptions using externally available information. We re-computed management's calculation of the specific allowances to check the accuracy of data captured in the accounting records.

Additionally, we selected samples of performing loans and assessed that the borrowers did not exhibit any definable weaknesses that may jeopardize the repayment abilities.

<u>Retail Loans</u>

The allowance for impairment process is based on projection of losses, with historical delinquency statistics of each portfolio. Our testing included both the secured and non-secured lending portfolios.

We examined the appropriateness of the model parameters such as historical loss rates based on our industry knowledge and experience, to assess that they are in line with customer behavioural profiles.

We have also assessed the adequacy of the Company's disclosure on the allowance for impairment of loans and the related credit risk in Note 8 and Note 25 to the separate financial statements.

Fair value of investment securities

- ***The risk*** - Investment securities measured at fair value represents 17% of the total assets of the Company. The valuation of the Company's investment securities requires significant estimation as no quoted prices are available for some of these instruments. Valuation of these investments, although based on observable inputs, involves the exercise of judgement and the use of assumptions. Management used valuation techniques which require inputs such as market yields obtained from established yield curves. These judgements and assumptions could result in estimated fair values that are materially different from actual transaction values.

- ***How the matter was addressed in our audit*** - We assessed the key controls over the determination and computation of fair values.

  We tested the appropriateness of the valuation model used to price these securities through the use of our own valuation specialists to independently test the valuation model and critically assess the valuation assumptions and inputs used by management. We tested the outputs of the valuation process to ensure they are appropriately reflected in the accounting records.

  We also assessed the adequacy of the disclosures, including the degree of estimation involved in determining fair values.

Other Information

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

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

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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 7, 2018

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, 2018, 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 unconsolidated financial statements have been authorised for issue, if later.

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

Stephen Bagnarol, Managing Director

Tricia De La Rosa, Chief Financial Officer

Separate Statement of Financial Position

October 31, 2018 ($ thousands)

	Notes	2018 $	2017 $
ASSETS			
Cash on hand and in transit		149,333	225,376
Loans and advances to banks and related companies	5	782,565	1,353,398
Treasury bills	6	3,289,595	3,443,254
Deposits with Central Bank	7	2,560,438	2,826,390
Loans to customers	8	13,557,260	13,092,239
Investment securities	9	406,758	1,074,976
Miscellaneous assets		42,945	42,483
Investment in subsidiary companies		142,951	142,951
Investment in associated companies		3,475	3,475
Property and equipment	11	256,817	246,780
Deferred tax asset	15	48,113	43,402
Defined benefit pension fund asset	12.1	-	8,646
Total assets		**21,240,250**	**22,503,370**
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from customers	13	17,284,198	18,538,048
Deposits from subsidiaries	10	134,610	211,619
Deposits from banks and other related companies	14	42,953	39,240
Other liabilities		378,087	317,320
Taxation payable		48,847	46,348
Deferred tax liability	15	22,915	20,006
Defined benefit pension fund liability	12.1	1,893	-
Post-employment medical and life benefits obligation	12.1	129,673	126,633
Total liabilities		18,043,176	19,299,214
EQUITY			
Stated capital	16	267,563	267,563
Statutory reserve fund	17	687,563	687,563
Investment revaluation reserve		10,225	8,488
Retained earnings		2,231,723	2,240,542
Total equity		3,197,074	3,204,156
Total liabilities and equity		**21,240,250**	**22,503,370**

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 4, 2018 and signed on its behalf by:

Brendan King, Chairman

Stephen Bagnarol, Managing Director

Lisa Mackenzie, Director

George Janoura, Director

Separate Statement of Profit or Loss and Other Comprehensive Income

For the year ended October 31, 2018 ($ thousands)

	Notes	2018 $	2017 $
REVENUE			
Interest income	19	1,207,140	1,175,593
Interest expense	20	20,711	17,532
Net interest income		1,186,429	1,158,061
Other income	21	556,672	486,223
Fee and commission expense		(88,063)	(80,975)
Net other income		468,609	405,248
Total revenue		1,655,038	1,563,309
NON-INTEREST EXPENSES			
Salaries and other staff benefits		236,827	238,311
Premises and technology		126,053	119,388
Communication and marketing		104,281	98,915
Other expenses	22	237,030	198,105
Total non-interest expenses		704,191	654,719
Net impairment loss on financial assets	8.5	133,466	105,241
Profit before taxation		817,381	803,349
Income tax expense	23.1	297,016	246,411
Profit for the year		520,365	556,938
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to profit or loss			
Remeasurement of post-employment benefits assets/obligations	12.7	(235)	1,173
Related tax	23.3	82	(410)
		(153)	763
Items that are or may be reclassified subsequently to profit or loss			
Fair value remeasurement of available-for-sale investments		2,672	(5,090)
Related tax	23.3	(935)	874
		1,737	(4,216)
Other comprehensive income for the year, net of tax		1,584	(3,453)
Total comprehensive income		521,949	553,485

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

Separate Statement of Changes in Equity

For the year ended October 31, 2018 ($ thousands)

	Notes	Stated Capital $	Statutory Reserve Fund $	Investment Revaluation Reserve $	Retained Earnings $	Total Equity $
Balance as at October 31, 2017		**267,563**	**687,563**	**8,488**	**2,240,542**	**3,204,156**
Profit for the year		-	-	-	520,365	520,365
Other comprehensive income, net of tax						
Remeasurement of post-employment benefits asset/obligation	23	-	-	-	(153)	(153)
Fair value remeasurement of available-for-sale investments	23	-	-	1,737	-	1,737
Total comprehensive income		-	-	1,737	520,212	521,949
Transactions with equity owners of Scotiabank						
Dividends paid	18	-	-	-	(529,031)	(529,031)
Balance as at October 31, 2018		**267,563**	**687,563**	**10,225**	**2,231,723**	**3,197,074**
Balance as at October 31, 2016		**267,563**	**667,563**	**12,704**	**2,284,775**	**3,232,605**
Profit for the year		-	-	-	556,938	556,938
Other comprehensive income, net of tax						
Remeasurement of post-employment benefits asset/obligation	23	-	-	-	763	763
Fair value re-measurement of available-for-sale investments	23	-	-	(4,216)	-	(4,216)
Total comprehensive income		-	-	(4,216)	557,701	553,485
Transactions with equity owners of Scotiabank						
Transfer to statutory reserve	17	-	20,000	-	(20,000)	-
Dividends paid	18	-	-	-	(581,934)	(581,934)
		-	20,000	-	(601,934)	(581,934)
Balance as at October 31, 2017		**267,563**	**687,563**	**8,488**	**2,240,542**	**3,204,156**

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

Separate Statement of Cash Flows

For the year ended October 31, 2018 ($ thousands)

