Scotiabank (Ireland) Designated Activity Company

Pillar 3 Disclosures

As at 31st October 2019

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1 Introduction

1.1 Background

Scotiabank (Ireland) Designated Activity Company ("SIDAC" or the "Company"), is subject to Irish and European Union legislation which seeks to stabilise and strengthen the EU financial system by ensuring that institutions, including the Company, hold adequate capital to meet the potential impact of the risks to which they are exposed. As part of this capital adequacy regime, institutions are required to publicly disclose specified information ("Pillar 3 disclosures") to enable market participants to understand how an institution implements the applicable legislation. This report represents the Company's Pillar 3 disclosures as at 31 October 2019 as required under the Capital Requirements Directive (Directive 2013/36/EU) ("CRD IV"), the Capital Requirements Regulation (Regulation (EU) No. 575/2013) ("CRR"), associated implementing legislation and guidelines issued by the European Banking Authority ("EBA"). The Central Bank of Ireland ("CBI") determined that the Company should apply the EBA guidelines on disclosure requirements[1] under Part Eight of the CRR in full. The Company is required to disclose this information on an annual basis.

1.2 Key Changes in the 2019 Pillar 3 Disclosures

With effect from 1 November 2018, following a strategic review, the Company became part of the Global Banking and Markets ("GBM") business line within Scotiabank, whereas previously it was part of Group Treasury. As a result, the Company has realigned its functional reporting lines from Group Treasury to GBM, where appropriate. This decision allows GBM to better align its focus on its core clients and businesses to optimise its operating model in Europe, including the establishment of an Origination Desk in Dublin to cover EU27 Corporate Banking clients and the build-out of execution capabilities.

Late last year, the Company changed its internal governance structure in relation to Senior Management Committees. This commenced in September 2018 with the formation of a Credit Committee and the remaining committees were formed in the first quarter of this year. The main impact was to form an Executive Committee and to replace the Risk Management Committee with committees dedicated to financial and non-financial risks. See section 3.1 for more details.

1.3 Policy and Scope of Disclosure

These Pillar 3 disclosures are prepared on an unconsolidated / individual basis. They are disclosed on an annual basis in line with the financial statements and are published on the Company's website at the following location: https://www.gbm.scotiabank.com/en/legal/ireland-policies-and-disclosures.html. Disclosures required under Pillar 3 are only incorporated if they are deemed relevant and material for the Company and if their omission or misstatement would change or influence the assessment or decision of a user relying on the information. Information regarded as proprietary or confidential has been excluded from this document, as allowed under the CRR.

The information provided in this document is not required to be subject to an external audit. These disclosures do not constitute any form of a Financial Statement and should not be relied upon in making any financial or investment decision. The disclosures have been checked for consistency with existing risk reports and appropriateness against the disclosure requirements and have been reviewed by authorised Senior Management representatives. The disclosures have been deemed adequate, both in terms of frequency and level of detail, to convey SIDAC's risk profile comprehensively to market participants.

The following table provides a mapping of Financial Statement categories under the regulatory scope of consolidation to regulatory risk categories, as at 31 October 2019. As the Company's scope of accounting consolidation and its scope of regulatory consolidation are exactly the same, a reconciliation of the Company's balance sheet on an accounting basis to the Company's balance sheet under the regulatory scope of consolidation is not required. Column (a) – "Carrying values as reported in published financial statements" is not shown for the same reason.

[1] EBA/GL/2016/11 revised June 2017

Table 1 – EU LI1 – Mapping of Financial Statements categories with regulatory risk categories

	31 Oct 2019						31 Oct 2018					
	b	c	d	e	f	g						
		Carrying values of items						Carrying values of items				
US$'000	Carrying values under scope of regulatory consolidation	Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	(1) Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital	Carrying values under scope of regulatory consolidation	Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	(1) Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets												
Cash and balances at central banks	387,384	387,384	-	-	-	-	365,445	365,445	-	-	-	-
Loans and advances to banks	377,728	24,733	352,995	-	-	-	10,402	10,402	-	-	-	-
Loans and advances to customers	1,812,649	1,521,283	-	291,366	-	-	2,679,692	2,393,158	-	286,534	-	-
Investment securities measured at FVOCI	1,665,955	1,665,955	-	-	-	-	2,230,620	2,230,620	-	-	-	-
Investment securities measured at amortised cost	558,014	558,014	-	-	-	-	882,965	882,965	-	-	-	-
Investment securities mandatorily measured at FVTPL	52,281	8,450	-	43,831	-	-	56,863	13,686	-	43,177	-	-
Derivative financial instruments	15,871	-	15,871	-	-	-	107,044	-	107,044	-	-	-
Tangible fixed assets	587	587	-	-	-	-	360	360	-	-	-	-
Intangible assets	462	-	-	-	-	462	500	-	-	-	-	500
Deferred taxation assets	405	405	-	-	-	-	-	-	-	-	-	-
Other assets	3,987	3,987	-	-	-	-	7,803	7,803	-	-	-	-
Prepayments and accrued income	18,569	16,493	-	2,076			22,864	20,797	-	2,067		
Total assets	**4,893,892**	**4,187,291**	**368,866**	**337,273**	-	**462**	6,364,558	5,925,236	107,044	331,778	-	500
Liabilities												
Deposits by banks	148,740	-	-	-	-	148,740	136,802	-	-	-	-	136,802
Customer accounts	15,097	-	-	-	-	15,097	91	-	-	-	-	91
Derivative financial instruments	46,862	-	46,862	-	-	-	5,954	-	5,954	-	-	-
Debt securities in issue	2,977,594	-	-	-	-	2,977,594	3,107,761	-	-	-	-	3,107,761
Deferred taxation liabilities	-	-	-	-	-	-	683	-	-	-	-	683
Current taxation liabilities	7,108	-	-	-	-	7,108	7,112	-	-	-	-	7,112
Accruals, deferred income & other liabilities	22,596	-	11,963	-	-	10,633	38,848	-	11,963	-	-	26,885
Net retirement benefit liabilities	11,799	-	-	-	-	11,799	7,892	-	-	-	-	7,892
Total liabilities	**3,229,796**	**-**	**58,825**	**-**	**-**	**3,170,971**	3,305,143	-	17,917	-	-	3,287,226

(1) As the Company does not have an active trading book all remaining market risk relates to FX in the banking book. At 31 October 2019 the FX risk exposure was US$ 16,693,000 (2018: US$ 77,984,000) with an associated capital charge of US$ 1,335,000 (2018: US$ 6,239,000).

Table 2 outlines, for items subject to the credit risk and counterparty credit risk (CCR) frameworks, a reconciliation of the carrying value of assets to Exposure at Default (EAD).

Table 2 – EU LI2 – Main sources of differences between regulatory exposure amounts and carrying values in Financial Statements

		31 Oct 2019					31 Oct 2018				
		a	b	c	d	e					
			Items subject to					Items subject to			
	US$'000	Total	Credit risk framework	CCR framework	Securitisation framework	Market risk framework [1]	Total	Credit risk framework	CCR framework	Securitisation framework	Market risk framework [1]
1	**Assets carrying value amount under the scope of regulatory consolidation (as per template EU LI1)**	**4,893,430**	**4,187,291**	**368,866**	**337,273**	**-**	6,364,058	5,925,236	107,044	331,778	-
2	Liabilities carrying value amount under the regulatory scope of consolidation (as per template EU LI1)	58,825	-	58,825	-	-	17,917	-	17,917	-	-
3	Total net amount under the regulatory scope of consolidation	4,893,430	4,187,291	368,866	337,273	-	6,364,058	5,925,236	107,044	331,778	-
4	Off-balance-sheet amounts	1,073,850	1,073,850	-	-	-	864,317	864,317	-	-	-
5	Differences due to different netting rules, other than those already included in row 2	(346,179)	-	(346,179)	-	-	-	-	-	-	-
6	Differences due to Derivatives	(3,491)	-	(3,491)	-	-	20,375	-	20,375	-	-
7	Other	(4,437)	(4,437)	-	-	-	(10,905)	(8,086)	(2,819)	-	-
8	**Exposure amounts considered for regulatory purposes**	**5,613,173**	**5,256,704**	**19,196**	**337,273**	**-**	**7,237,845**	**6,781,467**	**124,600**	**331,778**	**-**

[1] See note on table 1.

The main differences between carrying amounts reported in the Financial Statements and those for Regulatory purpose are:

- Off balance sheet items included as an exposure value for Regulatory purposes;
- The effects of recognition of GMRA netting agreements in the calculation of exposures amounts due to Securities Financing Transactions (SFT) (repurchase transactions) considered for regulatory purposes (i.e. EAD) according to CRR.
- The following effects recognised in the calculation of Derivative exposure amounts:
  - inclusion of derivatives with negative fair value which have been recorded in balance sheet liabilities;
  - recognition of ISDA netting agreements

1.4 Principal Activities

The Company, which holds a banking licence, is incorporated in Ireland and is a wholly owned subsidiary of BNS International (Bahamas) Limited ("BNSI") (formerly The Bank of Nova Scotia International Limited) which is incorporated in the Bahamas. BNSI is wholly owned by The Bank of Nova Scotia ("Scotiabank" or "BNS") which is incorporated in Canada.

The primary activities of the Company are international corporate lending, securities investment and treasury management as outlined below. The Company's financial objective is to generate a stable source of income within its risk appetite using lending, investment and money market portfolios. Each portfolio is carefully managed and diversified with regard to maturity, credit exposure and currency to achieve this objective, making use of interest rate and currency derivatives to reduce the overall risk profile.

International Corporate Lending

Lending is largely in the form of syndicated or bilateral loans with highly rated entities, as well as offering Trade Finance facilities. The objective of this portfolio is to generate sustainable income accruals while maintaining a capital preservation ethos. The focus of the team in Ireland is to manage a portfolio by expanding profitable relationships and exiting unprofitable or off-strategy relationships. The key to growth will be to lend to EU27 Borrowers that operate in a similar footprint to Scotiabank (Latin America, Caribbean, US and Canada) and in key industries for which Scotiabank has credit appetite. The strategy is to selectively grow the portfolio within risk appetite, while improving returns.

Securities Investment

The Company manages a liquidity portfolio consisting of highly rated bonds issued by sovereigns, supra-national agencies, financial institutions (covered) and high-grade corporations. The focus is on CRD IV/Basel III compliant bonds for liquidity and return purposes. Bond investments are held in floating rate notes, in bonds that have been swapped from fixed to floating interest rates, and in fixed interest rate positions assuming outright interest rate risk.

Treasury Management

The Company's Treasury team is primarily responsible for managing SIDAC's liquidity, funding the business lines and ensuring regulatory compliance for liquidity. This involves wholesale market activities such as interbank borrowing and lending, position taking in various fixed income and derivative instruments over a short to medium term interest horizon and liquidity management for the Company. It is the policy of the Company to deal only with highly rated counterparties.

1.5 Key Performance Indicators

The level of business, performance and the year-end financial position were satisfactory. The Company recorded a profit for the year ended 31 October 2019 of US$ 109,830,000 which was a decrease of 2.2% from the previous year. Other Key Performance Indicators are:

Table 3 – Key Performance Indicators

Key performance indicators	2019	2018
Return on Regulatory Capital Employed	10.0%	10.0%
Total Capital Ratio	42.6%	61.6%
Leverage Ratio	27.2%	41.7%
Return on Equity (ROE)	4.8%	3.7%
Net Interest Margin	2.9%	2.5%

1.6 Future Developments

Revised Capital Requirements Directive ("CRD V") and Regulation ("CRR 2")

The revised Capital Requirements Directive and Regulation, CRD V and CRR 2, refine and continue to implement Basel III in the EU by making important amendments in a number of areas. They were published in June 2019 with most of the changes applying from June 2021. The key changes impacting the Company are:

- *Binding Leverage Ratio:* CRR 2 broadly reflects the Basel leverage ratio. It sets the Tier 1 capital-based leverage ratio requirement at 3% for all EU banks as per the EBA's recommendation.
- *Net Stable Funding Ratio:* CRR 2 requires banks to maintain minimum available stable funding of at least 100% of their required stable funding to ensure that asset exposures are broadly matched with stable funding sources. See section 9.1 for more detail.
- *Standardised Approach for Counterparty Credit Risk (SA-CCR):* The new approach is a more risk sensitive measure of counterparty risk reflecting netting, hedging and collateral benefits, as well as being better calibrated to observed volatilities.
- *Pillar 2 Framework:* CRD V revises the Pillar 2 capital regime in EU legislation. The final framework clarifies the rules around the Supervisory Review and Evaluation Process ("SREP") and introduces some limitations on the national competent authorities' ("NCA") discretion when imposing additional reporting and disclosure obligations under Pillar 2.
- *Pillar 3 Disclosures:* See below

Revised Pillar 3 Disclosures requirements

A number of requirements and public consultations have been issued which are not effective for the Company's Pillar 3 disclosures as at 31 October 2019. These will be incorporated into the Company's Pillar 3 disclosures in forthcoming years where applicable.

- *Enhanced disclosure requirements on non-performing exposures, forbearance and foreclosed assets:* In December 2018 the EBA published the final Guidelines in this area including four standardised templates on non-performing exposures, forbearance and foreclosed assets applicable to all banks. The guidelines are effective from 31 December 2019 and will be reflected in the 31 October 2020 disclosures for the Company.
- *New requirements under CRR 2:* Additional governance requirements and rules around frequency of disclosure and comparison periods over Pillar 3 disclosures will be introduced. CRR 2 also mandates the EBA to introduce uniform disclosure formats via Implementing Technical Standards ("ITS"). The EBA has launched a public consultation for this ITS and the changes will be reflected in the 31 October 2021 disclosures for the Company in line with the effective date of the CRR 2 changes of June 2021.

2 Capital Adequacy

2.1 Capital Management

The Company has complied with all externally imposed capital requirements throughout the period. During 2019 the Company declared and paid significant dividends on its ordinary shares totalling US$ 1.5bn. Apart from this, there have been no material changes in the Company's management of capital during the year. Whilst the dividend payments have had a significant impact on the Company's capital position, the Board remain comfortable regarding the adequacy of capital to meet anticipated future requirements arising from its strategy given the very strong Capital ratio still in place.

The Company recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. This is achieved through the Internal Capital Adequacy Assessment Process ("ICAAP").

The overarching principle of the ICAAP is the explicit linkage between capital and risk; the adequacy of the Company's capital is assessed on the basis of the risks to which it is exposed. This requires a clear assessment of the material risk profile of the Company and a consideration of the extent to which identified risks, both individually and in aggregate, require capital to support them. Banking operations are categorised as either trading book or banking book which informs the capital to be held against the products. In addition, the level of capital held by the Company is influenced by minimum regulatory requirements.

The Company uses two measures for determining capital requirements in the decision-making process:

- Minimum regulatory capital requirements (Pillar 1), and
- Internal capital requirement (Pillar 2) which is subject to the SREP.

In addition, Pillar 2 Guidance ("P2G") is applied to the Company by the CBI. P2G is a supervisory tool used to set capital expectations at a level above that of overall capital requirements and is based on the SREP process. It is an assessment of the adequacy of an institution's own funds in stressed conditions. While not an own funds requirement, failure to meet P2G could result in institution-specific supervisory measures.

2.2 Minimum Regulatory Capital Requirement (Pillar 1)

As regards regulatory capital requirements and capital adequacy, the Company is subject to the requirements of the CBI, EBA and the provisions under CRD IV/CRR. The Company's capital adequacy is assessed by comparing available regulatory capital resources with capital requirements expressed as a percentage of risk weighted assets or equivalent. The regulatory minimum ratios (Pillar 1) are as follows, CET 1 and Tier 1 Capital of 4.5% and 6% respectively and a Total Capital ratio of 8%. In addition, the Company is required to maintain a Capital Conservation Buffer comprising CET 1 eligible instruments of 2.5% of risk weighted assets and also an institution-specific Countercyclical Buffer ("CCyB") of CET 1 calculated as risk weighted assets multiplied by a weighted average of CCyB rates determined by the geographic distribution of the Company's exposures. As at October 2019 the CCyB stood at 0.2997%, equivalent to US$ 11.8mm (October 2018: 0.2249% equivalent to US$ 11.2mm). Refer to Appendix 1 for the detailed calculation of the CCyB.