	Notes	2018 $	2017 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		520,365	556,938
Adjustments for:			
- Interest income	19	(1,207,140)	(1,175,593)
- Interest expense	20	20,711	17,532
- Depreciation	11	17,795	18,069
- Loss on disposal of property, plant and equipment		1,039	286
- Tax expense	23	297,016	246,411
Changes in:			
- Deposits with Central Bank		265,952	390,019
- Net pension cost		50,074	45,967
- Allowance for credit losses	8.4	20,571	14,278
- Loans to customers		(481,328)	(664,659)
- Miscellaneous assets		(462)	(3,255)
- Deposits from customers		(1,254,112)	967,231
- Deposits from banks and other related companies		3,713	(4,467)
- Deposits from subsidiaries		(77,009)	120,678
- Other liabilities		60,767	20,459
Interest received		1,187,081	1,171,867
Interest paid		(20,449)	(17,898)
Medical, life and pension contributions and benefits paid		(36,730)	(32,482)
Taxation paid		(297,172)	(245,452)
Net cash (used in) from operating activities		(929,318)	1,425,929
CASH FLOWS FROM INVESTING ACTIVITIES			
Change in Treasury Bills with original maturity date due over 3 months		153,659	(717,864)
Proceeds from redemption of investment securities		685,687	439,290
Purchase of property, plant and equipment	11	(28,340)	(14,428)
Proceeds from disposal of property and equipment		467	240
Net cash from (used in) investing activities		811,473	(292,762)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	18.3	(529,031)	(581,934)
Net cash used in financing activities		(529,031)	(581,934)
Net (decrease) increase in cash and cash equivalents		(646,876)	551,233
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		1,578,774	1,027,541
CASH AND CASH EQUIVALENTS, END OF YEAR		931,898	1,578,774
CASH AND CASH EQUIVALENTS REPRESENTED BY			
Cash on hand and in transit		149,333	225,376
Loans and advances to banks and related companies	5	782,565	1,353,398
		931,898	1,578,774

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

Notes to the Separate Financial Statements October 31, 2018 ($ thousands)

1. Incorporation and Business Activities

Scotiabank Trinidad and Tobago Limited (Scotiabank) 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 two associated companies. The subsidiaries and associated companies 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 SKN Limited	Federation of St. Christopher & Nevis	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 SKN Limited was incorporated under the Companies Act, 1996 of the Federation of St. Christopher and Nevis. Its principal activity is the purchase and holding of investments.

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 companies		
InfoLink Services Limited	Republic of Trinidad and Tobago	25%
Trinidad & Tobago Interbank Payment Systems Limited	Republic of Trinidad and Tobago	14%

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

Trinidad and Tobago Interbank Payment Systems Limited's principal activity is the operation of an automated clearing house that provides for collection, distribution and settlement of electronic credits and debits.

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 4, 2018.

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.

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

- investments at fair value through profit or loss
- available-for-sale investments at fair value
- net defined benefit asset (obligation) is recognised at fair value of plan assets, adjusted by remeasurements 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(k) and Note 12.
- business combinations, except for transactions between entities under common control, which are accounted for using the acquisition method of accounting. Common control transactions are recorded at book value.

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

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.

Other income
Other income comprises fees and commissions, trading income and premium 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. Other fees and commissions are recognised in income as the related services are performed.

Other fees and commissions expense relate mainly to termination and service fees, which are expensed as the services are received.

(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 profit or loss.

(d) *Financial assets and financial liabilities*
Financial instruments carried on the separate statement of financial position include cash resources, 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(g), 3(l) and 3(n).

(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 plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) *Classification*
Scotiabank classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity; and available-for-sale financial assets. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

This category includes financial assets held for trading or financial assets designated at fair value through profit or loss. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when Scotiabank provides money or services directly to a debtor with no intention of trading the receivable.

Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Scotiabank's management has the positive intention and ability to hold to maturity. If Scotiabank were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be compromised and reclassified as available-for-sale and would prevent Scotiabank from classifying investment securities as held-to-maturity for the current and the following two financial years.
However, the following circumstances would not trigger a reclassification:

- Sales or reclassifications that are so close to maturity that changes in interest rates would not have a significant effect on the financial asset's fair value.
- Sales or reclassifications that occur after Scotiabank has collected substantially all of the original principal.
- Sales or reclassifications that are attributable to non-recurring isolated events beyond the Scotiabank's control that could not have been reasonably anticipated.

Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, or are so designated on initial recognition, or are not classified in one of the other three categories.

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).

(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) *Measurement*

Financial assets

Subsequent to initial recognition, all financial assets at FVTPL and available-for-sale assets are measured at fair value, based on their quoted market price at the reporting date without any deduction for transaction costs. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which Scotiabank has access at that date.

Where the instrument is not actively traded or quoted on recognised exchanges, fair value is determined using discounted cash flow analysis. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the reporting date for an instrument with similar terms and conditions.

Any available-for-sale asset that does not have a quoted market price in an active market and for which fair value cannot be reliably measured, is stated at cost, including transaction costs, less impairment losses.

Gains and losses arising from the change in the fair value of available-for-sale investment securities subsequent to initial recognition are accounted for as changes in the investment revaluation reserve and recognised in other comprehensive income (OCI).

Gains and losses, both realised and unrealised, arising from the change in the financial assets at fair value through profit or loss are reported in other income.

Originated loans and receivables and held-to-maturity financial assets are measured at amortised cost less impairment losses.

Financial liabilities

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

(v) *Amortised cost measurement*
Amortised cost is calculated on the effective interest rate method. Premiums, discounts, and initial transaction costs are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(vi) *Offsetting*
Financial assets and financial liabilities are offset and the net amount presented in the 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.

(vii) *Designation at fair value through profit or loss*
Management designates financial assets and financial liabilities at fair value through profit or loss when the assets or liabilities are managed and reported internally on a fair value basis, or the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

(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) *Investment securities*
Debt securities that Scotiabank has the intent and ability to hold to maturity are classified as held-to-maturity financial assets. All other investments are classified as available-for-sale financial assets and financial assets at fair value through profit or loss.

On disposal or on maturity of a debt security classified as held to maturity, the difference between the net proceeds and the carrying amount is included in profit or loss. When available-for-sale financial assets are sold, converted or otherwise disposed of, the cumulative gain or loss previously accounted for in the investment revaluation reserve is recycled to profit or loss.

(g) *Impaired financial assets*
Loans and advances originated by Scotiabank are classified as loans and receivables. Loans and advances are stated at cost (amortised cost) net of impairment allowances to reflect the estimated recoverable amounts.

A loan is classified as non-accrual when principal or interest is 90 days past due or when, in the opinion of management, there is reasonable doubt as to the ultimate collectability of principal and/or interest. Non-accrual loans may revert to performing status when they become fully current or when management has determined there is no reasonable doubt as to ultimate collectability.

A loan is classified as impaired when, in management's opinion, there has been a deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collection of the full amount of principal and interest. If a payment on a loan is contractually 90 days in arrears the loan will be classified as impaired.

At each reporting date, Scotiabank assesses whether there is objective evidence that financial assets not carried at FVTPL are impaired. A financial asset or group of financial assets is 'impaired' when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:
- significant financial difficulties of the borrower or issuer;
- default or delinquency by a borrower;
- indications that the borrower or issuer will go into bankruptcy;
- the disappearance of an actual market for a security; or
- observable data relating to a Group of borrowers or issuers in the Group, or economic conditions that correlate with default in the Group.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of a borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated financial asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original asset is derecognised and the new financial asset is recognised at fair value.

Loans are written off after all the necessary legal procedures have been completed and the amount of the loss is finally determined.

Scotiabank maintains a loan loss provision which, in management's opinion, is adequate to absorb all incurred credit-related losses in its loan portfolio. The loan loss provision, except the portion relating to retail loans, is determined on an item by item basis and reflects the associated estimated loss. Provisions for retail loans are calculated using a formula that takes into account recent loss experience.

Retail loans represented by residential mortgages, credit cards and other personal loans are considered by Scotiabank to be homogenous groups of loans that are not considered individually significant. All homogeneous groups of loans are assessed for impairment on a collective basis.

A roll rate methodology is used to determine impairment losses on a collective basis for retail loans because individual loan assessment is impracticable. Under this methodology, loans with similar credit characteristics are grouped into ranges according to the number of days past due and statistical analysis is used to estimate the likelihood that loans in each range will progress through the various stages of delinquency and ultimately prove irrecoverable. This methodology employs statistical analysis of historical data and experience of delinquency and default to estimate the value of loans that will eventually be written off as a result of the events not identifiable on an individual loan basis.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of future cash flows discounted at the asset's original effective interest rate.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held to maturity investment securities. Interest on the impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of the impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

The provision for the year, less recoveries of amounts previously written off and the reversal of provisions no longer required, is disclosed in profit or loss as net impairment loss on financial assets.

(h) 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, plant and equipment.

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

(ii) Subsequent cost
The cost of replacing part of an item of property, plant 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 reducing balance basis, over the estimated useful lives of the respective assets at the following rates:

Buildings	-	2 1/2% per annum
Equipment and furniture	-	10 - 25% per annum
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.

(i) Leases

(i) Lease payments – Lessee
Payments made under operating leases are recognised in profit or loss on the straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(ii) Leased assets – Lessee
Assets held by Scotiabank under leases that transfer to Scotiabank substantially all of the risks and rewards of ownership are classified as finance leases. The leased asset is initially measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in Scotiabank's statement of financial position.

(iii) Leased assets – Lessor
If Scotiabank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, then the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

(j) 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.

(k) 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, 2015. The results of that valuation were projected to October 31, 2018 and have been included in the calculation of the post-employment benefit asset and liability as necessary. The next valuation is October 31, 2018 and is 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.

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.

(l) 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, 2018 total $884 million (2017: $928 million). In the event of a call on these commitments, Scotiabank has equal and offsetting claims against its customers.

(m) 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, 2018 totaled $4.064 billion (2017: $3.946 billion).

(n) 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.

(o) Dividend income
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.

(p) Impairment of non-financial assets
The carrying amounts of Scotiabank's assets, other than deferred tax assets (see Note 3 (j)) 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.

(q) 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.

(r) 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 IAS 7, *Statement of Cash Flows*, effective for accounting periods beginning on or after January 1, 2017, requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows.

- Amendments to IAS 12, *Income Taxes*, effective for accounting periods beginning on or after January 1, 2017, clarifies the following:

  - The existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.
  - A deferred tax asset can be recognised if the future bottom line of the tax return is expected to be a loss, if certain conditions are met.
  - Future taxable profits used to establish whether a deferred tax can be recognised should be the amount calculated before the effect of reversing temporary differences.
  - An entity can assume that it will recover an asset for more than its carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.
  - Deductible temporary differences related to unrealised losses should be assessed on a combined basis for recognition unless a tax law restricts the use of losses to deductions against income of a specific type.

  The adoption of these amendments did not result in any change to the presentation and disclosures in the separate financial statements.

(s) New standards, amendments and interpretations not yet adopted
A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2018. 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.

IFRS 9, Financial Instruments

- IFRS 9, *Financial Instruments*, which is effective for annual reporting periods beginning on or after January 1, 2018, replaces the existing guidance in IAS 39 *Financial Instruments*: *Recognition and Measurement*. The standard covers three broad topics: Classification and Measurement, Impairment and Hedging.

  The standard requires Scotiabank to consider two criteria when determining the measurement basis for debt instruments (e.g. securities) held as financial assets; i) its business model for managing those financial assets and ii) the cash flow characteristics of the assets. Based on these criteria, debt instruments are measured at amortised cost, fair value through OCI, or fair value through profit or loss.

  Equity instruments are measured at fair value through profit or loss. However, Scotiabank may, at initial recognition of a non-trading equity instrument, irrevocably elect to designate the instrument as fair value through OCI, with no subsequent recycling to profit and loss, while recognising dividend income in profit and loss. This designation is also available to non-trading equity instrument holdings on date of transition.

  In addition, Scotiabank may, at initial recognition, irrevocably elect to designate a financial asset as fair value through profit or loss, if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise.

  The standard introduces a new single model for the measurement of impairment losses on all financial assets including loans and debt securities measured at amortised cost or at fair value through OCI. The IFRS 9 expected credit loss (ECL) model replaces the current "incurred loss" model of IAS 39.

  The ECL model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. Under Stage 1, where there has not been a significant increase in credit risk since initial recognition, an amount equal to 12 months ECL will be recorded. Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded. Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

IFRS 9 also incorporates new hedge accounting rules that intend to align hedge accounting with risk management practices. Scotiabank is not currently a party to any hedge contracts.

Scotiabank estimates the IFRS 9 transition amount will reduce shareholders' equity by approximately $140 million after-tax. The estimated impact relates primarily to the implementation of the ECL requirements in Scotiabank.

IFRS 15, *Revenue From Contracts With Customers*

- IFRS 15, *Revenue From Contracts With Customers*, effective for annual reporting periods beginning on or after January 1, 2018, replaces IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfer of Assets from Customers* and SIC-31 *Revenue – Barter Transactions Involving Advertising Services*. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. It also does not apply if two entities in the same line of business exchange non-monetary assets to facilitate sales to other parties.

  The standard is a control-based model as compared to the existing revenue standard which is primarily focused on risks and rewards and provides a single principle based framework to be applied to all contracts with customers that are in scope of the standard. Under the new standard revenue is recognised when a customer obtains control of a good or service. Transfer of control occurs when the customer has the ability to direct the use of and obtain the benefits of the good or service. The standard introduces a new five step model to recognise revenue as performance obligations in a contract are satisfied.

  Scotiabank will adopt the standard as of November 1, 2018 and plans to use the modified retrospective approach. Under this approach, Scotiabank will recognise the cumulative effect of initially applying the standard as an adjustment to the opening balances of retained earnings as of November 1, 2018, without restating comparative periods. Scotiabank does not expect the application of IFRS 15 to result in a material difference in the value and timing of revenue recognition.

  The standard does not apply to revenue associated with financial instruments, and therefore, will not impact the majority of Scotiabank's revenue, including interest income, interest expense, trading revenue and securities gains which are covered under IFRS 9 *Financial Instruments*. The main areas of focus for Scotiabank's assessment of impact are fees and commission revenues.

  There will be new qualitative and quantitative disclosure requirements to describe the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

IFRS 16, *Leases*

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

  Lessor accounting remains similar to current practice as the lessor will continue to classify leases as finance and operating leases.

  Scotiabank is assessing the impact that this amendment will have on its 2020 financial statements.

(t) ***Comparative figures***
Certain comparative figures have been restated to conform with the current year's presentation.