Credit risk

The Company uses the Standardised Approach for calculating capital requirements for credit risk. This approach involves the application of risk weights to the Company's assets based on the deemed creditworthiness of its debtors and the rules as laid out in the CRR. More detail is provided in the credit risk section.

The Company calculates counterparty credit risk (CCR) for over-the-counter (OTC) Derivatives (using the Mark-to-Market method) and SFTs (using the Supervisory Volatility Adjustments Approach for master netting agreements). In addition, banks are required to hold capital against the risk that the credit quality of the counterparties could deteriorate. A Credit Valuation Adjustment (CVA) capital charge is required to cover this risk.

Market risk

The Company applies the Standardised Approach for the calculation of market risk regulatory capital.

Operational risk

The capital requirement for operational risk is calculated according to the Basic Indicator Approach. This requires the Company to hold a capital amount equal to 15% of the average of the sum of net interest income and net non-interest income for the three preceding 12-month financial periods for which audited financial information is available.

2.3 Internal Capital Adequacy Assessment Process (Pillar 2)

The Company defines its internal capital requirement as the capital required to protect it against severe unexpected losses that might put the solvency of the Company at risk. CRD IV requires banks to undertake the ICAAP which is then subject to periodic supervisory review under the SREP process to determine if additional Pillar 2 capital is required for any material risk. In addition to Pillar 1 capital the Company holds Pillar 2 capital, as considered necessary, for those additional risks not captured in the Pillar 1 computation. The risks identified through the ICAAP process as requiring additional capital are credit concentration risk, interest rate risk in the banking book, credit spread volatility risk, pension risk and operational risk. As at 31 October 2019 the Company was required to maintain Pillar 2 capital requirement of 3.46% of RWA (2018: 2.82%).

As at October 2019, in terms of the Total Capital ratio the Company has an Overall Capital Requirement ("OCR") of 14.26%. This comprises the above Pillar 1 requirement of 8%, capital buffers totalling 2.8% and the Pillar 2 requirement of 3.46%.

Table 4 – Regulatory Capital Ratios

US$'000 OWN FUNDS	Transitional 31 October 2019	Fully Loaded 31 October 2019	Transitional 31 October 2018	Fully Loaded 31 October 2018
Common Equity Tier 1 Capital (CET1)				
Paid up ordinary shares	40,000	40,000	40,000	40,000
Capital contribution reserve	12,194	12,194	812,194	812,194
Retained earnings	1,572,013	1,572,013	2,166,578	2,166,578
Accumulated other comprehensive income	(111)	(111)	643	643
CET1 Capital before Regulatory Adjustments	**1,624,096**	**1,624,096**	**3,019,415**	**3,019,415**
Regulatory Adjustments to CET1 Capital				
Deductions from Own Funds				
Additional value adjustments	(1,781)	(1,781)	(2,400)	(2,400)
Intangible assets	(462)	(462)	(500)	(500)
Qualifying AT1 deductions that exceed the AT1 capital of the institution	-	-	-	-
Prudential Filters				
Unrealised gains and losses measured at fair value	-	-	-	-
Intangible assets	-	-	-	-
Defined benefit pension obligations	-	-	-	-
Total Regulatory Adjustments to CET1 Capital	**(2,243)**	**(2,243)**	**(2,900)**	**(2,900)**
CET1 Capital/Tier 1 Capital	**1,621,853**	**1,621,853**	**3,016,515**	**3,016,515**
Tier 2 Capital				
Paid up perpetual non-cumulative preference shares	40,000	40,000	40,000	40,000
Own Funds	**1,661,853**	**1,661,853**	**3,056,515**	**3,056,515**
Capital Requirements - Pillar I				
Credit risk	289,254	289,254	368,791	368,791
Market risk	1,335	1,335	6,239	6,239
Of which:				
FX	1,335	1,335	6,239	6,239
Operational risk	21,254	21,254	19,437	19,437
Credit Valuation Adjustment risk	249	249	2,252	2,252
Capital Requirements - Pillar I	**312,092**	**312,092**	**396,719**	**396,719**
Risk Weighted Assets (or Equivalent)				
Credit risk	3,615,669	3,615,669	4,609,892	4,609,897
Market risk	16,693	16,693	77,984	77,984
Of which:				
FX	*16,693*	*16,693*	*77,984*	*77,984*
Operational risk	265,676	265,676	242,965	242,965
Credit Valuation Adjustment risk	3,117	3,117	28,152	28,152
Risk Weighted Assets (or Equivalent)	**3,901,155**	**3,901,155**	**4,958,993**	**4,958,998**
Capital Ratios				
CET1 capital ratio	**41.6%**	**41.6%**	**60.8%**	**60.8%**
T1 capital ratio	**41.6%**	**41.6%**	**60.8%**	**60.8%**
Total capital ratio	**42.6%**	**42.6%**	**61.6%**	**61.6%**

Own funds decreased by US$ 1.4bn (↓ 46%) mainly as a result of the payment of interim ordinary dividends totalling US$ 1.5 bn while RWA decreased by US$ 1.1 bn (↓ 21%). The combined effect of these movements was a decrease in total capital ratio of 19% to 42.6% at 31 October 2019. For further information on Transitional Own Funds, see the disclosure in Appendix 4. A reconciliation of equity in Financial Statements to Regulatory own funds and the main features of the Company's capital instruments is contained in Appendix 5.

Risk Weighted Asset Calculation

Exposures and Risk Weighted Assets (RWAs) for the Company, with the minimum capital requirements as at 31 October 2019 are outlined in the following table.

Table 5 – EU OV1 – Overview of RWAs

US$'000	**Breakdown by risk type**	**RWAs 31 Oct 2019**	**Minimum capital requirements 31 Oct 2019**	RWAs 31 Oct 2018	Minimum capital requirements 31 Oct 2018
1	Credit risk (excluding CCR)	3,004,820	240,386	3,925,630	314,050
2	*Of which the standardised approach*	3,004,820	240,386	3,925,630	314,050
6	CCR	10,670	854	90,391	7,231
7	*Of which mark to market*	6,190	495	62,239	4,979
9	*Of which the standardised approach*	1,363	109	-	-
12	*Of which CVA*	3,117	249	28,152	2,252
13	Settlement risk	-	-	-	-
14	Securitisation exposures in the banking book (after the cap)	631,179	50,494	622,023	49,762
18	*Of which standardised approach*	631,179	50,494	622,023	49,762
19	Market risk	16,693	1,335	77,984	6,239
20	*Of which the standardised approach*	16,693	1,335	77,984	6,239
22	Large exposures	-	-	-	-
23	Operational risk	265,676	21,254	242,965	19,437
24	*Of which basic indicator approach*	265,676	21,254	242,965	19,437
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-	-
28	Floor adjustment	-	-	-	-
29	**Total**	**3,929,038**	**314,323**	**4,958,993**	**396,719**

The main driver of the reduction in RWA was a reduction in credit risk, due to reduced asset levels. Other factors include reductions in CCR (driven by derivative mark to market movements) and market risk (FX risk), partially offset by an increase in operational risk due to increased average operational income under the basic indicator approach).

2.4 Leverage Ratio

The leverage ratio is a supplementary non-risk based measure to constrain the build-up of leverage (i.e. create a backstop on the degree to which a banking firm can leverage its capital base). It is calculated as a percentage of Tier 1 capital versus the total on and off balance sheet exposure (not risk weighted).

The following tables analyse the leverage ratio exposures of the Company for the year end 31 October 2019 and comparable.

Table 6 – LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

US$'000		**31/10/2019**	**31/10/2018**
1	Total assets as per published Financial Statements	4,893,892	6,989,584
4	Adjustments for derivative financial instruments	(3,491)	(16,023)
5	Adjustment for securities financing transactions (SFTs)	6,816	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	1,073,850	936,280
7	Other adjustments	(6,602)	(3,818)
8	**Leverage ratio total exposure measure**	**5,964,465**	**7,906,023**

Table 7 – LRCom: Leverage ratio common disclosure

US$'000		CRR leverage ratio exposures 31/10/2019	31/10/2018
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	4,520,595	6,254,869
2	(Asset amounts deducted in determining Tier 1 capital)	(2,243)	(2,900)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**4,518,352**	**6,251,969**
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	197	93,237
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	12,183	31,363
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
11	**Total derivatives exposures**	**12,380**	**124,600**
SFT exposures			
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	353,067	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	Counterparty credit risk exposure for SFT assets	6,816	-
16	**Total securities financing transaction exposures**	**359,883**	**-**
Other off-balance sheet exposures			
17	Off-balance sheet exposures at gross notional amount	2,142,020	1,756,831
18	(Adjustments for conversion to credit equivalent amounts)	(1,068,170)	(892,407)
19	**Other off-balance sheet exposures**	**1,073,850**	**864,424**
Capital and total exposure measure			
20	**Tier 1 capital**	**1,621,853**	**3,016,515**
21	**Leverage ratio total exposure measure**	**5,964,465**	**7,240,993**
Leverage ratio			
22	**Leverage ratio**	**27.2%**	**41.7%**
Choice on transitional arrangements and amount of derecognised fiduciary items			
EU-23	Choice on transitional arrangements for the definition of the capital measure	**Fully phased in**	
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	-	-

Table 8 – LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

US$'000		CRR leverage ratio exposures 31/10/2019	31/10/2018
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	4,520,595	6,254,869
EU-2	Trading book exposures	-	-
EU-3	Banking book exposures, of which:	4,520,595	6,254,869
EU-4	Covered Bonds	30,782	59,539
EU-5	Exposures treated as sovereigns	1,588,650	2,021,226
EU-6	Exposures to regional governments, multilateral development banks, international organisations and public sector entities ("PSE") not treated as sovereigns	298,991	196,286
EU-7	Institutions	129,685	240,028
EU-10	Corporate	2,108,693	3,362,350
EU-11	Exposures in default	15,425	27,885
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	348,369	347,555

The leverage ratio decreased by 14.5% to 27.2% at 31 October 2019 (see table 7). Tier 1 capital decreased by US$ 1.4bn (↓ 46%) due to the payment of interim ordinary dividends as noted above while the leverage exposure measure decreased by US$ 1.3 bn (↓ 18%). The main driver of the decrease in the exposure measure was a US$ 1.5bn reduction in balance sheet assets, offset to a degree by an increase of US$ 209mm in off-balance sheet loan commitments (post credit conversion factors)

The Company manages the risk of excessive leverage through the use of a risk appetite metric which is presented to the Asset & Liability Committee ("ALCO") on a monthly basis and outlined in table 12 in section 3.2 below.

3 Risk Management

Introduction

The Company's financial risk management objective is the prudent management of risk within the parameters of the risk appetite articulated by the Board of Directors ("the Board"), ensuring an appropriate balance between risk and reward in order to maximise shareholder returns in alignment with the Company's overall business strategy. The Company has implemented a Risk Management Framework, which is modelled significantly on that of Scotiabank and is captured in a Board approved document of that name. The Framework is the key source of information for the Board, Senior Management, and all other employees of the Company that:

- Outlines the risk governance, risk management principles, risk culture, risk management tools and other key elements of its risk management framework;
- Describes how SIDAC identifies, measures, manages and controls the key risks to which the entity is exposed;
- Serves as an over-arching framework for all elements of risk management activities, and a source document to which all other risk management frameworks and policies must be aligned.

This Framework is subject to regular evaluation to ensure that it meets the challenges and requirements of the global markets in which SIDAC operates, including regulatory standards and industry best practices as well as standards set by BNS.

The Company has put in place a disciplined and constructive control environment in which all employees understand their roles and obligations. The application of the control environment is through training, management standards and procedures. In the view of the Board the Risk Management Framework is appropriate to the size and scale of operations of the Company and is effective in controlling these operations within the expressed risk appetite.

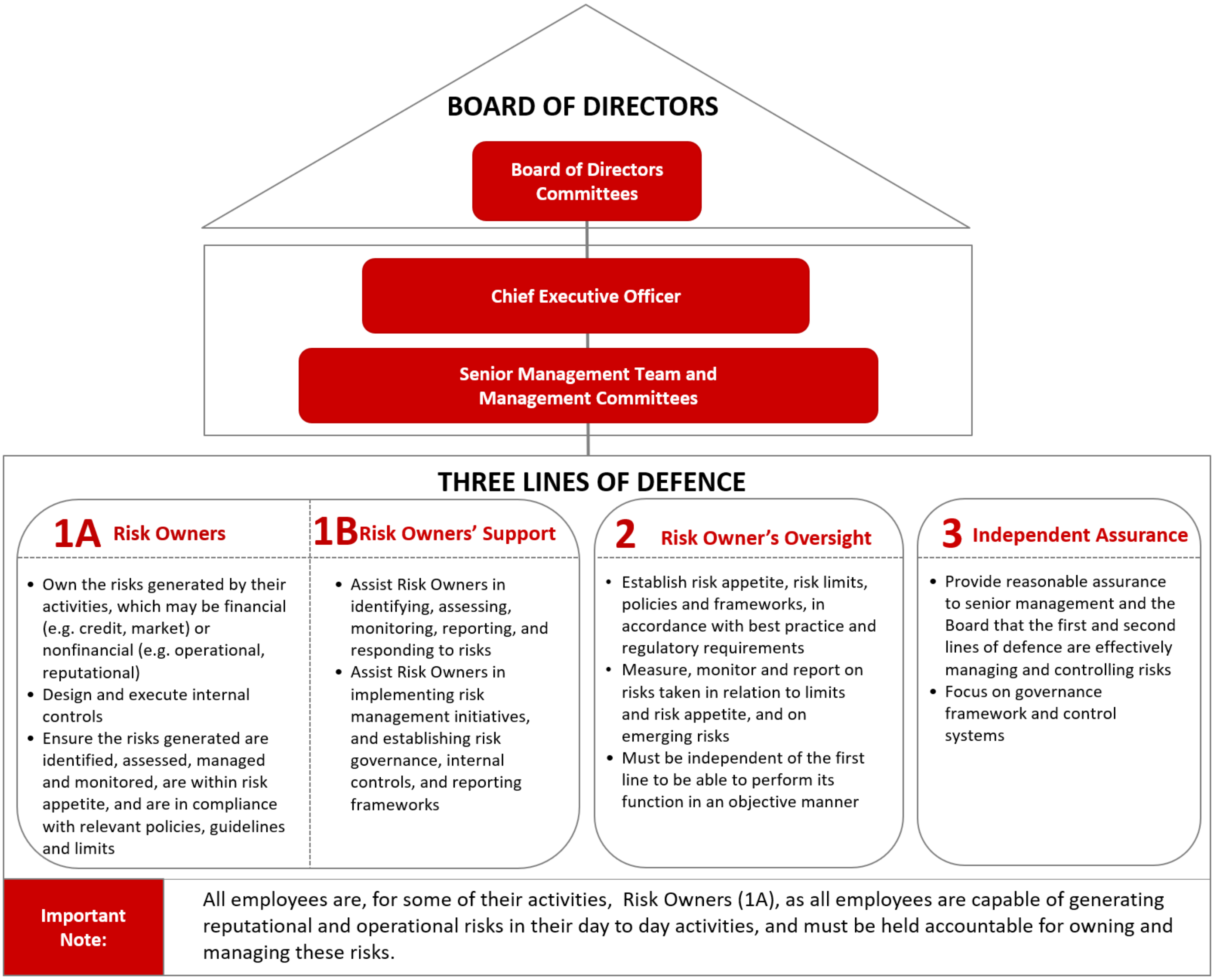
3.1 Risk Governance

The main elements of the Company's risk governance model include:

- The Board of Directors
- Board Committees
- Senior Management

The Company operates a "Three Lines-of-Defence" model under its Risk Management Framework. Within this model, the First Line of Defence incur and own the risks (1A, supported by 1B; please see the diagram on the following page) while the Second Line of Defence (comprised of control functions such as Risk Management, Compliance and Finance[2]) provide independent oversight and objective challenge to the First Line of Defence, as well as monitoring and control of risk. Internal Audit Department (the 3LOD) provides enterprise-wide independent assurance over the design and operation of SIDAC's internal control, risk management and governance processes throughout the first and second lines of defence. Employees in every area of the organization are responsible for risk management.