Interest receivable on investment securities in the amount of $7.159 million, which was previously classified under miscellaneous assets, has been reclassified under investment securities.

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:

Financial asset and financial liability classification

Scotiabank's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances.

In classifying financial assets or financial liabilities as "fair value through profit or loss", Scotiabank has determined that it meets the description of trading assets and liabilities set out in accounting policy 3(d)(ii).

In designating financial assets or financial liabilities as available-for-sale, Scotiabank has determined that it has met the criteria for this classification set out in accounting policy 3(d)(ii).

In classifying financial assets as held-to-maturity, Scotiabank has determined that it has both the positive intention and ability to hold the assets until maturity date as required by accounting policy 3(d)(ii).

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, 2018 is included below:

(a) *Allowances for credit losses*
Loans accounted for at amortised cost are evaluated for impairment on the basis described in accounting policy 3(g).

The specific counterparty component of total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about the counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the credit risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. Country risks are a component of collectively assessed impairment allowances. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modeled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the accuracy of the estimated future cash flows for specific counterparty allowances and the model assumptions and parameters that are used in determining the collective allowances.

(b) *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)(iv). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(c) *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.

(d) *Taxation*
Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Scotiabank recognises liabilities for possible tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. Loans and Advances to Banks and Related Companies

	2018 $	2017 $
Due from related companies	209,442	596,417
Due from other banks	573,123	682,044
Cheques and other instruments in the course of clearing	-	74,937
	782,565	1,353,398
Maturity of assets		
Assets with original maturity date less than 3 months	782,565	1,353,398

6. Treasury Bills

	2018 $	2017 $
Government of Trinidad and Tobago	2,095,504	2,809,347
Government of United States of America	1,194,091	633,907
	3,289,595	3,443,254
Maturity of assets		
Assets with original maturity date over 3 months	3,289,595	3,443,254

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, a cash reserve balance equivalent to 17% (2017: 17%) of total prescribed liabilities. The details of all reserves are described below.

	2018 $	2017 $
Primary reserve	2,560,438	2,540,841
Secondary reserve	-	285,549
	2,560,438	2,826,390

8. Loans to Customers

8.1 ***Analysis of loans to customers***

	2018 $	2017 $
Principal neither past due nor impaired	12,069,562	11,349,805
Principal which is past due but not impaired	1,279,004	1,552,189
Principal which is impaired	319,708	284,952
Gross loans	13,668,274	13,186,946
Allowance for impairment	(165,591)	(145,020)
Total loans net of impairment allowance	13,502,683	13,041,926
Interest receivable	54,577	50,313
Total loans to customers	13,557,260	13,092,239

Loans that are "past due but not impaired" are those for which contractual interest or principal payments are past due but Scotiabank believes that impairment is not appropriate on the basis of the level of collateral available and the stage of collection of amounts owed to Scotiabank.

The analysis of credit quality of "principal neither past due nor impaired" is disclosed in Note 25.1(iii).

8.2 ***Loans and advances to customers "past due but not impaired"***

2018	Less than 30 days $	30 – 60 days $	61 - 90 days $	Total $
Loans and advances to customers				
Commercial loans	162,646	12,577	20,522	195,745
Retail loans	685,421	192,948	204,890	1,083,259
	848,067	205,525	225,412	1,279,004

2017	Less than 30 days $	30 – 60 days $	61 - 90 days $	Total $
Loans and advances to customers				
Commercial loans	234,749	26,631	26,117	287,497
Retail loans	907,924	184,973	171,795	1,264,692
	1,142,673	211,604	197,912	1,552,189

8.3 ***Concentration of credit***

	2018 $	2017 $
Consumer	4,874,717	4,822,404
Mortgages - residential	5,373,787	5,203,613
Mortgages - commercial	161,979	189,455
Manufacturing and assembly	688,728	736,399
Business and personal services	634,803	569,870
Distributive trades	674,835	616,725
Energy and petrochemical	473,623	398,617
Communication and transport	74,875	79,807
Construction and engineering	198,936	124,742
Hospitality industry	27,070	37,444
Financial services	315,885	259,442
Agriculture	3,445	3,408
	13,502,683	13,041,926

8.4 ***Analysis of movement of impairment allowance***

	2018 $	2017 $
Allowance, beginning of year	145,020	130,742
Impairment charge for the year	169,361	129,857
Write-offs	(148,790)	(115,579)
Net increase in impairment allowance for the year	20,571	14,278
Allowance, end of year	165,591	145,020

8.5 ***Net impairment loss on financial assets***

	2018 $	2017 $
Impairment charge for the year	169,361	129,857
Recoveries	(35,895)	(24,616)
	133,466	105,241

9. Investment Securities

	2018 $	2017 $
Available-for-sale		
- Equity securities and Mutual Funds	8,354	8,267
- Government and state owned enterprises debt securities	548	149,431
- Corporate debt securities	382,061	910,119
	390,963	1,067,817
Interest receivable	15,795	7,159
Total investment securities	406,758	1,074,976
Provision for impairment loss	-	-

The analysis of credit quality of investment securities is disclosed in Note 25.1(iii).

10. Due from Subsidiaries

The balances due to fellow subsidiaries have been transacted under normal commercial terms.

11. Property and Equipment

	Land	Buildings	Leasehold Improvements	Equipment & Furniture	Capital work in progress	Total
October 31, 2018	$	$	$	$	$	$
Cost						
At beginning of year	18,900	165,060	65,448	239,041	9,213	497,662
Additions	-	1,653	1,161	16,212	23,316	42,342
Disposals/transfers	-	-	-	(5,186)	(14,002)	(19,188)
At end of year	18,900	166,713	66,609	250,067	18,527	520,816
Accumulated depreciation						
At beginning of year	-	54,381	16,348	180,153	-	250,882
Charge for year	-	2,794	815	14,186	-	17,795
Disposals	-	-	-	(4,678)	-	(4,678)
At end of year	-	57,175	17,163	189,661	-	263,999
Closing book net amount	18,900	109,538	49,446	60,406	18,527	256,817

	2018	2017
	$	$
Contracts for outstanding capital expenditure not provided for in the consolidated financial statements	-	-
Other capital expenditure authorised by the Directors not yet contracted for	-	-

	Land	Buildings	Leasehold Improvements	Equipment & Furniture	Capital work in progress	Total
October 31, 2017	$	$	$	$	$	$
Cost						
At beginning of year	18,900	164,213	62,926	230,930	9,755	486,724
Additions	-	847	2,522	11,601	-	14,970
Disposals/transfers	-	-	-	(3,490)	(542)	(4,032)
At end of year	18,900	165,060	65,448	239,041	9,213	497,662
Accumulated depreciation						
At beginning of year	-	51,553	15,549	168,655	-	235,757
Charge for year	-	2,828	799	14,442	-	18,069
Disposals	-	-	-	(2,944)	-	(2,944)
At end of year	-	54,381	16,348	180,153	-	250,882
Closing book net amount	18,900	110,679	49,100	58,888	9,213	246,780

There were no capitalised borrowing costs related to the acquisition of property, plant and equipment during the year (2017: NIL).

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

Scotiabank contributes 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 expects to pay $32.9 million in contributions to its defined benefit pension fund in 2019.

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

	Defined Benefit Pension Fund		Post-Employment Medical and Life Benefits	
	2018	2017	2018	2017
	$	$	$	$
Defined benefit obligation	(783,106)	(732,661)	(129,673)	(126,633)
Fair value of plan assets	781,213	741,307	-	-
Net (liability) asset	(1,893)	8,646	(129,673)	(126,633)

12.2 Reconciliation of change in defined benefit obligation:

	Defined Benefit Pension Fund		Post-Employment Medical and Life Benefits	
	2018	2017	2018	2017
	$	$	$	$
Defined benefit obligation at beginning of year	(732,661)	(691,109)	(126,633)	(124,962)
Current service cost	(38,530)	(35,472)	(5,187)	(4,799)
Interest cost	(37,775)	(35,640)	(6,541)	(6,460)
Experience adjustments	(2,714)	2,438	2,075	1,327
Actuarial gains	-	-	2,031	5,161
Benefits paid	28,574	27,122	4,582	3,100
Defined benefit obligation at end of year	(783,106)	(732,661)	(129,673)	(126,633)

12.3 Reconciliation of the fair value of plan assets:

	Defined Benefit Pension Fund	
	2018	2017
	$	$
Plan assets at beginning of year	741,307	710,396
Interest income	39,019	37,378
Loss on plan assets (excluding interest income)	(1,627)	(8,131)
Bank contributions	32,148	29,382
Benefits paid	(28,574)	(27,122)
Expenses paid	(1,060)	(596)
Plan assets at end of year	781,213	741,307

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	
	2018	2017
	$	$
Interest income	39,019	37,378
Loss on plan assets (excluding interest income)	(1,627)	(8,131)
Actual return on plan assets	37,392	29,247

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		Post-Employment Medical and Life Benefits	
	2018	2017	2018	2017
	$	$	$	$
Opening defined benefit liability	8,646	19,287	(126,633)	(124,962)
Net pension costs	(38,346)	(34,708)	(11,728)	(11,259)
Remeasurement recognised in other comprehensive income	(4,341)	(5,315)	4,106	6,488
Contributions paid	32,148	29,382	-	-
Benefits paid	-	-	4,582	3,100
Closing defined benefit (liability) asset	(1,893)	8,646	(129,673)	(126,633)

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

	Defined Benefit Pension Fund		Post-Employment Medical and Life Benefits	
	2018	2017	2018	2017
	$	$	$	$
Current service cost	(38,530)	(35,472)	(5,187)	(4,799)
Net interest on net defined benefit asset (liability)	1,244	1,738	(6,541)	(6,460)
Administration expenses	(1,060)	(974)	-	-
Net pension cost	(38,346)	(34,708)	(11,728)	(11,259)

12.7 The amount recognised in other comprehensive income comprised:

	Remeasurements Recognised in Other Comprehensive Income	
	2018	2017
	$	$
Defined benefit pension	(4,341)	(5,315)
Post-employment medical and life benefits	4,106	6,488
	(235)	1,173

12.8 Experience history:

	Defined Benefit Pension Fund	
	2018	2017
	$	$
Defined benefit obligation	(783,106)	(732,661)
Fair value of Plan assets	781,213	741,307
(Deficit) surplus	(1,893)	8,646
Experience adjustment on plan liabilities	(4,341)	(5,315)

12.9 Experience history:

	Post-Employment Medical and Life Benefits	
	2018	2017
	$	$
Defined benefit obligation	(129,673)	(126,633)
Deficit	(129,673)	(126,633)
Experience adjustment on plan liabilities	4,106	6,488

12.10 Asset allocation:

	Defined Benefit Pension Fund	
	2018	2017
Equity securities	36%	39%
Debt securities	53%	48%
Property	3%	3%
Other	8%	10%
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:

	2018	2017
	$	$
Locally listed equities	175,603	186,354
Overseas equities	108,341	104,416
TT$ denominated bonds	324,588	274,260
US$ denominated bonds	85,434	79,794
Property	21,250	21,250
Mortgages	10,399	11,144
Cash and cash equivalents	55,598	64,089
Total	781,213	741,307

All equities have quoted prices in active markets. The fair value of 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, 2018, the Plan held $60.3 million worth of Scotiabank's shares and property assets carried at $21.3 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:

	2018	2017
	%	%
Discount rate:		
- Active members and deferred pensioners	5.25	5.25
- Current pensioners	5.25	5.25
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:

	2018	2017
Longevity at age 60 for current pensioners (in years)		
Males	21.0	21.0
Females	25.1	25.1
Longevity at age 60 for current members age 40 (in years)		
Males	21.4	21.4
Females	25.4	25.4

At October 31, 2018, the weighted-average duration of the defined benefit obligation is 17.9 years (2017: 17.7 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)	(117,140)	153,847
Future salary increases (1% movement)	60,304	(49,915)

An increase of 1 year in the assumed life expectancies shown above would increase the defined benefit obligation at year-end by $13.0 million.

These sensitivities were calculated by recalculating the defined benefit obligation using the revised assumptions.

	Effect on Post-employment Medical and Life Obligation	
	Increase $	Decrease $
Discount rate (1% movement)	(18,804)	24,099
Medical cost increases (1% movement)	23,147	(18,370)

An increase of 1 year in the assumed life expectancies shown above would increase the defined benefit obligation at year-end by $4.6 million.

These sensitivities were calculated by recalculating the defined benefit obligation using the revised assumptions.

13. Deposits from customers

	2018 $	2017 $
13.1 Deposit balances	17,280,611	18,534,723
Interest payable	3,587	3,325
	17,284,198	18,538,048
13.2 ***Concentration of liabilities***		
Personal	11,267,305	11,427,278
Commercial	5,311,813	5,960,382
Financial institutions	701,493	1,147,063
	17,280,611	18,534,723

14. Deposits from Banks and Related Companies

	2018 $	2017 $
Related companies	34,878	36,836
Banks	7,592	2,404
Cheques and other instruments in the course of clearing	483	-
	42,953	39,240

15. Deferred Taxation

	2018 $	2017 $
15.1 The net deferred tax asset is attributable to the following items:		
Deferred tax liability		
Property, plant and equipment	16,851	14,812
Available-for-sale securities	5,506	4,571
Miscellaneous assets	558	623
	22,915	20,006
Deferred tax asset		
Post-employment benefit asset/obligation	(46,048)	(41,295)
Miscellaneous liabilities	(2,065)	(2,107)
	(48,113)	(43,402)
Net deferred tax asset	(25,198)	(23,396)
15.2 The movement in the deferred tax amount comprised:		
Balance at beginning of year	(23,396)	(11,498)
Amounts recognised in OCI		
- Available-for-sale securities fair value remeasurement	935	(874)
- Post-employment benefit asset/obligation	(82)	410
Amounts recognised in profit or loss		
- Current year's deferred tax credit (Note 23.1)	(2,655)	(11,434)
Balance at end of year	(25,198)	(23,396)

The corporation tax rate increased from 30% to 35% in 2018. Deferred tax balances have been calculated at 35% for both 2018 and 2017.