[2] *Finance conducts both first and second line of defence activities within SIDAC*



3.1.1 The Board of Directors

The Board of Directors, either directly or through its Committees, ensures that decision-making is aligned with the Company's strategies and risk appetite.

The Board's membership is composed of highly qualified directors from diverse backgrounds, who have familiarity with the financial industry in the European Union and in Ireland in particular, and who reflect the required expertise and skill sets appropriate for Directors supervising the management of the business and affairs of the Company. They demonstrate sound and independent business judgement, based on the criteria detailed below.

The Board reviews and approves policies designed to help mitigate the risks faced by the business and sets limits to control the level of exposure to these risks. Policies are reviewed regularly to reflect changes in market conditions, regulatory requirements or product mix.

The Board of Directors has the ultimate responsibility for ensuring that Senior Management establishes and maintains:

- An adequate and effective system of internal control;
- A measurement system for assessing the various risks of the Company's activities;
- A system for relating risks to the capital level; and
- Appropriate methods for monitoring compliance with laws, regulations and supervisory and internal policies.

3.1.2 Nomination and Directorship

Management Body

The Board has a broad range of expertise across a number of relevant areas including banking and capital markets, accounting, risk management, and taxation. At October 2019, the Board comprised seven directors made up of one Executive Director, one Non-Group Non-Executive Director, one Group Non–Executive Director and four Independent Non-Executive Directors as shown below. The Corporate Governance structure is documented in a policy paper which is approved by the Board.

Table 9 – 2019 Members of the Board of Directors

Name	Roles/Job Titles	Board Member	Member of Sub-Committee of the Board
Terry Fryett	Former Scotiabank (BNS) Executive Vice President & Chief Credit Officer (appointed 4 July 2019)	Non-Group, Non-Executive Director (Chair of SIDAC Board)	Board Risk Committee (“BRC”)
Nicola Vavasour	SIDAC CEO	Executive Director	N/A
Bob Brooks	Risk Management professional in various banks	Independent Non-Executive Director	Chair of BRC; Audit Committee (“AC”)
Mary Walsh	Chartered Accountant and former International tax partner	Independent Non-Executive Director	Chair of AC; BRC
Peter Heidinger	CEO and Head of Scotiabank Europe plc. (appointed 16 April 2019)	Group Non-Executive Director	BRC
Joseph Dempsey	Chartered Accountant and Financial Consultant and Director within various financial services companies and banks (appointed 1 June 2019)	Independent Non-Executive Director	BRC and AC
Edward Ward	Chartered Director and former Senior Executive with Citigroup and AIB (appointed 1 June 2019)	Independent Non-Executive Director	BRC and AC
Andrew Branion*	Scotiabank (BNS) Executive Vice-President and Group Treasurer (resigned 3 July 2019)	Group Non-Executive Director (Chair of SIDAC Board)	BRC
Máire O’Connor*	Solicitor and former partner at McCann Fitzgerald Solicitors (resigned 20 September 2019)	Independent Non-Executive Director	BRC and AC

**Resigned during 2019*

Recruitment Policy for Board of Directors

Selection Criteria and Policy

The Company’s policies and processes reflect the requirements of the “Joint European Securities and Markets Authority (“ESMA”) and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders”.

The Board as a whole must have relevant financial and risk expertise. When appropriate the Board may engage qualified independent external advisors to conduct a search for candidates who meet the Board’s expertise, skills and diversity criteria.

The Board is responsible for either the appointment of Independent Non-Executive Directors or where appropriate identifying and proposing the appointment of Independent Non-Executive Directors to shareholders. Before appointment to the Board, the proposed director must show that the individual satisfies the selection criteria applicable to the role for which the individual is being proposed for appointment, evidencing items such as their skills, experience, expertise, competencies, professionalism, fitness, probity and integrity to carry out his or her duties, including a knowledge and appreciation of public issues and familiarity with local, national and international affairs.

Diversity

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

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

- have the relevant skills, experience, expertise, knowledge, appropriate qualification for the role and perspectives to provide an independent challenge and;
- have the necessary personal qualities, professionalism and integrity expected of a Board member.

As part of its commitment to board diversity, the Company is a member of the 30% Club Ireland. The Board's Diversity Policy states that it aspires to have each gender comprise at least 30% of the Board. For 2019, based on the periods served on the Board, this target was achieved with 46% of serving directors being women. SIDAC is committed to having a diverse board, to achieving the aspirations set in this regard and to ensuring an open and fair recruitment process. As part of the process underpinning the Board's annual confirmation of compliance with the CBI Corporate Governance Requirements (2015), the Board undertakes an annual review of its Board Diversity Policy's effectiveness in its review of Board effectiveness.

Table 10 – Directors knowledge, skills and expertise

Name	Knowledge, skills and expertise
Terry Fryett	Mr. Fryett was appointed as Chair of the Board on 4 July 2019. Mr. Fryett has over 40 years' experience at Scotiabank where he has held various senior roles including CEO of Scotiabank Europe plc in the UK and Senior Vice President and CFO, Scotia Capital (now GBM) in Canada. Most recently Mr. Fryett was Executive Vice President & Chief Credit Officer of BNS.
Nicola Vavasour	Ms. Vavasour is SIDAC's CEO. Previously, Ms. Vavasour was Scotiabank's Chief Risk Officer, Asia Pacific where she was responsible for the overall efficient and effective management, monitoring and reporting of all risks across Scotiabank's Asia Pacific operations. Prior to this Ms. Vavasour was responsible for developing Scotiabank's global Liquidity Risk Framework in Toronto.
Bob Brooks	Mr. Brooks has occupied Senior Risk Management roles at a number of major UK banks including NatWest and HBOS and more recently was engaged as a consultant to Daiwa Capital Markets. He has supported the UK Asset and Liability Management Association developing professional banking exam syllabuses.
Mary Walsh	Ms Walsh, a chartered accountant, is a former international tax partner with over 25 years' experience at PwC. Her Non-Executive Directorships include the National Treasury Management Agency. She was a member of the Commission on Taxation and has also held a Directorship with the Central Bank of Ireland during which time she chaired its Audit Committee.
Peter Heidinger	Mr. Heidinger was appointed to the Board on 16 April 2019 and is responsible for the regional management of Scotiabank's wholesale banking operations in Europe and is CEO of Scotiabank's European subsidiary, Scotiabank Europe plc. These operations include corporate and investment banking and global markets sales and trading. Most recently, he led Scotiabank's wholesale operations in Asia and Australia. Prior to joining Scotiabank in 2015, he held global and regional coverage, credit and product roles at both U.S. and European banks. Over his career, he has been based in North America, Europe and Asia.
Joseph Dempsey	Mr. Dempsey, a chartered accountant, was appointed to the Board on 1 June 2019. He is currently a Non-Executive Director of Depfa Bank plc and Guggenheim Partners Europe Limited. He has over 30 years' experience in financial services and previously acted as General Manager of Deutsche Bank Ireland plc and as a financial consultant to a number of entities in the leveraged credit fund management and property sectors.
Edward Ward	Mr. Ward was appointed to the Board on 1 June 2019. He has over 38 years' experience in international and domestic banking. He retired from AIB in 2019 where he held various senior executive positions since 2007, including Divisional Chief Credit Officer. Prior to joining AIB, he held senior executive positions in corporate banking and risk management with Citigroup over a period of 22 years, mainly overseas, having started his banking career with The Investment Bank of Ireland. He is a Qualified Financial Advisor and Fellow of the Institute of Banking and a Chartered Director of the UK Institute of Directors. He is also a Non-executive Director of Davy Global Fund Management Limited and The Central Remedial Clinic.
Andrew Branion*	Mr. Branion was formerly the Executive Vice President and Group Treasurer of BNS. He was also a member of both the BNS Market Risk Management and Policy Committee, and of the BNS Asset and Liability Committee ("ALCO"). Previously, Mr. Branion was Chief Market Risk Officer and prior to that Head of Risk Policy and Capital Markets, Global Risk Management ("GRM"), BNS. Mr. Branion also held various senior roles in GBM. Prior to joining BNS Mr. Branion worked for the Bank of Canada. Mr. Branion stepped down as Chair of the Board on 3 July 2019.
Máire O' Connor*	Ms O' Connor, a solicitor, is a former partner from McCann Fitzgerald where she was Head of the Investment Management Group. Previously she was a Partner and Head of the Investment Management Group at Ernst & Young and was also a Director of NCB Corporate Finance Limited. She currently holds a number of Directorships of Irish Regulated Investment Companies. She is also a former director of the Irish Stock Exchange. Ms. O' Connor resigned from the Board on 20 September 2019.

**Resigned during 2019*

Directorship

Appointments must not proceed where possible conflicts of interest may emerge which are significant to the overall work of the Board. The following Directorships are held by current members of the Board including their SIDAC Directorship.

Table 11 – Directorships

Name	Total No. of directorships*	Of which are held within the Scotiabank Group†	Of which are Executive Directorships
Terry Fryett	2	2	-
Nicola Vavasour	1	1	1
Bob Brooks	1	1	-
Mary Walsh	4	1	-
Peter Heidinger	3	2	2
Joseph Dempsey	5	1	-
Edward Ward	3	1	-

**These totals also include pro bono directorships of Public Interest Bodies or Charities and are inclusive of other directorships within the Scotiabank Group and executive and non-executive directorships.*

†*Includes SIDAC.*

3.1.3 Board Committees

The Board Risk Committee (“BRC”) assists the Board in risk and capital issues, especially in:

- Understanding the risks run by the Company which are typically inherent in banking activities;
- Overseeing that these risks are appropriately and effectively managed;
- Setting and monitoring risk appetite metrics; and
- Ensuring the adequacy of the Company’s capital in relation to the risks inherent in the operations as a whole.

The Audit Committee (“AC”) assists the Board in:

- Fulfilling its supervision and monitoring duties in the area of internal controls, including internal control over financial reporting.
- Reviewing the Company’s financial statements and Pillar 3 disclosures .
- Monitoring compliance with the Company’s risk management controls and procedures.
- Overseeing the effectiveness and independence of the Internal Audit Department and the External Auditor.

The Board and its Committees meet at least quarterly and review detailed information provided on all areas of the Company’s operation, including, but not limited to, all of the risk areas set out above. The BRC met 6 times in fiscal 2019. The Chairpersons of the AC and BRC report to the Board on the topics discussed by the Committees and submit recommendations to the Board for final decision-making.

3.1.4 Senior Management

The Board and its AC and BRC sit at the head of the Company risk management structure. The Board has delegated the day-to-day management of the Company to the Chief Executive Officer (CEO). The CEO is assisted by Senior Management who are responsible for managing the Company by setting strategic goals and high-level policy in the area of risk management (including monitoring risk reports) and allocating capital. In carrying out their roles the CEO and Senior Management are assisted by the Management Committees. These Committees are supported by the Risk Management, Compliance and Internal Audit functions as well as an Advice and Counsel process involving Scotiabank technical groups, which includes Global Risk Management (“GRM”). A revised internal governance and Management Committee structure was created early in the year. As at 31 October 2019 this new Management Committee structure, which enables more focused discussions by the appropriate committee members and decisions makers, consists of:

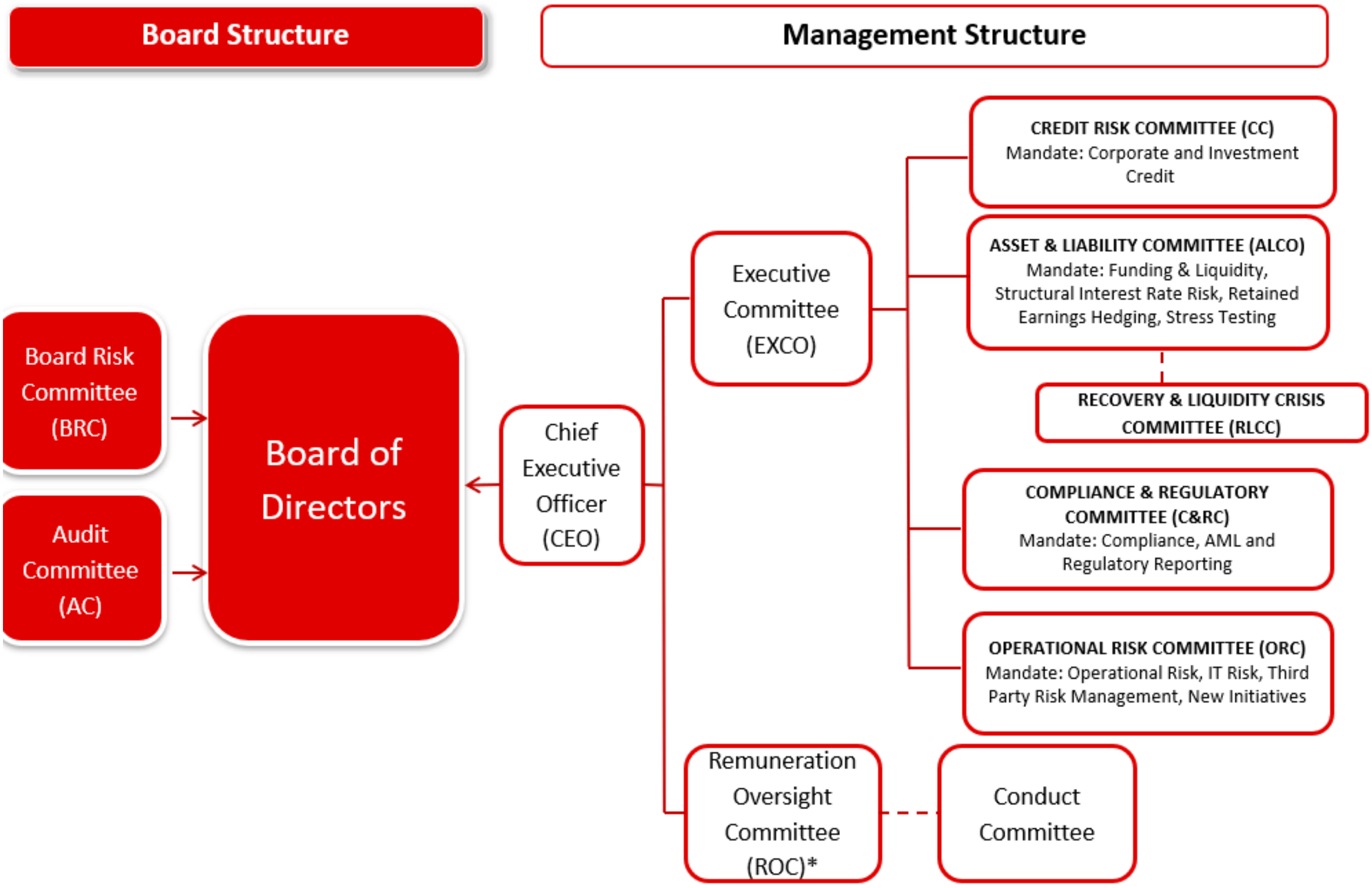
- Executive Committee (“ExCo”) an overarching committee which focuses on significant matters of strategy, operations, governance etc.
- ALCO, which is supported by its sub-committee the Recovery and Liquidity Crisis Committee (“RLCC”)
- Credit Committee (“CC”)
- Operational Risk Committee (“ORC”)
- Compliance and Regulatory Committee (“C&RC”)

- Remuneration Oversight Committee ("ROC"). The remuneration oversight role that was previously undertaken by the Human Resources Committee ("HRC") is now the responsibility of ROC and this is supported by a new sub-committee: Conduct Risk Committee. The remaining responsibilities of the HRC have been taken over by the ExCo.

Further changes to the Committee structure are planned for the first half of 2020. The C&RC will be replaced by the Compliance and Conduct Committee (which will have a greater focus on Conduct and Culture items in the Company) and the Financial Crime Committee (which will focus on AML/ATF and Sanctions activity). The Conduct Risk sub-committee will be unwound, and its role will become the responsibility of the Compliance and Conduct Committee. The RLCC sub-committee will be unwound and its role will become the responsibility of the ALCO.

3.1.5 Governance Structure

This diagram[3] sets out the governance structure and provides more detail on the roles of each committee. This structure was designed so that ultimate responsibility for implementing and maintaining the structure and for reviewing its effectiveness lies with the Board of Directors.



[3] The CEO is supported in the governance of SIDAC by the Management Committees and in particular the ExCo as outlined above and sits on the Board serving as the main link between the board and the executive.

ExCo focuses on significant matters of culture and conduct, strategy, operations, governance and control in order to provide a key forum for the effective, coordinated management and oversight of SIDAC. ExCo is comprised of the Chief Executive Officer of SIDAC as its Chair and senior management from each business line and support and control functions.

ROC is responsible for providing oversight and guidance to management and the Board on HR remuneration matters and to oversee implementation of compensation policies and procedures. Conduct Committee, a sub- committee of ROC, ensures there is an appropriate linkage between compensation and behaviours.

** The Head of HR, as appropriate, may present directly to the Board of Directors without the CEO present.*

3.2 Risk Appetite

A clearly articulated risk appetite and how the risk profile of an organisation will be managed within such an appetite is crucial for an effective risk management framework. The Company has a clearly defined Risk Appetite Framework which consists of the identification of:

Risk capacity: The maximum level of risk SIDAC can assume before breaching key constraints;

Risk appetite: The level and types of risk SIDAC is willing to assume within its risk capacity to achieve its strategic objectives; and

Key risk appetite measures: Quantitative metrics that capture SIDAC's risk appetite, as per table 12 below.

Together, the application of these components helps to ensure SIDAC stays within appropriate risk boundaries.

Table 12 – Risk Appetite Metrics

Risk Category	Metric Description	EWI Threshold	Risk Appetite Breach
Enterprise Risk	Total Capital Ratio (Capacity)	<23%	<=19%
	Total Capital Ratio (Appetite)	<25%	<=21%
	Leverage Ratio	<10%	<6%
	Return on Attributed Capital *	<11% or >14%	<10% - >15%
Credit Risk	Max. Corporate Banking Loan Commitments (incl. Letters of Credit) (US$ bn)	>6	>6.5
	Max. Exposure to Non-Investment Grade Loans (as a % of total loan commitment)	>25%	>30%
	Min. IG code at time credit is extended	-	<IG 77
	Max. Securities Exposure (US$ bn)	-	>4
	Min. Credit Quality of Security at Purchase	-	<Investment Grade
	Max. Credit Loss Experienced in any Fiscal Year (bonds and loans) (US$ mm)	>25	>35
Liquidity Risk	Liquidity Coverage Ratio (LCR)	<125%	<120%
	Weighted Average Remaining Term (WART) (days)	<75 days	<70 days
	Net Stable Funding Ratio (NSFR)	<110%	<105%
	Min. Liquidity Buffer (US$ mm)	Minimum derived from Liquidity Stress test + US$ 100mm	Minimum derived from Liquidity Stress test
	FX Funding on Balance Sheet (Capital & Liabilities)	>70%	>75%
	FX Funding on Balance Sheet (Capital & Liabilities) (US$ bn)	-	>5
	Material Currency FX Exposure on Balance Sheet (Capital & Liabilities)	>45%	>50%
	Material Currency FX Exposure on Balance Sheet (Capital & Liabilities) (US$ bn)	-	>3.5
	30-Day Cumulative EUR FX Funding Gap Limit (EUR mm)	> -450	> -500
	30 Day Cumulative EUR FX Funding Gap Limit (GBP mm)	> -450	> -500
Market Risk	Interest Rate: Annual Income (US$ mm)	>30	>35
	Interest Rate: Economic Value (US$ mm)	>40	>50

Concentration Risk	Maximum Credit Concentration	>20%	>25%
	Maximum Geographic Concentration	>20%	>25%
	Maximum Funding Concentration	>25%	>30%
	Maximum FX Funding Concentration	>70%	>75%
	Maximum Market Concentration	>85%	>90%
Compliance Risk	Fines/sanctions	-	>0
Reputational Risk	Negative Impacts to Scotiabank brand/franchise value arising from SIDAC activity or deficiency (incl. failings from AML or anti-terrorist financing obligations)	-	>0
Operational Risk	Max Annual Operational loss on a rolling 12-month basis (USD k)	>200	>250
	# of high severity Operational Risk Events	-	>0
	Audit Issues Clearance Rate (annually)	-	<100%
	# of material issues[4] per quarter identified by the SLA performance monitoring	-	<=1
IT & Cyber Security Risk	Systems Downtime (hours)	>1.8	>3
	IT Support Processes	-	>0
	Enterprise Security Risk Index (SRI)	>2.0	>2.2

*Guidance – Attributed Capital is based on BNS Advanced Internal Ratings Based ("AIRB") approach

3.3 Risk Management Tools

Effective risk management includes tools that are guided by the Risk Management Framework and integrated with the Company's strategies and business planning processes. The Risk Management Framework is supported by the below risk management tools that are used together to manage risks and are regularly reviewed and updated to ensure consistency with risk-taking activities, and relevance to the business and financial strategies of the Company.

Policies, Frameworks and Limits

Activities are guided by the principles and processes established in various policies which are approved by the Board and appropriate management committees. SIDAC develops and implements its key risk policies in consultation with GRM or other BNS departments who provide advice and counsel as applicable. Such policies (which include appetites and frameworks) are designed to reflect the regulatory requirements and guidelines of the CBI and the EBA and other locally applicable legislation or regulations.

Limits govern and control risk-taking activities within the appetite and tolerances established by the Board and Senior Management. They are set to ensure risk taking activities are in line with the strategic objectives, risk culture and risk appetite of SIDAC. Limits also establish accountability for key tasks in the risk-taking process and establish the level or conditions under which transactions may be approved or executed.

Risk Measurement, Monitoring & Reporting

SIDAC measures and monitors its risk exposures to ensure business activities are operating within approved limits or guidelines, strategies and risk appetite. Breaches, if any, of these limits or guidelines are reported to Senior Management and/or the AC depending on the limit or guideline, and for information to BNS GRM.

Risk reports aggregate measures of risk across products and businesses, and are used to ensure compliance with risk policies, limits and guidelines. They also provide a clear statement of the amounts, types, and sensitivities of the various

[4] A "material issue" is deemed to have occurred where an event, issue or failure on behalf of a service provider results in a "High Severity" operational risk event or a breach of Board approved risk appetite metrics, or causes SIDAC to be unable to satisfy financial and regulatory reporting or other legal or regulatory obligations within required timelines.

risks in the portfolio. Senior Management and the Board use this information to understand the risk profile and the performance of the portfolios. A comprehensive summary of SIDAC's risk profile and performance is presented quarterly by the CRO to the BRC.

Stress Testing

Stress testing programs at both the enterprise-wide level and individual risk level allow SIDAC to estimate the potential impact or strain on income, capital as well as other risk factors that may arise as a result of Bank-specific, systemic, and combination stress scenarios. Stress testing is also integrated into both the strategic and financial planning processes (e.g. ICAAP Enterprise Wide Stress Test ("EWST")) to proactively identify emerging risks and potential vulnerabilities across a number of stress scenarios with differing severities and time horizons. The development, approval and on-going review of stress testing programs are subject to policy, and the oversight of the ALCO. Where appropriate, the Board of Directors or the BRC approves stress testing limits for certain risk factors and receives reports on performance regularly.

3.4 Risk Identification and Assessment

Risk identification and assessment is an integral part of risk management at SIDAC. On an annual basis, SIDAC conducts an entity-wide risk assessment that concludes on the materiality of all risks to the Company and documents them accordingly. This process evaluates each risk and determines the pervasiveness of the risk across multiple business lines, significance of the risk to a specific business line, likelihood and potential impact of the risk and whether the risk may cause unexpected losses in income. The process also reviews other evolving and emerging risks and includes qualitative considerations such as strategic, economic and environmental risk factors. This process is reviewed by ExCo and by the BRC (as part of the ICAAP) who objectively challenge the inclusion and exclusion of risks and is finally recommended by them for approval by the Board.

The Company has identified the following risks as material:

- Credit risk
- Concentration risk
- Credit spread volatility risk
- Market risk
- Liquidity risk
- Operational risk
- Information Technology risk
- Compliance risk (including conduct risk)
- Reputational risk
- Strategic risk

All risks identified in the previous year remain as material risks within the Company. However, Reputational and Strategic risks have been reclassified as material in 2019. Reputational risk has been classified as material this year given recent changes in the Company's business model. With the creation of a Corporate Banking Origination desk in Ireland (i.e. client-facing acquisition and servicing), the degree to which reputational risk events might impact SIDAC's sustainability has increased. However, it is a second-order risk which generally only arises when an initiating risk event of some other type (e.g. operational risk) occurs. Reputational risk losses per se, i.e. over and above the loss of the initiating risk event, are difficult or impossible to quantify because they are caused by an intangible (loss of reputation) while measurable impacts such as decreased business are difficult to distinguish from impacts due to other causes such as business risk, macroeconomic events, etc.

Strategic risk has also been deemed a material risk this year for similar reasons, taking into account recent impacts such as the GBM alignment, funding cost increases and an increased external focus on climate risk. However, strategic risk is deemed to be sufficiently capitalised through the Enterprise Wide Stress Test ("EWST") program which considers changes to business risk drivers (volumes, margins, etc.). See section 4.7 for more details.

Information regarding the material risks and uncertainties facing the Company and its capital management policies are set out in the sections below. The Board actively oversees the management of these risks by monitoring performance against the risk metrics which it has established and also by means of stress testing.

3.5 Risk Culture

Effective risk management requires a strong, robust, and pervasive risk culture where every employee is a risk manager and is responsible for managing risk. Risk culture is influenced by numerous factors including the interdependent relationships amongst risk governance structure, risk appetite, strategy, organisational culture, and the key components of risk management tools.

The Company's risk culture is supported through four foundational elements:

1. Tone from the Top: Clear and consistent communication from SIDAC's Board, Senior Management and Scotiabank leaders on risk behaviour expectations and the importance of Scotiabank's values.
2. Accountability: All employees are accountable for risk management in accordance with the Three Lines of Defence model.
3. Incentives: Performance and compensation structures encourage desired behaviours and reinforce the risk culture.
4. Effective Challenge: Employees are encouraged to have a critical attitude where transparency and open dialogue are promoted.

Other elements that influence and support the risk culture:

- Code of Conduct: describes the standard of behaviour to which all employees must attest on an annual basis.
- Values: Integrity – Act with Honour; Respect – Value Every Voice; Accountability – Make It Happen; Passion – Be Your Best
- Communication: SIDAC actively communicates risk priorities, and how it relates to its staff, to promote a sound risk culture: Reputation is everything; Information is key; Success depends on you; Know your boundaries.
- Training: risk culture is continually reinforced by providing effective and informative mandatory and non-mandatory training modules for all employees on a variety of risk management topics.
- Decision-making on risk issues follows a strict governance process: The flow of information and transactions are challenged by Management Committees and this is subsequently reviewed by the BRC, ensuring that transactions and risks are aligned with SIDAC's risk appetite.
- Senior Management Roles & Responsibilities: SIDAC's Focus Priorities include ensuring that the management of risk is an organisational priority, and cascaded to each senior manager as a performance objective.

3.6 Statement of Internal Controls

Although the Company is not required to make a Corporate Governance Statement as it is not listed, the Board makes a statement on internal control in accordance with best practice.

The Board acknowledges its responsibility to maintain a sound system of internal control, to safeguard the shareholder's investment and the Company's assets and to set appropriate policies, controls and limits for the Company's operations. It further recognises its obligation to seek regular assurance that will enable it to satisfy itself that the system is functioning properly. The Board is assisted in its responsibilities by its BRC and AC. The BRC recommends risk management policies and limits to the Board for approval. It further oversees the management of material risks through receipt of reports from management across SIDAC's universe of material risks. The AC monitors the effectiveness of controls through reviewing and assessing reports presented by the heads of control functions as well as Internal Audit and Scotiabank Group Audit ("GA").

The Board recognises that sound risk management is essential to the Company's prudent operation. The Board charges management with developing the required control system and implementing its policies, controls and limits. This includes the process of identifying, evaluating and managing the risks faced by the Company. It receives comfort that these duties have been exercised during the year under review through the regular reporting structure and periodic discussions between Board, AC and BRC members and Senior Management.

Assessment of internal controls by the Board and its committees consists of quarterly reviews of submissions by Senior Management incorporating information on key risks, financial performance, limit usage and details of any unforeseen events. The Board is satisfied that the procedures and processes outlined above have been in operation throughout the year and may request the implementation of revisions or improvements as it deems appropriate.

The internal control system is designed to mitigate risk and cannot be seen as a method by which all risk can be eliminated. Therefore, it provides reasonable rather than absolute assurance against material loss or misstatement. The Company is subject to the CBI "Corporate Governance Requirements for Credit Institutions 2015" (the "Governance Requirements"). The Company does not have to comply with the additional obligations in Appendices 1 and 2 of the Governance Requirements for High Impact designated credit institutions.

4 Credit Risk

Credit risk is the risk of financial loss resulting from the failure of a customer, for any reason, to fully honour its financial or contractual obligations.

4.1 Credit Risk Management and Risk Measures

The Company's management of credit risk includes the credit risk policies, guidelines, procedures and processes that articulate the Company's credit risk governance, management and control structures. This framework ensures that credit risk exposures are adequately assessed, properly approved and actively managed in a consistent manner across all business lines. Management of the credit risk portfolios also encompasses a Scotiabank risk culture approach, in-house credit experience, infrastructure and a due diligence process that is closely embedded within the risk management structure. The Company's Credit Risk Management Policy sets out the processes and procedures to measure and manage credit risk. The Company has adopted Scotiabank's Credit Policy Manual, having assessed its suitability for the Company, which defines its approach to the measurement and management of credit risk. The Company has established a Credit Loss and Provisioning Policy that sets out the approach to identifying, assessing and quantifying impairments and resultant credit losses. In collaboration with BNS global industry specialists and relationship managers, the Company is now designated as BNS' hub for EU27 Corporate Banking client coverage and has built-out its execution capabilities. It continues to have access to Scotiabank GRM risk management resources and the UK, US and GRM relationships are managed through a Master Service Level Agreement ("MSLA").

The Company's CC has a mandate to oversee the credit risk of the Company, assess potential new credit exposures and deterioration in credit profile ensuring that credit risk and portfolio composition are kept within the risk appetite approved at least annually by the Board.