16. Stated Capital

	2018 $	2017 $
Authorised		
Authorised capital consists of an unlimited number of ordinary shares of no par value		
Issued and fully paid up shares		
176,343,750 (2017:176,343,750) ordinary shares	267,563	267,563

17. 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:

	2018 $	2017 $
Balance, beginning of year	687,563	667,563
Amount transferred	-	20,000
Balance, end of year	687,563	687,563

18. Dividends

18.1 Subsequent to October 31, 2018, the Board of Directors, in a meeting on December 4, 2018, resolved that Scotiabank pay a final dividend of $1.50 per share, bringing the total dividends in respect of the current financial year to $3.00 per share (2017: $3.00 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, 2019.

18.2 Dividends paid and proposed are analysed as follows:

	2018		2017	
	¢ per share	$	¢ per share	$
Dividends paid				
First interim dividend	50	88,172	50	88,172
Second interim dividend	50	88,172	50	88,172
Third interim dividend	50	88,171	50	88,171
	150	264,515	150	264,515
Dividends proposed				
Final dividend	150	264,516	150	264,516
Total dividends paid and proposed	300	529,031	300	529,031

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

	2018		2017	
	¢ per share	$	¢ per share	$
Total dividends paid and proposed	300	529,031	300	529,031
Dividends proposed	(150)	(264,516)	(150)	(264,516)
Dividends paid during the year in respect of prior year	150	264,516	180	317,419
Dividends paid during the year	**300**	**529,031**	**330**	**581,934**

19. Interest Income

	2018 $	2017 $
Deposits with Central Bank	540	1,456
Loans to customers	1,111,716	1,081,059
Investment securities	94,884	93,078
	1,207,140	1,175,593

20. Interest Expense

	2018 $	2017 $
Customer deposits	20,148	17,218
Other interest expense	563	314
	20,711	17,532

21. Other Income

	2018 $	2017 $
Fees and commission	306,220	293,918
Net trading income	246,335	190,726
Trustee and other fiduciary fees	4,117	1,579
	556,672	486,223

22. Other Expenses

	2018 $	2017 $
Deposit insurance premium	29,404	28,490
Directors' fees	2,260	2,094
Other operating expenses	205,366	167,521
	237,030	198,105

23. Taxation

	2018 $	2017 $
23.1 Taxation charge		
Current tax	293,844	252,804
Origination and reversal of temporary differences	(2,655)	(11,434)
Change in estimates related to prior years	600	-
Green Fund levy	5,227	5,041
	297,016	246,411

23.2 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:

	2018 $	%	2017 $	%
Profit before taxation	817,381	100	803,349	100
Computed tax calculated at the statutory rate of 35% (2017: 30%)	286,083	35	241,005	30
Tax effect of items that are adjusted in determining taxable profit:				
- Tax effect of non-taxable income	(4,130)	-	(4,244)	-
- Tax effect of non-deductible costs	9,236	-	4,609	-
- Green Fund levy	5,227	1	5,041	1
- Change in estimates related to prior years	600	-	-	-
Tax charge and effective tax rate	297,016	36	246,411	31

23.3 Amounts recognised in OCI:

	Before Tax $	Tax (Expense) Benefit $	Net of Tax $
2018			
Fair value remeasurement of available-for-sale financial assets	2,672	(935)	1,737
Remeasurements of post-employment benefits obligations/assets	(235)	82	(153)
	2,437	(853)	1,584
2017			
Fair value remeasurement of available-for-sale financial assets	(5,090)	874	(4,216)
Remeasurements of post-employment benefits obligations/assets	1,173	(410)	763
	(3,917)	464	(3,453)

24. Commitments and Contingent Liabilities

In the normal course of business, various commitments and contingent liabilities are outstanding (see Note 3(l)) 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, 2018, 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.

Scotiabank's minimum commitment under the terms of various leases used primarily for banking purposes, exclusive of any related value-added tax, is:

	2018 $	2017 $
Rental due within one year	11,154	12,539
Rental due between one and five years	20,252	23,337
Rental due after five years	2,828	1,816
	34,234	37,692
Lease payments recognised in profit or loss	20,180	20,628

25. 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) 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, Group Credit Committee and 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.

25.1 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.

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.

(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 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.

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:

	2018	2017
	$	$
Credit risk recognised on the statement of financial position		
Loans and advances to banks and related companies	782,565	1,353,398
Treasury bills	3,289,595	3,443,254
Deposits with Central Bank	2,560,438	2,826,390
Loans to customers	13,557,260	13,092,239
Investment securities (excluding equities)		
- available-for-sale	398,498	1,066,802
	20,588,356	21,782,083
Credit risk not recognised on the statement of financial position		
Acceptances, guarantees and letters of credit	884,288	927,939
Undrawn credit commitments	3,395,602	2,983,176
	4,279,890	3,911,115
Total credit risk exposure	24,868,246	25,693,198

(iii) Analysis of Credit Quality

The table below presents the credit quality of Scotiabank's financial assets, which are "not past due or impaired", based on its internal credit risk rating system.

	2018				
Internal Rating	**Excellent**	**Very Good**	**Good**	**Acceptable**	**Total**
	$	$	$	$	$
Assets					
Loans and advances to banks and related companies	-	370,375	412,190	-	782,565
Treasury bills	1,194,091	2,095,504	-	-	3,289,595
Deposits with Central Bank	-	2,560,438	-	-	2,560,438
Loans to customers	436,753	4,881,121	4,529,062	2,222,626	12,069,562
Investment securities (excluding equities)	307,004	91,494	-	-	398,498
	1,937,848	9,998,932	4,941,252	2,222,626	19,100,658

	2017				
Internal Rating	**Excellent**	**Very Good**	**Good**	**Acceptable**	**Total**
	$	$	$	$	$
Assets					
Loans and advances to banks and related companies	-	795,617	557,781	-	1,353,398
Treasury bills	633,907	2,809,347	-	-	3,443,254
Deposits with Central Bank	-	2,826,390	-	-	2,826,390
Loans to customers	454,442	4,591,122	4,493,185	1,811,056	11,349,805
Investment securities (excluding equities)	100,995	735,482	155,647	67,519	1,059,643
	1,189,344	11,757,958	5,206,613	1,878,575	20,032,490

The definitions of the internal ratings are as follows:

Excellent - An obligor rated as "Excellent" has an excellent financial position characterised by very high equity, liquidity and debt serviceability. These obligors are only susceptible to extreme adverse changes in economic conditions or circumstances. These facilities are generally fully secured by readily realisable collateral or by a first mortgage on real estate of sufficient value to cover all amounts advanced.

Very Good - An obligor rated as "Very Good" has a very strong financial position, characterised by high equity, liquidity and debt serviceability. These obligors have a high level of tolerance to adverse changes in economic conditions or circumstances. Facilities are generally well collateralised.

Good - An obligor rated as "Good" has a strong financial position, characterised by adequate equity, liquidity and debt serviceability. These obligors though susceptible to adverse changes in economic conditions or circumstances are generally able to tolerate moderate levels of changes. Facilities are generally collateralised.

Acceptable - An obligor rated as "Acceptable" has a good financial position characterised by sufficient equity, liquidity and debt serviceability. These obligors are susceptible to adverse changes in economic conditions or circumstances and can handle these changes with some level of difficulty. Facilities may or may not be secured by collateral.

25.2 *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:

25.2.1 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.