The Company's Credit Risk Function, ("CRF") under the direction of the CRO is the primary control function for credit risk. Each new transaction is put through a thorough credit adjudication process, which includes a review of the borrower's business model, financial performance, key risks and mitigants, including climate risk. With support from GRM, the CRF periodically reviews industry risks, country, economic and credit profiles, and portfolio concentrations. In relation to credit risk and under the Company's Three Lines-of-Defence structure the CRF is charged with 2nd line of defence responsibility for providing challenge on all transactions under the corporate loans and treasury portfolios, in addition to oversight and monitoring responsibilities. The CRF ensures the risk appetite as set by Board and credit related processes and policies are adhered to and that problem loans are promptly identified, properly assessed and classified, and effectively followed up by the business lines. It tracks the quality of credit portfolios, monitoring for Early Warning Indicators (EWIs) and managing the reporting process, including Heightened Monitoring and Watchlist Reports, Single Name Limits and Board Reports. The CRF also reviews and assesses the appropriateness of recommendations in relation to impairment assessment and provisioning including Expected Credit Losses; ensures that Credit risk management policies and programs and risk rating systems are documented, reviewed, and updated to reflect material changes; and reviews and implements credit risk measurement and mitigation methodologies.

The primary sources of credit risk arise from direct lending operations and in funding and investment activities where the counterparties have repayments or other obligations to the Company.

The Company's Corporate Lending business operates as part of a global strategy to serve priority, multi-regional clients, aligned with GBM core markets and industry focus to deliver profitable growth within a robust control environment. The Company's lending is largely in the form of syndicated or bilateral loans with investment-grade borrowers. The objective of this portfolio is to generate sustainable income accruals while maintaining a capital preservation ethos. The focus of the portfolio is on borrowers which are normally in the top tier of their industry and the Company endeavours to maintain a diversified portfolio through the credit assessment process and controls absolute levels using Board approved industry limits.

The Company's Treasury function is primarily responsible for managing liquidity, funding the business lines and ensuring regulatory compliance for liquidity. The Company's liquidity portfolio consists of sovereigns/sub-sovereigns, supranational agencies, high-grade corporates and covered bonds. The main purpose is to maintain an appropriate stock of unencumbered High-Quality Liquid Assets that can be used for contingent funding purposes. The investment focus is on CRD IV/Basel III compliant bonds which are added selectively following the due diligence and assessment process once they meet the risk appetite. The Treasury Investment team also work closely with BNS Group Treasury in executing the global liquidity strategy, purchasing bonds that not only are required for regulatory liquidity management but also to complement that global strategy. Combined with the liquidity strategy the team may make other investments which have a greater emphasis on investment return than liquidity.

Credit risk is primarily controlled by means of credit limits and is monitored through Board-approved single name limits, country and industry limits. These limits are ratified by the Board at least annually and exposures are expected to remain within Board approved limits. As noted above, the CRF, in consultation with Business Lines, is responsible for reviewing existing limits to ensure that they remain appropriate and consistent with the risk appetite and aligned with Scotiabank's overall credit risk strategy and approach.

Settlement risk is the risk that the seller of a currency, commodity, security or service delivers its obligation but does not receive payment/delivery, or that the buyer of a currency, commodity, security or service makes payment/delivery, but does not receive value. This risk combines aspects of credit and operational risk and is significantly mitigated by delivery versus payment, netting agreements and the quality of permitted counterparties.

The Company uses Scotiabank's credit risk rating systems to support the determination of key credit risk parameter estimates which measure credit risk. These risk parameters – probability of default, loss given default and exposure at default are transparent and are used to provide consistency of credit adjudication for each of the risk rating categories. These credit risk rating systems include an internal grading (I.G.) system for evaluating credit risk. The general relationship between the Company's I.G. codes and external agency ratings is shown below:

Table 13 – Internal Grading Cross Reference

	I.G.	Moody's	S&P
Government/ Supranational	99	Aaa	AAA
Excellent	98	Aaa to Aa1	AAA to AA+
Very Good	95	Aa2 to A1	AA to A+
Good	90	A2 to A3	A to A-
Acceptable	87 – 80	Baa1 to Ba1	BBB+ to BB+
Higher Risk	77 – 70	Ba2 to B3	BB to B-
Watch list	30 – 65	-	-
Default/Credit-Impaired	21 - 27	-	-

4.2 Approaches to Credit Risk

While the capital requirements for credit risk depend to a significant degree on the creditworthiness of the obligor, CRD IV permits the use of different approaches to the calculation of RWAs; the Standardised Approach and the Internal Ratings-Based ("IRB") approaches.

The Company uses the Standardised Approach for calculating capital requirements for credit risk. This approach involves the application of risk weights to the Company's assets based on the deemed creditworthiness of its debtors and the rules as laid out in the CRR. The Company utilises credit ratings attributed by its chosen External Credit Assessment Institutions ("ECAIs"), Standard and Poor's or Moody's, whichever is the lower, to all its exposure classes. The Company uses the EBA's standard association of ECAI ratings and credit quality steps to map ratings to the relevant credit quality step. In the case of unrated exposures, where a credit rating is not available from either Standard and Poor's or Moody's, the CRR also provides a risk weight depending on the exposure class.

As per the CRR, the following priorities are used in applying the credit assessments:

For exposures to public sector entities (Article 116), institutions (Articles 119 & 121), or in the form of covered bonds (Articles 129 & 121), the ECAIs are applied in the following priority:

1 - Rating of Issue (exposure); 2 - Rating of Issuer (counterparty); 3 - Rating of Central government of jurisdiction of incorporation

For exposures to central governments or central banks (Article 114), multilateral development banks (Article 117), international organisations (Article 118), corporates (Article 122), the ECAIs are applied in the following priority:

1 - Rating of Issue (exposure); 2 - Rating of Issuer (counterparty);

Exposures to rated securitisations are based solely on the rating of the programme.

4.3 Exposure to Credit Risk

Table 14 outlines the Company's actual and average[5] exposure to credit risk.

Table 14 – EU CRB-B – Total and average net amount of exposures

		a	b		
	US$'000	**Net value of exposures at the end of the period**	**Average net exposures over the period**	Net value of exposures at the end of the period	Average net exposures over the period
		31/10/2019	**31/10/2019**	31/10/2018	31/10/2018
16	Central governments or central banks	890,640	1,061,927	1,381,618	1,473,345
17	Regional governments or local authorities	29,607	10,901	-	-
18	Public sector entities	484,297	447,497	473,332	487,825
19	Multilateral development banks	483,097	350,729	362,562	344,017
20	International organisations	-	-	-	41,861
21	Institutions	129,685	213,555	234,598	237,431
22	Corporates	4,250,713	4,742,638	5,102,562	5,517,041
28	Exposures in default	15,425	19,140	27,885	25,454
29	Items associated with particularly high risk	8,449	18,475	30,187	30,063
30	Covered bonds	30,782	38,115	59,539	62,830
34	Other exposures	2,179	1,609	1,591	31,601
35	**Total standardised approach**	6,324,874	6,904,586	7,673,874	8,251,468
36	**Total**	**6,324,874**	**6,904,586**	**7,673,874**	**8,251,468**

The overall decrease of US$ 1.35bn in net exposures over the year can be predominantly attributed to a US$ 852mm decrease in exposures to corporates (loan commitments and investment securities) and a US$ 491mm decrease in exposures to central governments or central banks.

[5] Net exposures are pre CRM and CCF; averages are calculated based on quarterly datapoints.

Table 15, presented on the following two pages, provides information on the geographical breakdown of the net value of exposures based on the domicile of the immediate counterparty

Table 15 – EU CRB-C – Geographical breakdown of exposures

31 Oct 2019

	US$'000	**Europe**	*Of which; United Kingdom*	*France*	*Netherlands*	*Germany*	*Ireland*	*Other European countries*	**North America**	*Of which; USA*	*Canada*	**Asia-Pacific**	*Of which; Japan*	*Australia*	*Other Asia Pacific countries*	**Other geographical areas**	**Total**
7	Central governments or central banks	507,796	64,626	-	-	-	387,377	55,793	151,782	151,782	-	231,062	231,062	-	-	-	890,640
8	Regional governments or local authorities	29,607	-	-	-	29,202	405	-	-	-	-	-	-	-	-	-	29,607
9	Public sector entities	484,297	-	-	235,498	185,306	-	63,493	-	-	-	-	-	-	-	-	484,297
10	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	483,097	483,097
11	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Institutions	17,808	122	-	-	80	167	17,439	91,538	3,969	87,569	20,339	136	20,183	20	-	129,685
13	Corporates	3,031,043	1,122,514	624,908	294,181	235,076	107,682	646,682	807,667	794,650	13,017	-	-	-	-	412,003	4,250,713
16	Exposures in default	-	-	-	-	-	-	-	-	-	-	-	-	-	-	15,425	15,425
17	Items associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,449	8,449
18	Covered bonds	30,782	11,684	-	-	-	-	19,098	-	-	-	-	-	-	-	-	30,782
22	Other exposures	2,179	-	-	-	-	2,179	-	-	-	-	-	-	-	-	-	2,179
23	**Total standardised approach**	4,103,512	1,198,946	624,908	529,679	449,664	497,810	802,505	1,050,987	950,401	100,586	251,401	231,198	20,183	20	918,974	6,324,874
24	**Total**	**4,103,512**	**1,198,946**	**624,908**	**529,679**	**449,664**	**497,810**	**802,505**	**1,050,987**	**950,401**	**100,586**	**251,401**	**231,198**	**20,183**	**20**	**918,974**	**6,324,874**

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	US$'000	Europe	Of which; United Kingdom	France	Netherlands	Germany	Ireland	Other European countries	North America	Of which; USA	Canada	Asia-Pacific	Japan	Australia	Other Asia Pacific countries	Other geographical areas	Total
7	Central governments or central banks	546,902	90,144	-	-	-	365,438	91,320	348,780	348,780	-	485,936	485,936	-	-	-	1,381,618
8	Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Public sector entities	473,332	-	-	113,272	277,046	-	83,014	-	-	-	-	-	-	-	-	473,332
10	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	362,562	362,562
11	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Institutions	38,423	2,883	-	-	103	334	35,103	101,292	80	101,212	94,883	38	94,771	74	-	234,598
13	Corporates	3,565,948	1,823,365	238,610	366,434	237,095	189,464	710,980	1,212,722	1,199,699	13,023	-	-	-	-	323,892	5,102,562
16	Exposures in default	-	-	-	-	-	-	-	-	-	-	-	-	-	-	27,885	27,885
17	Items associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	-	-	-	-	30,187	30,187
18	Covered bonds	59,539	11,493	28,602	-	-	-	19,444	-	-	-	-	-	-	-	-	59,539
22	Other exposures	1,591	-	-	-	-	1,591	-	-	-	-	-	-	-	-	-	1,591
23	Total standardised approach	4,685,735	1,927,885	267,212	479,706	514,244	556,827	939,861	1,662,794	1,548,559	114,235	580,819	485,974	94,771	74	744,526	7,673,874
24	Total	4,685,735	1,927,885	267,212	479,706	514,244	556,827	939,861	1,662,794	1,548,556	114,235	580,819	485,974	94,771	74	744,526	7,673,874

As per table 14, the overall decrease of US$ 1.35bn in net exposures over the year was driven mainly by a reduction in corporates (mainly UK, France & USA) and sovereigns (mainly USA & Japan).

Please refer to Appendix 3 for details of the materiality threshold applied and a listing of immaterial countries included in the 'other' categories.

Table 16 provides a breakdown of the net values of exposures by industry classification based on the nature of the immediate counterparty. Please refer to tables 14 and 15 for variance commentary.

Table 16 – EU CRB-D – of exposures by industry or counterparty type

		31 Oct 2019							31 Oct 2018						
		a	b	c	d	e	f	g							
	US$'000	**Central banks**	**General governments**	**Credit institutions**	**Other financial corporations**	**Non-financial corporations**	**Other**	**Total**	Central banks	General governments	Credit institutions	Other financial corporations	Non-financial corporations	Other	Total
7	Central governments or central banks	387,377	503,263	-	-	-	-	890,640	365,438	1,016,180	-	-	-	-	1,381,618
8	Regional governments or local authorities	-	29,607	-	-	-	-	29,607	-	-	-	-	-	-	-
9	Public sector entities	-	484,297	-	-	-	-	484,297	-	473,332	-	-	-	-	473,332
10	Multilateral development banks	-	-	483,097	-	-	-	483,097	-	-	362,562	-	-	-	362,562
11	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Institutions	-	-	129,685	-	-	-	129,685	-	-	234,598	-	-	-	234,598
13	Corporates	-	-	20,056	921,857	3,308,800	-	4,250,713	-	-	6,784	1,478,023	3,617,755	-	5,102,562
16	Exposures in default	-	-	-	-	15,425	-	15,425	-	-	-	-	27,885	-	27,885
17	Items associated with particularly high risk	-	-	-	8,449	-	-	8,449	-	-	-	30,187	-	-	30,187
18	Covered bonds	-	-	30,782	-	-	-	30,782	-	-	59,539	-	-	-	59,539
22	Other exposures	-	-	-	-	-	2,179	2,179	-	-	-	-	-	1,591	1,591
23	**Total standardised approach**	387,377	1,017,167	663,620	930,306	3,324,225	2,179	6,324,874	365,438	1,489,512	663,483	1,508,210	3,645,640	1,591	7,673,874
24	**Total**	**387,377**	**1,017,167**	**663,620**	**930,306**	**3,324,225**	**2,179**	**6,324,874**	365,438	1,489,512	663,483	1,508,210	3,645,640	1,591	7,673,874

Table 17 provides a breakdown of the net values of exposures by residual maturity

Table 17 – EU CRB-E – Maturity of Exposures

		31 Oct 2019					31 Oct 2018				
		a	b	c	d	f					
US$'000		**On demand**	**<= 1 year**	**> 1 year <= 5 years**	**> 5 years**	**Total**	On demand	<= 1 year	> 1 year <= 5 years	> 5 years	Total
7	Central governments or central banks	-	738,858	151,782	-	890,640	-	1,032,839	348,779	-	1,381,618
8	Regional governments or local authorities	-	-	29,607	-	29,607	-	-	-	-	-
9	Public sector entities	-	-	484,297	-	484,297	-	235,055	238,277	-	473,332
10	Multilateral development banks	-	97,363	319,164	66,570	483,097	-	108,283	254,279	-	362,562
11	International organisations	-	-	-	-	-	-	-	-	-	-
12	Institutions	4,655	48,107	76,923	-	129,685	809	196,152	37,637	-	234,598
13	Corporates	-	787,848	3,378,759	84,106	4,250,713	-	1,107,025	3,904,625	90,912	5,102,562
16	Exposures in default	-	-	15,425	-	15,425	-	-	27,885	-	27,885
17	Items associated with particularly high risk	-	8,449	-	-	8,449	-	30,187	-	-	30,187
18	Covered bonds	-	30,782	-	-	30,782	-	28,603	30,936	-	59,539
19	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-
21	Equity exposures	-	-	-	-	-	-	-	-	-	-
22	Other exposures	-	2,179	-	-	2,179	-	1,591	-	-	1,591
23	**Total standardised approach**	4,655	1,713,586	4,455,957	150,676	6,324,874	809	2,739,735	4,842,418	90,912	7,673,874
24	**Total**	**4,655**	**1,713,586**	**4,455,957**	**150,676**	**6,324,874**	809	2,739,735	4,842,418	90,912	7,673,874

The overall decrease of US$ 1.35bn in net exposures over the year was concentrated in the less than 1 year maturity band (US$ 1bn, of which Corporates: US$ 319mm, Sovereigns: US$ 294mm, PSEs: US$ 235mm, Institutions: US$ 148mm). There was a decrease in the 1 to 5 year maturity band of US$ 386mm, which included decreases in exposures to Corporates of US$ 526mm and Sovereigns of US$ 197mm, partially offset by an increase in exposures to PSEs of US$ 246mm.

Table 18 below details exposures under the standardised approach by risk weight and exposure class. All amounts presented are post Credit Risk Mitigation ("CRM"), post Credit Conversion Factors (CCF) and net of impairment provisions. CCR is excluded. Variance commentary on tables 14, 15 also applies here.

Table 18 – EU CR5 – Standardised approach

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US$'000		Risk weight (%)																Total	Of which unrated
	Exposure classes	**0**	**2**	**4**	**10**	**20**	**35**	**50**	**70**	**75**	**100**	**150**	**250**	**370**	**1250**	**Others**	**Deducted**		
1	Central governments or central banks	603,785	-	-	-	231,062	-	55,793	-	-	-	-	-	-	-	-	-	**890,640**	-
2	Regional governments or local authorities	29,201	-	-	-	-	-	-	-	-	-	-	405	-	-	-	-	**29,606**	-
3	Public sector entities	185,306	-	-	-	298,991	-	-	-	-	-	-	-	-	-	-	-	**484,297**	-
4	Multilateral development banks	483,098	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**483,098**	-
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**	-
6	Institutions	-	-	-	-	129,686	-	-	-	-	-	-	-	-	-	-	-	**129,686**	29
7	Corporates	-	-	-	-	195,068	-	535,423	-	-	2,363,808	88,242	-	-	-	-	-	**3,182,541**	1,722,765
10	Exposures in default	-	-	-	-	-	-	-	-	-	-	15,426	-	-	-	-	-	**15,426**	15,425
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	8,449	-	-	-	-	-	**8,449**	8,449
12	Covered bonds	-	-	-	30,782	-	-	-	-	-	-	-	-	-	-	-	-	**30,782**	-
16	Other items	4	-	-	-	-	-	-	-	-	2,175	-	-	-	-	-	462	**2,641**	2,641
17	**Total**	**1,301,394**	**-**	**-**	**30,782**	**854,807**	**-**	**591,216**	**-**	**-**	**2,365,983**	**112,117**	**405**	**-**	**-**	**-**	**462**	**5,257,166**	1,749,309

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US$'000		Risk weight (%)																Total	Of which unrated
	Exposure classes	0	2	4	10	20	35	50	70	75	100	150	250	370	1250	Others	Deducted		
1	Central governments or central banks	920,748	-	-	-	485,936	-	-	-	-	-	-	-	-	-	-	-	1,406,684	-
2	Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Public sector entities	277,046	-	-	-	196,286	-	-	-	-	-	-	-	-	-	-	-	473,332	-
4	Multilateral development banks	362,562	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	362,562	-
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	-	-	-	234,264	-	334	-	-	-	-	-	-	-	-	-	234,598	10
7	Corporates	-	-	-	-	227,478	-	690,204	-	-	3,275,658	-	-	-	-	-	-	4,193,340	2,227,528
10	Exposures in default	-	-	-	-	-	-	-	-	-	12,726	15,159	-	-	-	-	-	27,885	27,885
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	21,936	-	-	-	-	-	21,936	21,936
12	Covered bonds	-	-	-	59,539	-	-	-	-	-	-	-	-	-	-	-	-	59,539	-
16	Other items	4	-	-	-	-	-	-	-	-	1,587	-	-	-	-	-	500	2,091	2,091
17	Total	1,560,360	-	-	59,539	1,143,964	-	690,538	-	-	3,289,971	37,095	-	-	-	-	500	6,781,967	2,279,450

Table 19 – Exposure by credit quality step (CQS)

US$'000 CQS	Exposure value (Pre CRM) 31/10/2019	Exposure value (Post CRM) 31/10/2019	RWAs 31/10/2019	Exposure value (Pre CRM) 31/10/2018	Exposure value (Post CRM) 31/10/2018	RWAs 31/10/2018
1	1,951,863	1,951,863	127,949	2,274,826	2,274,826	136,933
2	770,668	770,668	314,760	1,179,175	1,179,175	442,896
3	511,715	511,715	483,620	800,761	800,761	800,679
4	185,366	185,366	185,366	247,812	247,812	247,631
5	88,242	88,242	132,362	-	-	-
Unrated	1,749,309	1,749,309	1,766,537	2,279,450	2,279,450	2,303,741
Total	**5,257,163**	**5,257,163**	**3,010,594**	6,782,024	6,782,024	3,931,880

Table 20 – RWAs and capital requirements by exposure class

US$'000	Exposure classes	RWAs 31/10/2019	Capital Requirement 31/10/2019	RWAs 31/10/2018	Capital Requirement 31/10/2018
1	Central governments or central banks	74,109	5,929	97,187	7,775
2	Regional governments or local authorities	1,014	81	-	-
3	Public sector entities	59,798	4,784	39,257	3,141
4	Multilateral development banks	-	-	-	-
5	International organisations	-	-	-	-
6	Institution	25,937	2,075	47,020	3,762
7	Corporates	2,802,895	224,232	3,666,256	293,300
10	Exposures in default	23,140	1,851	35,464	2,837
11	Exposures associated with particularly high risk	12,674	1,014	32,905	2,632
12	Covered bonds	3,078	246	5,954	476
13	Institutions and corporates with a short-term credit assessment	-	-	-	-
15	Equity	-	-	-	-
16	Other items	2,175	174	1,587	127
17	**Total**	**3,004,820**	**240,386**	**3,925,630**	**314,050**

Tables 18 and 19 include items deducted from own funds and so differ from tables 5 and 20. All exposure values are presented post CCF. The reduction in exposures to unrated entities can be attributed mostly to exposures to corporates. Please refer to tables 14 and 15 for other variance commentary.

4.4 Credit Risk Mitigation

The Company uses two methods of credit risk mitigation: direct and indirect. Where CRM is eligible under CRD IV it is used to reduce credit exposures in the regulatory capital calculations.

Direct mitigating methods

The main direct credit risk mitigation is the taking of security or collateral. The Company holds collateral in respect of certain exposures including corporate loans, securities held as part of repurchase agreements and/or OTC derivative activity. Collateral is not usually held against investment securities, and no such collateral was held during the year. The types of collateral that the Company is willing to accept under OTC derivative transactions and repurchase agreements are guided by advice and counsel from Scotiabank GRM and are set out in Limit Documents. The acceptable types of collateral are reviewed on an annual basis as part of the annual limit review process.

A variety of types of collateral are accepted against corporate loan advances, including securities, cash, guarantees and insurance, grouped broadly as follows: Financial collateral (lien over deposits, shares, etc.); Physical collateral (mortgage over aircraft, etc.); Other collateral (guarantees, insurance, etc.). The Company is not currently using credit derivatives to mitigate risk.

Parental guarantees are utilised in corporate lending arrangements and guarantees are also in place from corporates or sovereigns in respect of certain securities holdings. Guarantees improve the credit quality of the exposures. The Company has not disclosed the fair value of collateral held against collectively impaired financial assets as it is operationally impracticable to do so.

Table 21 – EU CR3 – CRM techniques – Overview

31 Oct 2019							**31 Oct 2018**				
US$'000		a	b	c	d	e	a	b	c	d	e
		Exposures unsecured – Carrying amount	**Exposures secured - Carrying amount**	**Exposures secured by collateral**	**Exposures secured by financial guarantees**	**Exposures secured by credit derivatives**	Exposures unsecured – Carrying amount	Exposures secured - Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
1	Total loans	1,937,505	-	-	-	-	2,775,287	-	-	-	-
2	Total debt securities	2,234,721	-	-	-	-	3,101,520	25,066	-	25,066	-
3	**Total exposures**	4,172,226	-	-	-	-	5,876,807	25,066	-	25,066	-
4	*Of which defaulted*	*15,425*	-	-	-	-	*39,136*	-	-	-	-

Table 22 – CRM Techniques split by exposure class

31 Oct 2019						**31 Oct 2018**				
US$'000	**Exposures unsecured - Carrying amount**	**Exposures secured - Carrying amount**	**Exposures secured by collateral**	**Exposures secured by financial guarantees**	**Exposures secured by credit derivatives**	Exposures unsecured – Carrying amount	Exposures secured - Carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	**1,937,505**	**-**	**-**	**-**	**-**	2,775,287	-	-	-	-
Central governments or central banks	387,377	-	-	-	-	365,438	-	-	-	-
Institutions	4,657	-	-	-	-	3,613	-	-	-	-
Corporates	1,530,046	-	-	-	-	2,378,351	-	-	-	-
Exposures in default	15,425	-	-	-	-	27,885	-	-	-	-
Total debt securities	**2,234,721**	**-**	**-**	**-**	**-**	3,101,520	25,066	-	25,066	-
Central governments or central banks	503,263	-	-	-	-	991,114	25,066	-	25,066	-
Regional governments or local authorities	29,607	-	-	-	-	-	-	-	-	-
Public sector entities	484,297	-	-	-	-	473,332	-	-	-	-
Multilateral development banks	483,097	-	-	-	-	362,562	-	-	-	-
International organisations	-	-	-	-	-	-	-	-	-	-
Institutions	125,028	-	-	-	-	230,985	-	-	-	-
Corporates	578,647	-	-	-	-	983,988	-	-	-	-
Covered bonds	30,782	-	-	-	-	59,539	-	-	-	-
Total exposures	**4,172,226**	**-**	**-**	**-**	**-**	5,876,807	25,066	-	25,066	-

Table 23 – EU CR4 – Standardised approach – Credit risk exposure and CRM effects

	31 Oct 2019	a	b	c	d	e	f	31 Oct 2018					
	US$'000	Exposures before CCF and CRM		Exposures post CCF and CRM				Exposures before CCF and CRM		Exposures post CCF and CRM			
	Exposure classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWAs	RWA density	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWAs	RWA density
1	Central governments or central banks	890,640	-	890,640	-	74,109	8%	1,381,618	-	1,406,684	-	97,187	7%
2	Regional governments or local authorities	29,607	-	29,607	-	1,014	3%	-	-	-	-	-	-
3	Public sector entities	484,297	-	484,297	-	59,798	12%	473,332	-	473,332	-	39,257	8%
4	Multilateral development banks	483,097	-	483,097	-	-	-	362,562	-	362,562	-	-	-
5	International organisations	-	-	-	-	-	-	-	-	-	-	-	-
6	Institutions	129,685	-	129,685	-	25,937	20%	234,598	-	234,598	-	47,020	20%
7	Corporates	2,108,693	2,142,020	2,108,693	1,073,850	2,802,895	88%	3,362,339	1,740,223	3,337,273	856,067	3,666,256	87%
10	Exposures in default	15,425	-	15,425	-	23,140	150%	27,885	-	27,885	-	35,465	127%
11	Exposures associated with particularly high risk	8,449	-	8,449	-	12,674	150%	13,686	16,501	13,686	8,250	32,904	150%
12	Covered bonds	30,782	-	30,782	-	3,078	10%	59,539	-	59,539	-	5,954	10%
16	Other items	2,641	-	2,641	-	7,950	301%	2,091	-	2,091	-	7,837	375%
17	**Total**	**4,183,316**	**2,142,020**	**4,183,316**	**1,073,850**	**3,010,595**	**57%**	5,917,650	1,756,724	5,917,650	864,317	3,931,880	58%

Tables 21 and 22 on the previous page provide details on secured and unsecured exposures. Secured exposures are limited to those exposures against which eligible collateral which meets CRR definitions is held and has been used in the calculation of the Company's capital requirements. These tables are not reflective of the total volume of exposures against which collateral and guarantees are actually held, nor do they reflect the full range of credit risk mitigation taken. A significant portion of the exposures included in the table (exposures unsecured carrying amount) benefit from security taken to mitigate credit risk, but this security is not eligible for use in the regulatory capital calculations. The total credit exposures where the Company benefits from guarantees from investment graded (or equivalent rating) entities as at 31 October 2019 is US$ 1,166,353,000 (31 October 2018: US$ 1,353,995,000).

Table 23 includes items deducted from own funds and so differs from tables 5, 21 and 22. All exposure values are presented post CCF. The increase in RWA density of exposures in default is due to the sale of loans with specific credit risk adjustments above 20% of the related exposure and so attracting a lower risk weight as per Article 127 (1)(a) of the CRR. Please refer to tables 14 and 15 for other variance commentary.

Indirect mitigating methods

Indirect credit risk mitigants are generally embedded in the structure of the individual transaction to minimise the impact of an external event on the obligor e.g. the requirement for the obligor to hedge interest rates and input material prices or insure assets or receivables.

In addition, credit risk is also mitigated by policy and procedural controls and regular monitoring and reporting of risks to facilitate effective management oversight.

Credit risk concentrations within risk mitigation

As noted in section 3, concentration risk has been recognised as a material risk. The Company recognises that insufficient diversification of credit risk mitigation techniques increases credit concentration risk. A highly concentrated portfolio has more potential for extreme outcomes and could prevent the effectiveness of the credit risk mitigants used. The Company has a Board approved Concentration Risk Policy, which has been subject to advice and counsel from Scotiabank GRM.

The Company seeks to avoid excessive risk concentrations through a diversified mix of businesses, products, geographies, currencies and customers. Appropriate management of concentration risk is also ensured by limits, policies and procedures (refer to risk appetite metrics, table 12 in section 3.2). Oversight of the management of concentration risk includes management committee and Board review and approval of policies and limits relating to credit risk, among other material risks, as well as quarterly reporting to the BRC on risk concentrations and stress testing on sectors where a material concentration is deemed to arise. No material concentration has arisen as a result of the credit risk mitigation measures which would prevent their effectiveness.

4.5 Credit Profile of Exposures

The Company adheres to regulatory guidelines with respect to the classification of performing versus non-performing loans, in addition to identifying exposures subject to forbearance measures (see tables 28 & 30 below). Since transition to IFRS 9, all exposures are assessed for significant increase in credit risk and impairment, and classified accordingly. The Company employs the BNS Expected Credit Loss ("ECL") model to estimate credit losses under IFRS 9.

The Company uses the definition of default as set down under Article 178 of the CRR for the purposes of regulatory capital computation relating to all credit exposures and applies this definition for use within any relevant sections of the annual financial statements. In keeping with these requirements, default is considered by the Company to have occurred with regard to a particular obligor when one or more of the following have taken place:

- the Company considers that the obligor is unlikely to pay its credit obligations, without recourse by the Company to actions such as realising security;
- the obligor is past due more than 90 days on any material credit obligation to the Company.

Past due and impaired loans

Based on the above definition, a loan is considered past due and impaired when an obligor has not made a payment for more than 90 days after the contractual due date or there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss' event) and the loss event (or events) has an impact on the estimated future cash flows. Objective evidence of impairment is recognised when, in management's opinion, there is no longer reasonable assurance that interest and principal payments will be collected based on original contractual terms.

Impairment review and provisions

Impairment assessments necessarily include the use of estimates and expert judgment as management attempts to project the effect of future events on its exposures. Following best practice, the Company regularly reviews and revises key judgements, assumptions and estimates relating to impairment provisioning. The most significant judgements or estimates relate to management's expectations regarding changes in collateral values, timing of cash flows, value attributed to guarantees and cash flows from trading or other sources. The Company documents all key assumptions including explanations outlining why assumptions have been changed. CRD IV introduced the definition of 'specific' and 'general' credit risk adjustments and, in line with the relevant Regulatory Technical Standard ("RTS"), the Company has included all ECL amounts as specific credit risk adjustments

Table 24 summarises the credit quality of on-balance sheet and off-balance sheet exposures by exposure class. The gross carrying value of exposures presented in this table is before the application of: a) credit risk mitigation; b) credit conversion factors; and c) impairment provisions. CCR is excluded.