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	
	2018	2017	2018	2017
	$	$	$	$
Increase of 1%	(5,232)	(6,781)	(3,401)	(4,747)
Decrease of 1%	5,232	6,781	3,401	4,747

Concentration of assets and liabilities by currency

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

	2018			
	TT	US	Other	Total
	$	$	$	$
Assets				
Cash on hand and in transit	131,279	16,314	1,740	149,333
Loans and advances to banks and related companies	-	510,958	271,607	782,565
Treasury bills	2,095,504	1,194,091	-	3,289,595
Deposits with Central Bank	2,560,438	-	-	2,560,438
Loans to customers	12,434,199	1,123,057	4	13,557,260
Investment securities	9,047	397,711	-	406,758
Total financial assets	17,230,467	3,242,131	273,351	20,745,949
Liabilities				
Deposits from customers	13,803,502	3,211,188	269,508	17,284,198
Deposits from subsidiaries	130,262	4,348	-	134,610
Deposits from bank and other related companies	26,887	16,066	-	42,953
Total financial liabilities	13,960,651	3,231,602	269,508	17,461,761
Net financial position	3,269,816	10,529	3,843	3,284,188
Undrawn credit commitments	3,374,510	21,092	-	3,395,602

	2017			
	TT	US	Other	Total
	$	$	$	$
Assets				
Cash on hand and in transit	202,995	19,853	2,528	225,376
Loans and advances to banks and related companies	63,417	1,085,915	204,066	1,353,398
Treasury bills	2,809,347	633,907	-	3,443,254
Deposits with Central Bank	2,826,390	-	-	2,826,390
Loans to customers	12,046,652	1,045,564	23	13,092,239
Investment securities	158,958	916,018	-	1,074,976
Total financial assets	18,107,759	3,701,257	206,617	22,015,633
Liabilities				
Deposits from customers	14,419,367	3,915,625	203,056	18,538,048
Deposits from subsidiaries	208,888	2,731	-	211,619
Deposits from bank and other related companies	15,013	24,227	-	39,240
Total financial liabilities	14,643,268	3,942,583	203,056	18,788,907
Net financial position	3,464,491	(241,326)	3,561	3,226,726
Undrawn credit commitments	2,953,802	29,374	-	2,983,176

25.2.2 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:

Change in interest rate	Effect on PBT 2018	Effect on PBT 2017	Effect on equity 2018	Effect on equity 2017
	$	$	$	$
Increase of 1%	(53,824)	(52,652)	(34,986)	(36,856)
Decrease of 1%	53,824	52,652	34,986	36,856

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:

2018	Due on demand	Due in one year	Due in two to five years	Over five years	Non-interest bearing	Total
	$	$	$	$	$	$
Assets						
Cash on hand and in transit	-	-	-	-	149,333	149,333
Loans and advances to banks and related companies	209,442	-	-	-	573,123	782,565
Treasury bills	-	3,289,595	-	-	-	3,289,595
Deposits with Central Bank	-	-	-	-	2,560,438	2,560,438
Loans to customers	566,714	4,818,051	3,704,518	4,259,283	208,694	13,557,260
Investment securities	8,355	208,988	173,620	-	15,795	406,758
Total financial assets	784,511	8,316,634	3,878,138	4,259,283	3,507,383	20,745,949
Liabilities						
Deposits from customers	9,470,095	1,833,452	402,687	-	5,577,964	17,284,198
Deposits from banks, subsidiaries and other related companies	143,742	-	-	-	33,821	177,563
Total financial liabilities	9,613,837	1,833,452	402,687	-	5,611,785	17,461,761
Net Gap	(8,829,326)	6,483,182	3,475,451	4,259,283		
Cumulative Gap	(8,829,326)	(2,346,144)	1,129,307	5,388,590		

2017	Due on demand	Due in one year	Due in two to five years	Over five years	Non-interest bearing	Total
	$	$	$	$	$	$
Assets						
Cash on hand and in transit	-	-	-	-	225,376	225,376
Loans and advances to banks and related companies	596,417	-	-	-	756,981	1,353,398
Treasury bills	-	3,443,254	-	-	-	3,443,254
Deposits with Central Bank	285,549	-	-	-	2,540,841	2,826,390
Loans to customers	582,823	4,472,818	3,665,742	4,181,120	189,736	13,092,239
Investment securities	8,269	672,386	387,162	-	7,159	1,074,976
Total financial assets	1,473,058	8,588,458	4,052,904	4,181,120	3,720,093	22,015,633
Liabilities						
Deposits from customers	10,031,464	2,176,550	234,143	-	6,095,891	18,538,048
Deposits from banks, subsidiaries and other related companies	215,174	-	-	-	35,685	250,859
Total financial liabilities	10,246,638	2,176,550	234,143	-	6,131,576	18,788,907
Net Gap	(8,773,580)	6,411,908	3,818,761	4,181,120		
Cumulative Gap	(8,773,580)	(2,361,672)	1,457,089	5,638,209		

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 available-for-sale, 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.

25.3 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:

2018	Due on demand	Up to one year	Two to five years	Over five years	Total
	$	$	$	$	$
Assets					
Cash on hand and in transit	149,333	-	-	-	149,333
Loans and advances to banks and related companies	782,565	-	-	-	782,565
Treasury bills	-	3,289,595	-	-	3,289,595
Deposits with Central Bank	2,560,438	-	-	-	2,560,438
Loans to customers	775,407	4,818,051	3,704,518	4,259,284	13,557,260
Investment securities (excluding equities)	-	224,878	173,620	-	398,498
Total financial assets	4,267,743	8,332,524	3,878,138	4,259,284	20,737,689
Liabilities					
Deposits from customers	15,048,059	1,833,452	402,687	-	17,284,198
Deposits from banks, subsidiaries and other related companies	177,563	-	-	-	177,563
Total financial liabilities	15,225,622	1,833,452	402,687	-	17,461,761
Net Gap	(10,957,879)	6,499,072	3,475,451	4,259,284	3,275,928
Cumulative Gap	(10,957,879)	(4,458,807)	(983,356)	3,275,928	

The table below shows the contractual maturities of financial guarantee contracts and undrawn credit commitments:

2018	Due on demand	Up to one year	Two to five years	Over five years	Total
	$	$	$	$	$
Financial guarantee contracts	-	876,016	8,228	44	884,288

2017	Due on demand	Up to one year	Two to five years	Over five years	Total
	$	$	$	$	$
Assets					
Cash on hand and in transit	225,376	-	-	-	225,376
Loans and advances to banks and related companies	1,353,398	-	-	-	1,353,398
Treasury bills	-	3,443,254	-	-	3,443,254
Deposits with Central Bank	2,826,390	-	-	-	2,826,390
Loans to customers	772,559	4,472,818	3,665,742	4,181,120	13,092,239
Investment securities (excluding equities)	-	679,639	387,163	-	1,066,802
Total financial assets	5,177,723	8,595,711	4,052,905	4,181,120	22,007,459
Liabilities					
Deposits from customers	16,127,355	2,176,550	234,143	-	18,538,048
Deposits from banks, subsidiaries and other related companies	250,859	-	-	-	250,859
Total financial liabilities	16,378,214	2,176,550	234,143	-	18,788,907
Net Gap	(11,200,491)	6,419,161	3,818,762	4,181,120	3,218,552
Cumulative Gap	(11,200,491)	(4,781,330)	(962,568)	3,218,552	

The table below shows the contractual maturities of financial guarantee contracts and undrawn credit commitments:

2017	Due on demand	Up to one year	Two to five years	Over five years	Total
	$	$	$	$	$
Financial guarantee contracts	-	925,284	2,655	-	927,939

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.