Table 24 – EU CR1-A – Credit quality of exposures by exposure class and instrument

31 Oct 2019

US$'000		a	b	c	d	e	f	g
		Gross carrying values of						
	Exposure class	**Defaulted exposures**	**Non-defaulted exposures**	**Specific credit risk adjust-ment**	**General credit risk adjust-ment**	**Accum-ulated write-offs**	**Credit risk adjustment charges (credit) of the period**	**Net values (a+b-c-d)**
16	Central governments or central banks	-	890,641	1	-	-	1	890,640
17	Regional governments or local authorities	-	29,607	-	-	-	-	29,607
18	Public sector entities	-	484,300	3	-	-	(1)	484,297
19	Multilateral development banks	-	483,099	2	-	-	-	483,097
20	International organisations	-	-	-	-	-	-	-
21	Institutions	-	129,687	2	-	-	-	129,685
22	Corporates	-	4,251,729	1,016	-	-	(659)	4,250,713
23	*Of which: SMEs*	-	-	-	-	-	-	-
28	Exposures in default	15,903		478	-	-	(10,773)	15,425
29	Items associated with particularly high risk	-	8,449	-	-	-	-	8,449
30	Covered bonds	-	30,782	-	-	-	(1)	30,782
31	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-
33	Equity exposures	-	-	-	-	-	-	-
34	Other exposures	-	2,179	-	-	-	-	2,179
35	**Total standardised approach**	15,903	6,310,473	1,502	-	-	(11,433)	6,324,874
36	**Total**	**15,903**	**6,310,473**	**1,502**	**-**	**-**	**(11,433)**	**6,324,874**
37	Of which: Loans	15,903	1,922,976	1,374	-	-	(11,390)	1,937,505
38	Of which: Debt securities	-	2,234,742	21	-	-	(43)	2,234,721
39	Of which: Off- balance-sheet exposures	-	2,142,127	107	-	-	-	2,142,020

31 Oct 2018

US$'000		Gross carrying values of						
	Exposure class	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjust-ment	General credit risk adjust-ment	Accum-ulated write-offs	Credit risk adjustment charges (credit) of the period	Net values (a+b-c-d)
16	Central governments or central banks	-	1,381,618	-	-	-	-	1,381,618
17	Regional governments or local authorities	-	-	-	-	-	-	-
18	Public sector entities	-	473,336	4	-	-	4	473,332
19	Multilateral development banks	-	362,564	2	-	-	2	362,562
20	International organisations	-	-	-	-	-	-	-
21	Institutions	-	234,600	2	-	-	2	234,598
22	Corporates	-	5,104,237	1,675	-	-	1,675	5,102,562
23	*Of which: SMEs*	-	-	-	-	-	-	-
28	Exposures in default	39,136		11,251	-	-	(7,973)	27,885
29	Items associated with particularly high risk	-	30,187	-	-	-	-	30,187
30	Covered bonds	-	59,540	1	-	-	1	59,539
31	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-
33	Equity exposures	-	-	-	-	-	-	-
34	Other exposures	-	1,591	-	-	-	-	1,591
35	**Total standardised approach**	39,136	7,647,673	12,935	-	-	(6,289)	7,673,874
36	**Total**	**39,136**	**7,647,673**	**12,935**	**-**	**-**	**(6,289)**	**7,673,874**
37	Of which: Loans	39,136	2,748,915	12,764	-	-	(6,460)	2,775,287
38	Of which: Debt securities	-	3,126,650	64	-	-	64	3,126,586
39	Of which: Off- balance-sheet exposures	-	1,756,831	107	-	-	107	1,756,724

Specific credit risk adjustments have decreased by US$ 11mm, due mainly to repayments on, and disposals of, impaired loans during the year and resulting reduction in exposures in default. Please refer to tables 14 and 15 for other variance commentary relating to net exposure values.

Table 25 below presents an overview of the credit quality of on-balance sheet and off-balance sheet exposures by counterparty type.

Table 25 – EU CR1-B – Credit quality of exposures by industry or counterparty types

		31 Oct 2019							**31 Oct 2018**						
US$'000		a	b	c	d	e	f	g							
		Gross carrying values of							Gross carrying values of						
	Counterparty type	**Defaulted exposures**	**Non-defaulted exposures**	**Specific credit risk adjust-ment**	**General credit risk adjust-ment**	**Accum-ulated write-offs**	**Credit risk adjustment charges (credit) of the period**	**Net values (a+b-c-d)**	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjust-ment	General credit risk adjust-ment	Accum-ulated write-offs	Credit risk adjustment charges (credit) of the period	Net values (a+b-c-d)
1	Central banks	-	387,377	-	-	-	-	387,377	-	365,438	-	-	-	-	365,438
2	General governments	-	1,017,171	4	-	-	-	1,017,167	-	1,489,516	4	-	-	4	1,489,512
3	Credit institutions	-	663,624	4	-	-	(1)	663,620	-	663,488	5	-	-	5	663,483
4	Other financial corporations	-	930,319	13	-	-	(28)	930,306	-	1,508,251	41	-	-	41	1,508,210
5	Non-financial corporations	15,903	3,309,803	1,481	-	-	(11,404)	3,324,225	39,136	3,619,389	12,885	-	-	(6,339)	3,645,640
6	Other	-	2,179	-	-	-	-	2,179	-	1,591	-	-	-	-	1,591
7	**Total**	**15,903**	**6,310,473**	**1,502**	-	-	**(11,433)**	**6,324,874**	39,136	7,647,673	12,935	-	-	(6,289)	7,673,874

Please refer to tables 14, 15 and 24 for variance commentary.

Table 26 below presents an overview of the credit quality of on-balance sheet and off-balance sheet exposures by geographical breakdown.

Table 26 – EU CR1-C – Credit quality of exposures by geography

		31 Oct 2019							**31 Oct 2018**						
US$'000		a	b	c	d	e	f	g							
		Gross carrying values of							Gross carrying values of						
	Geographical area	**Defaulted exposures**	**Non-defaulted exposures**	**Specific credit risk adjust-ment**	**General credit risk adjust-ment**	**Accum-ulated write-offs**	**Credit risk adjustment charges (credit) of the period**	**Net values (a+b-c-d)**	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjust-ment	General credit risk adjust-ment	Accum-ulated write-offs	Credit risk adjustment charges (credit) of the period	Net values (a+b-c-d)
1	**Europe**	**-**	**4,103,770**	**258**	-	-	**(59)**	**4,103,512**	-	4,686,052	317	-	-	317	4,685,735
	of which;														
2	– United Kingdom	-	1,199,018	72	-	-	21	1,198,946	-	1,927,936	51	-	-	51	1,927,885
3	– France	-	624,919	11	-	-	1	624,908	-	267,222	10	-	-	10	267,212
4	– Netherlands	-	529,702	23	-	-	(32)	529,679	-	479,761	55	-	-	55	479,706
5	– Germany	-	449,684	20	-	-	13	449,664	-	514,251	7	-	-	7	514,244
6	– Ireland	-	497,842	32	-	-	(31)	497,810	-	556,890	63	-	-	63	556,827
7	– Other European countries	-	802,605	100	-	-	(31)	802,505	-	939,992	131	-	-	131	939,861
8	**North America**	**-**	**1,051,253**	**266**	-	-	**131**	**1,050,987**	-	1,662,929	135	-	-	135	1,662,794
	of which;														
9	– USA	-	950,660	259	-	-	125	950,401	-	1,548,693	134	-	-	134	1,548,559
10	– Canada	-	100,593	7	-	-	6	100,586	-	114,236	1	-	-	1	114,235
11	**Asia-Pacific**	**-**	**251,401**	**-**	**-**	**-**	**(1)**	**251,401**	-	580,820	1	-	-	1	580,819
	of which;														
12	– Japan	-	231,198	-	-	-	-	231,198	-	485,974	-	-	-	-	485,974
13	– Australia	-	20,183	-	-	-	(1)	20,183	-	94,772	1	-	-	1	94,771
14	– Other Asia-Pacific Countries	-	20	-	-	-	-	20	-	74	-	-	-	-	74
15	**Other geographical areas**	**15,903**	**904,049**	**978**	-	-	**(11,504)**	**918,974**	39,136	717,872	12,482	-	-	(6,742)	744,526
16	**Total**	**15,903**	**6,310,473**	**1,502**	**-**	**-**	**(11,433)**	**6,324,874**	39,136	7,647,673	12,935	-	-	(6,289)	7,673,874

Please refer to Appendix 3 for details of the materiality threshold applied and a listing of immaterial countries included in the 'other' categories. Please refer to tables 14,15 and 24 for variance commentary.

Table 27 below presents the ageing analysis of accounting on-balance sheet past-due exposures regardless of their impairment status. There were no past-due exposures as at 31 October 2019 & 2018.

Table 27 – EU CR1-D – Ageing of past-due exposures

31 Oct 2019

US$'000		Gross carrying values ≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 day ≤ 180 days	> 180 days ≤ 1 year	> 1 year
1	Loans	-	-	-	-	-	-
2	Debt securities	-	-	-	-	-	-
3	**Total exposures**	-	-	-	-	-	-

31 Oct 2018

US$'000		Gross carrying values ≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 day ≤ 180 days	> 180 days ≤ 1 year	> 1 year
1	Loans	-	-	-	-	-	-
2	Debt securities	-	-	-	-	-	-
3	Total exposures	-	-	-	-	-	-

Forbearance

Forbearance occurs when a borrower is granted a temporary or permanent concession or an agreed change to the terms of a loan ('forbearance measure') for reasons relating to the actual or apparent financial stress or distress of that borrower. A concession may involve restructuring the contractual terms of a debt or payment in some form other than cash, such as an equity interest in the borrower.

Prior to any decision to grant forbearance the Company performs an assessment of a borrower's financial circumstances and ability to repay. This assessment includes an individual assessment for impairment of the loan.

Table 28 presents an overview of non-performing and forborne exposures.

Table 28 – EU CR1-E – Non-performing and forborne exposures

US$'000			31 Oct 2019 Debt securities	31 Oct 2019 Loans and advances	31 Oct 2019 Off balance sheet exposures	31 Oct 2018 Debt securities	31 Oct 2018 Loans and advances	31 Oct 2018 Off balance sheet exposures
Gross carrying values of performing and non-performing exposures			2,234,742	1,938,878	2,142,128	3,126,650	2,788,051	1,756,831
	Of which performing but past due > 30 days and <= 90 days		-	-	-	-	-	-
	Of which performing forborne		-	31,594	-	-	44,616	-
	Of which non-performing		-	15,903	-	-	39,136	-
		Of which defaulted	-	15,903	-	-	39,136	-
		Of which impaired	-	15,903	-	-	39,136	-
		Of which forborne	-	-	-	-	-	-
Accumulated impairment and provisions and negative fair value adjustments due to credit risk	On performing exposures		21	896	107	64	1,513	107
		Of which forborne	-	543	-	-	1,101	-
	On non-performing exposures		-	478	-	-	11,251	-
		Of which forborne	-	478	-	-	11,251	-
Collaterals and financial guarantees received	On non-performing exposures		-	15,425	-	-	27,884	-
	Of which forborne exposures		-	46,477	-	-	71,399	-

This table is compiled based on definitions as per Annex V of the Commission Implementing Regulation (EU) No 680/2014.

Table 29 presents the reconciliation of specific and general credit risk adjustments held against loans and debt securities that are defaulted or impaired. It is based on Financial Statements information.

Table 29 – EU CR2-A – Changes in the stock of general and specific credit risk adjustments

US$'000		a	b		
		[1] Accumulated specific credit risk adjustment 31/10/2019	**Accumulated general credit risk adjustment 31/10/2019**	[1] Accumulated specific credit risk adjustment 31/10/2018	Accumulated general credit risk adjustment 31/10/2018
1	**Opening balance**	12,935	-	19,224	-
1a	Remeasurement on transition to IFRS 9	-	-	2,824	-
2	Increases due to amounts set aside for estimated loan losses during the period	-	-	-	-
3	Decreases due to amounts reversed for estimated loan losses during the period	(5,087)	-	(9,534)	-
3a	Increases due to origination and acquisition	666	-	860	-
3b	Decrease due to derecognition repayments and disposals	(6,210)	-	(616)	-
3c	Changes due to modifications without derecognition (net)	(2)	-	1,168	-
3d	Changes due to update in the institution's methodology for estimation (net)	(94)	-	44	-
4	Decreases due to amounts taken against accumulated credit risk adjustments	-	-	-	-
5	Transfers between credit risk adjustments	-	-	-	-
6	Impact of exchange rate differences	-	-	-	-
7	Business combinations, including acquisitions and disposals of subsidiaries	-	-	-	-
8	Other adjustments	(706)	-	(1,035)	-
9	**Closing balance**	1,502	-	12,935	-
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	-	-	-	-
11	Specific credit risk adjustments directly recorded to the statement of profit or loss	-	-	-	-

Table 30 presents the changes in the stock of defaulted loans and debt securities.

Table 30 – EU CR2-B – Changes in the stock of defaulted and impaired loans and debt securities

US$'000		a	
		Gross carrying value defaulted exposures 31/10/2019	Gross carrying value defaulted exposures 31/10/2018
1	**Opening balance**	39,136	45,877
2	Loans and debt securities that have defaulted or impaired since the last reporting period	-	-
3	Returned to non-defaulted status	-	-
4	Amounts written off	-	-
5	Other changes	(23,233)	(6,741)
6	**Closing balance**	15,903	39,136

As referred to in table 24, specific credit risk adjustments and defaulted exposures have reduced mainly due to repayments on, and disposals of, impaired loans during the year.

4.6 Counterparty Credit Risk

As per CRR Article 272, CCR is defined as the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. The Company's primary sources of CCR are derivatives and repurchase agreements (all risk mitigated and limited to overnight risk by Credit Support Annexes ("CSAs") and other margining arrangements).

SIDAC mitigates counterparty risk in a number of ways. A prerequisite for transacting OTC derivatives with counterparties is to ensure a CSA is in place. The Company is compliant with variation margin rules for Non-Centrally Cleared Derivatives. This in effect reduced variation margin thresholds to zero. The Company now transacts interest rate swaps via Central Counterparty clearing ("CCP") (facilitated by Scotiabank) which mitigates counterparty credit risk. These techniques are documented in standard trading agreements. Counterparty limits are set for each individual counterparty, guided by advice and counsel from Scotiabank GRM. Sub-limits can be put in place for each product type. The risk is monitored independently by CRF on a daily basis.

Netting and collaterals held

Legal agreements providing for enforceable master netting arrangements are put in place with counterparties, guided by Scotiabank legal counsel. These include International Swaps and Derivatives Association ("ISDA") agreements and collateral arrangements (Global Master Repurchase Agreement ("GMRA")) and CSA). Note that these arrangements do not meet the criteria for offsetting in the balance sheet. This is because they create for the parties to the agreement a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Company or the counterparties or following other predetermined events. In addition, the Company and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

The Company is unrated by ECAIs and so is not exposed to the effects of a downgrade of its own credit rating. There is also no risk of increased collateral requirements as a result of a downgrade of the Company's parent as the Company's credit support agreements do not allow for triggers for the posting of additional collateral due to increased counterparty risk. The Company's collateral requirement is expected to diminish in future periods as OTC derivatives are gradually replaced by those settled with CCP clearing members, as noted above.

Collateral arising in respect of any credit risk exposures is managed through daily monitoring and by comparison of mark-to-market values of applicable positions against collateral calls. With regard to repurchase agreements, when the values exceed collateral thresholds, collateral calls are made. The acceptable types of collateral are reviewed on an annual basis as part of the annual limit review process.

When calculating the CVA capital charge, the Company uses the Standardised Approach, as permitted by the Regulation.