2018	Due on demand	Due in one year	Due in two to five years	Over five years	Total contractual cash flows	Total carrying value
	$	$	$	$	$	$
Liabilities						
Deposits from customers	15,058,059	1,837,589	405,667	-	17,301,315	17,284,198
Deposits from banks, subsidiaries and other related companies	177,653	-	-	-	177,653	177,653
Total financial liabilities	15,235,712	1,837,589	405,667	-	17,478,968	17,461,761

2017	Due on demand	Due in one year	Due in two to five years	Over five years	Total contractual cash flows	Total carrying value
	$	$	$	$	$	$
Liabilities						
Deposits from customers	16,127,355	2,181,010	235,876	-	18,544,241	18,538,048
Deposits from banks, subsidiaries and other related companies	134,648	-	-	-	134,648	250,859
Total financial liabilities	16,262,003	2,181,010	235,876	-	18,678,889	18,788,907

25.4 *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 Scotiabank's management. Scotiabank employs techniques derived from the guidelines developed by the Basel Committee on Banking Supervision - Basel I 1998 Capital Accord as implemented by the Central Bank of Trinidad and Tobago.

The required information is filed with the regulatory authority on a monthly basis. Scotiabank complied with all the externally imposed capital requirements to which it is subject.

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

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

	2018	2017
	$	$
Tier 1 capital		
Share capital	267,563	267,563
Statutory reserve	687,563	687,563
Retained earnings	2,231,723	2,240,542
Total qualifying Tier 1 capital	3,186,849	3,195,668
Investments in banking and finance subsidiaries	(142,951)	(142,951)
	3,043,898	3,052,717
Tier 2 capital		
Investment revaluation reserve	10,225	8,488
Total qualifying Tier 2 capital	10,225	8,488
Risk weighted assets:		
On balance sheet	11,720,504	12,281,400
Off balance sheet	470,184	506,374
Total risk weighted assets	12,190,688	12,787,774
Total regulatory capital to risk weighted assets - Actual	25.95%	25.34%
Total regulatory capital to risk weighted assets - Minimum	8%	8%

25.5 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.

26. 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)(iv).

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:

2018	Level 1	Level 2	Level 3	Total
	$	$	$	$
Assets				
Treasury bills	-	3,289,595	-	3,289,595
Investment securities	382,206	8,757	-	390,963
	382,206	3,298,352	-	3,680,558

2017	Level 1	Level 2	Level 3	Total
	$	$	$	$
Assets				
Treasury bills	-	3,443,254	-	3,443,254
Investment securities	910,119	157,698	-	1,067,817
	910,119	3,600,952	-	4,511,071

C. Financial instruments <u>not</u> 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.

2018	Level 1	Level 2	Level 3	Total Fair Value	Carrying Amount
	$	$	$	$	$
Asset					
Loans to customers	-	13,699,076	-	13,699,076	13,502,683
Liabilities					
Deposits from customers	-	17,280,611	-	17,280,611	17,280,611

2017	Level 1	Level 2	Level 3	Total Fair Value	Carrying Amount
Asset					
Loans to customers	-	13,063,383	-	13,063,383	13,041,926
Liabilities					
Deposits from customers	-	18,534,723	-	18,534,723	18,534,723

(a) <u>Cash on hand and in transit</u>

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

(b) <u>Loans and advances to banks and related companies</u>

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) <u>Deposits with Central Bank</u>

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) <u>Loans to customers</u>

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) <u>Deposits from customers, banks, subsidiaries and related companies</u>

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.

27. Classification of Financial Assets and Financial Liabilities

The following table provides a reconciliation between line items in the statement of financial position and the categories of financial instruments:

2018	FVTPL	FVOCI Debt	FVOCI Equity	Amortised Cost	Total
	$	$	$	$	$
Assets					
Cash and cash equivalents	-	-	-	149,333	149,333
Loans and advances to banks and related companies	-	-	-	782,565	782,565
Treasury bills	-	3,289,595	-	-	3,289,595
Deposits with Central Bank	-	-	-	2,560,438	2,560,438
Loans to customers	-	-	-	13,557,260	13,557,260
Investment securities	-	382,609	8,354	-	390,963
Total financial assets	-	3,672,204	8,354	17,049,596	20,730,154
Liabilities					
Deposits from customers	-	-	-	17,284,198	17,284,198
Deposits from banks, subsidiaries and other related companies	-	-	-	177,563	177,563
Total financial liabilities	-	-	-	17,461,761	17,461,761

2017	FVTPL	FVOCI Debt	FVOCI Equity	Amortised Cost	Total
	$	$	$	$	$
Assets					
Cash and cash equivalents	-	-	-	225,376	225,376
Loans and advances to banks and related companies	-	-	-	1,353,398	1,353,398
Treasury bills	-	3,443,254	-	-	3,443,254
Deposits with Central Bank	-	-	-	2,826,390	2,826,390
Loans to customers	-	-	-	13,092,239	13,092,239
Investment securities	-	1,059,550	8,267	-	1,067,817
Total financial assets	-	4,502,804	8,267	17,497,403	22,008,474
Liabilities					
Deposits from customers	-	-	-	18,538,048	18,538,048
Deposits from banks, subsidiaries and other related companies	-	-	-	250,859	250,859
Total financial liabilities	-	-	-	18,788,907	18,788,907

28. 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 group 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.

	2018	2017
	$	$
(i) Outstanding balances		
Loans, investments and other assets		
Directors and key management personnel	11,012	10,313
Bank of Nova Scotia and other related entities	289,595	653,908
	300,607	664,221
Deposits and other liabilities		
Directors and key management personnel	8,986	4,038
Bank of Nova Scotia and other related entities	206,704	284,089
	215,690	288,127
(ii) Transactions		
Interest and other income		
Directors and key management personnel	298	330
Bank of Nova Scotia and other related entities	7,307	4,629
	7,605	4,959
Interest and expenses		
Directors and key management personnel	2,268	2,100
Bank of Nova Scotia and other related entities	162,945	142,113
	165,213	144,213

(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:

	2018	2017
	$	$
Short-term benefits	20,074	16,566
Share based payment	2,198	586
	22,272	17,152

In the normal course of business, Scotiabank sells loans to ScotiaLife at market rates. Loans sold during the year ended October 31, 2018 totalled $291 million (2017: $145 million). The individual loans are with parties unrelated to Scotiabank and are sold without recourse.

29. Subsequent Events

On November 27, 2018, Scotiabank announced its intention to enter into agreement with Sagicor Financial Corporation Limited and Alignvest Acquisition II Corporation for the proposed acquisition of ScotiaLife Trinidad and Tobago Limited (SLTT) to obtain 100% of the Company's ordinary shares subject to receipt of all applicable regulatory approvals.