Table 31 – EU CCR5-A – Impact of netting and collateral held on exposure values

	31 Oct 2019						**31 Oct 2018**				
	US$'000	a	b	c	d	e					
		Gross positive fair value or net carrying amount	**Netting benefits**	**Netted current credit exposure**	**Collateral held**	**Net credit exposure**	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
1	Derivatives	15,752	14,897	855	329	526	104,225	8,601	95,624	2,387	93,237
2	SFTs	353,067	-	353,067	346,251	6,816	-	-	-	-	-
3	Cross-product netting	-	-	-	-	-	-	-	-	-	-
4	**Total**	**368,819**	**14,897**	**353,922**	**346,580**	**7,342**	104,225	8,602	95,624	2,387	93,237

Table 32 – EU CCR5-B – Composition of collateral for exposures to CCR

31 Oct 2019							**31 Oct 2018**					
US$'000	a	b	c	d	e	f	a	b	c	d	e	f
	Collateral used in derivative transactions						Collateral used in derivative transactions					
	Fair value of collateral received		Fair value of posted collateral		Collateral used in SFTs		Fair value of collateral received		Fair value of posted collateral		Collateral used in SFTs	
	Segre-gated	Unsegre-gated	Segre-gated	Unsegre-gated	Fair value of collateral received	Fair value of posted collateral	Segre-gated	Unsegre-gated	Segre-gated	Unsegre-gated	Fair value of collateral received	Fair value of collateral received
Cash	-	329	-	2,960	-	353,067	-	2,387	-	5,240	-	-
Sovereign debt	-	-	-	-	346,251	-	-	-	-	-	-	-
Total	**-**	**329**	**-**	**2,960**	**346,251**	**353,067**	-	2,387	-	5,240	-	-

Table 31 shows the impact of netting and collateral held on exposures and table 32 provides a breakdown of all types of collateral posted or received to support or reduce CCR exposures related to derivative transactions and to SFTs. The decrease in net credit exposure in 2019 is due mostly to a reduction in positive market value of forward foreign exchange contracts while the movement in derivative cash collateral received/posted reflects market value movements in derivative contracts with third parties subject to a credit support annex. The increase in SFT collateral relates to reverse repurchase agreements.

Table 33 – EU CCR1 – Analysis of CCR exposure by approach

	US$'000	31 Oct 2019							31 Oct 2018						
		a	b	c	d	e	f	g							
		Notional	**Replace - ment cost / current market value**	**Potential future credit exposure**	**EEPE**	**Multiplier**	**EAD post CRM**	**RWAs**	Notional	Repla- cement cost / current market value	Potential future credit expo- sure	EE PE	Multiplier	EAD post CRM	RWAs
1	Mark to market	-	526	11,854	-	-	12,380	6,190	-	93,237	31,363	-	-	124,600	62,239
9	Financial collateral comprehensive method (for SFTs)	-	-	-	-	-	6,816	1,363	-	-	-	-	-	-	-
11	**Total**	**-**	**526**	**11,854**	**-**	**-**	**19,196**	**7,553**	-	93,237	31,363	-	-	124,600	62,239

Table 34 – EU CCR2 – CVA capital charge

	US$'000	a	b		
		Exposure value 31/10/2019	**RWAs 31/10/2019**	Exposure value 31/10/2018	RWAs 31/10/2018
1	Total portfolios subject to the advanced method	-	-	-	-
2	(i) VaR component (including the 3× multiplier)	-	-	-	-
3	(ii) SVaR component (including the 3× multiplier)	-	-	-	-
4	All portfolios subject to the standardised method	19,196	3,117	124,600	28,152
EU4	Based on the original exposure method	-	-	-	-
5	**Total subject to the CVA capital charge**	**19,196**	**3,117**	124,600	28,152

Table 35 – EU CCR3 – CCR exposures by regulatory portfolio and risk weight – Standardised Approach

31 Oct 2019

	US$'000	Risk weight (%)												
	Exposure classes	**0**	**2**	**4**	**10**	**20**	**50**	**70**	**75**	**100**	**150**	**Others**	**Total**	**Of which unrated**
6	Institutions	-	-	-	-	6,816	12,380	-	-	-	-	-	19,196	-
7	Corporates	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-
11	**Total**	**-**	**-**	**-**	**-**	6,816	12,380	**-**	**-**	**-**	**-**	**-**	**19,196**	**-**

31 Oct 2018

	US$'000	Risk weight (%)												
	Exposure classes	0	2	4	10	20	50	70	75	100	150	Others	Total	Of which unrated
6	Institutions	-	-	-	-	204	124,396	-	-	-	-	-	124,600	-
7	Corporates	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Total	-	-	-	-	204	124,396	-	-	-	-	-	124,600	-

Tables 33 and 34 set out the methods used to calculate CCR regulatory requirements and the resultant RWAs and table 35 provides a breakdown of CCR by exposure class and risk weight. As per table 31, the reduction in EAD is due mostly to a reduction in positive market values of derivatives, offset by an increase in SFT exposures.

4.7 Credit Risk Stress Testing

SIDAC performs quarterly credit stress tests (industry credit stress test and risk weighted assets stress test) which are presented to ALCO and the BRC. The first represents a general recessionary environment that is not rooted in macroeconomic variables, but rather characterised by a prolonged global economic downturn, which greatly impacts the economic growth in the region. The IG ratings of individual borrowers within their respective industries are generated using the specific risk factors pertinent to each of these industries through BNS internal rating models. These factors include the financial strength of the borrower, expected changes in market conditions, and industry specific factors. Changes in these risk factors as a result of the stress scenario are translated into a migration of the borrower's credit risk rating and the primary measure of impact is the increase in expected credit losses (ECL). The stress test results in an instantaneous shock to the portfolio assuming the rating migration of the borrowers occurred.

The second estimates the change in regulatory capital requirements that would arise during a mild recession. This is derived by performing a one-notch downgrade of each asset and calculating the resulting capital requirement based on the new risk-weighting of the assets.

In addition, SIDAC performs an annual securitisation stress test which addresses the credit risk of the underlying pool, including default risk and tranche overcollateralization

SIDAC has adopted the Scotiabank model for the computation of expected losses under stressed conditions for inclusion in its ICAAP Enterprise Wide Stress Test (EWST). A stressed credit risk impact is estimated, based on the model, by translating the macro-economic environment projected in each scenario into credit downgrade scenarios.

4.8 Wrong-way Risk

Wrong-way risk is a form of CCR which occurs when the exposure to a counterparty is adversely correlated with the credit quality of that counterparty, causing the default risk and credit exposure to increase together. The Company's derivative counterparty risks and CVA are potentially sensitive to wrong-way risks. These risks are managed and monitored through limit controls at counterparty level resulting in minimal wrong-way risk exposures.

5 Market Risk

This is the current or prospective risk to earnings and capital arising from adverse movements in asset prices, foreign exchange rates and interest rates. This can arise from dealing in debt and equity securities, currencies or derivatives.

5.1 Market Risk Management and Risk Measures

The Company's ALCO has a mandate to oversee market risk in accordance with the Board's risk appetite. The Board charges Senior Management with the implementation of its market risk policies and management of its business activities. The Company's ALCO meets at least monthly throughout the year and is responsible for monitoring its risk exposures and the activities that give rise to these exposures. The Treasury function is responsible for the execution and controls of market and structural risk management, with oversight from Risk Management.

The principal market risk that the Company is exposed to is interest rate risk in the banking book. The Company is also exposed to foreign exchange risk. SIDAC does not currently engage in proprietary trading activity.

5.1.1 Interest Rate Risk

Interest rate risk arises within Treasury activities, principally in relation to the investment positions held for liquidity management purposes. Part of the Company's return on financial instruments is obtained from controlled mismatching of the dates on which interest receivable on assets and payable on liabilities is next reset.

All aspects of this risk are closely monitored and controlled. The Board articulates its appetite for this risk by approving policies, setting limits and approving the annual Strategy and Business Plan. Risk appetite limits along with early warning indicators are set to control SIDAC's market and structural risk exposures, and to highlight any potential weaknesses or pressure points. The risk appetite limits are approved at least annually by the Board. Performance against these metrics is monitored and reported by Risk Management to ALCO and ExCo monthly, and to the BRC on a quarterly basis. Risk appetite limits include Annual Income (AI) sensitivity and Economic Value sensitivity limits.

The Risk Management function executes daily stress tests including the EV and AI on the non-trading book interest rate portfolios. The risk appetite EV is measured as the maximum impact on economic value of equity of an immediate 1% move in rates applied to the portfolios, while the AI measures the maximum impact on annual net interest income of an immediate 1% move in rates.

The impact on annual income as at the 31 October 2019 equated to US$ 8.8mm (2018: US$ 19.1mm). At 31 October 2019, an immediate and sustained 100 basis point shift in interest rates across all currencies and maturities would lower the fair value of assets and liabilities by approximately US$ 10.3mm (2018: US$ 17.6 mm) in aggregate. The following table summarises these results along with Max, Min and Average being over the full year:

Table 36 – EV and AI

US$ equivalent millions				
Measure	**31 Oct**	**Max**	**Min**	**Average**
EV	(10.3)	(19.1)	(9.5)	(14.3)
AI	(8.8)	(21.2)	(8.6)	(17.2)

Furthermore, the "Supervisory Outlier Tests", an additional suite of stress tests as outlined in the "EBA Guidelines on the Management of Interest rate risk arising from non-trading book activities" are calculated measuring the impact on Economic Value of Equity (EVE) and comparing it to a defined percentage of own funds. During 2019 the results of each stress test were within the prescribed parameters.

Additionally, interest rate risk is also measured, monitored and controlled by "DV01" limits which measure the change in value caused by a 1 basis point change in yield. DV01 limits are applied to maturity/rate sensitivity buckets, currency and in aggregate. DV01 is measured and reported daily to business line staff and management.

Any reported limit breaches are investigated and escalated in line with the Company's escalation policies.

As at 31 Oct 2019 the DV01 changes in value were as follows with 12 month Max, Min and Average values:

Table 37 – DV01 changes in value

US$ equivalent thousands				
Measure	**31 Oct**	**Max**	**Min**	**Average**
DV01	(88.0)	(166.0)	(76.0)	(124.0)

An additional tool for measuring market risk is the Value at Risk ("VaR") measure. VaR is an estimation of the potential loss of value that could result from holding a position for a specified period of time within a given level of statistical confidence. At present there is no active trading book in SIDAC hence this VaR includes only FX positions arising from management of structural positions, specifically non-US$ earnings.

The Company adopts the Scotiabank economic capital model for IRRBB Pillar 2 capital charges which includes all non-trading positions and has a rolling 10-year observation period with market volatility scaled to one year and a confidence level of 99.95%.

5.1.2 Foreign Exchange Risk

The Company's foreign exchange risk consists of residual risk arising from foreign exchange funding position management, nostro balances and non-functional currency profits. It does not arise from any trading or proprietary positions.

SIDAC's market risk VaR calculation is performed by GRM based on Scotiabank's approved methodology and position information provided by SIDAC. The Scotiabank VaR model is a historical simulation model based on 300 business days of market data, a 1 day holding period and a 99% confidence level. The VaR result is calculated daily and reviewed by Risk Management and business line staff. As noted above, in fiscal 2019 the VaR analysis included only FX positions due to the absence of trading activity. The results are also reviewed by the ALCO and are reported to the BRC on a quarterly basis.

In addition to VaR the Company also utilises product and maturity limits to restrict market risk.

Table 38 details the RWAs and capital requirements for market risk under the Standardised Approach. The decrease in 2019 is due mainly to movements in Euro denominated positions.

Table 38 – EU MR1 – Market Risk under the Standardised Approach

		a	b		
US$'000		**RWAs 31/10/2019**	**Capital requirements 31/10/2019**	RWAs 31/10/2018	Capital requirements 31/10/2018
	Outright products				
1	Interest rate risk (general and specific)	-	-	-	-
2	Equity risk (general and specific)	-	-	-	-
3	Foreign exchange risk	16,693	1,335	77,984	6,239
4	Commodity risk	-	-	-	-
	Options				
5	Simplified approach	-	-	-	-
6	Delta-plus method	-	-	-	-
7	Scenario approach	-	-	-	-
8	Securitisation (specific risk)	-	-	-	-
9	**Total**	**16,693**	**1,335**	**77,984**	**6,239**

5.2 Market Risk Mitigation

The Company mitigates market risk through the use of derivatives, has approved products and limits for this purpose and has experience in employing this strategy across a range of portfolios. In addition to the financial tools used to mitigate this risk, the entity has established a robust market risk framework which takes an integrated approach to identifying the sources of market risk ensuring that the risk is measured, monitored and controlled. SIDAC's market risk policy defines and describes the principles for identifying, measuring, monitoring and reporting its market risk, clearly articulating roles and responsibilities.

5.2.1 Interest Rate Risk

Interest rate swaps are used to hedge interest rate risk in the investment bond book. Currently the Company only has cash collateral for margining purposes and thus no collateral concentrations arise. No material concentration arises as a result of these risk mitigation measures which would prevent their effectiveness.

5.2.2 Foreign Exchange Risk

The Company mitigates its foreign exchange risk exposures through matched funding of its non-US dollar assets or using other financial instruments, including derivatives to hedge this risk. The Company's open FX positions post-hedge is minimal and foreign currency income hedges are under the direction of the ALCO.

5.3 Market Risk Stress Testing

The Company's market risk stress testing is a process of estimating the financial impact from significant changes in market levels, credit environment, capital demands, or other risk factors. Market risk is also a principal risk considered in the Company's ICAAP EWST which includes market risk shocks for both interest rate risk and foreign exchange risk, among other key inputs.

5.3.1 Interest Rate Risk

The key stress testing tools employed by the Company that focus on mitigating interest rate risk are the aforementioned EV stress tests and the 'outlier' stress tests. These stress tests are designed to protect shareholder equity. The EV measures the maximum effect of a +/- 100 basis point parallel shift in yield curves on the net present value of the

Company's assets and the additional daily interest rate stress tests conducted include a range of non-parallel yield curve shifts.

5.3.2 Foreign Exchange Risk

As noted above, the Company's open FX positions, post-hedging, on its non-US dollar assets is minimal. The Company does not perform dedicated foreign exchange risk stress tests, however shocks to FX markets are an important consideration for Scotiabank's ICAAP EWST, as noted above.

6 Operational Risk

Operational risk is the risk of loss, whether direct or indirect, to which the Company is exposed due to external events, human error, or the inadequacy or failure of processes, procedures, systems or controls. The Company views outsourcing and third-party risk to be a subset of operational risk.

All of the Basel operational event classes and event types are considered in the review of operational risk. Internal factors, such as the internal control environment and external factors, such as macroeconomic conditions, external threats (e.g. fraud/crime) and the legal/regulatory environments all contribute to levels of operational risk. The Company has identified its top operational risk concerns as follows: Processes and procedures; People risk (Loss of key staff); Change Management; IT systems.

6.1 Operational Risk Management and Risk Measures

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and control procedures that do not restrict initiative and creativity. Within these parameters the Company operates by following the Operational and Compliance policies and controls approved by the Board. Application of these policies and procedures is monitored by the Risk Management, Compliance and Internal Audit functions.

Senior Management is responsible for ensuring that internal controls designed to minimise operational risk are in place and that all staff are trained to understand their responsibilities in identifying and reporting operational risk events ("OREs"). Furthermore, a periodic Risk Control and Self-Assessment (RCSA) process is conducted with participation by the relevant business lines, operational areas and control functions of the Company. The resulting report is reviewed and approved by Senior Management and a summary is presented to the BRC.

The overarching documents for operational risk are the Scotiabank Operational Risk Policy - adopted by the Board along with a SIDAC Policy Addendum reflecting local requirements - and the Scotiabank Operational Risk Management framework adopted by the management committee of the time, the Risk Management Committee, along with a SIDAC Addendum. In addition, advice and counsel is received from Scotiabank GRM on the two addendums. Additional supporting BNS policies include the BNS New Initiative Risk Management policy, the Business Continuity Policy, the Global Third Party Risk Management Policy and the Internal Control Policy, adopted by the Board each with a local addendum.

The Company recognises the range of operational risks that are inherent in any organisation and uses appropriate Key Risk Indicators ("KRIs") to monitor each category. KRIs are reviewed by the ORC and presented quarterly to the AC and the AC report also includes qualitative measures and any identified high or moderate operational risk events.

Procedures exist for the identification, assessment and reporting of operational risk events, with reports being evaluated and categorised for severity by the owner and reviewed and challenged by the Risk Management function. Reporting of OREs, including analysis of root cause and any trends, is provided to ORC. Remedial action identified as required is tracked by the Risk Management function for completion and progress or delinquency is reported to the ORC. Regulatory reporting for Operational risk is also a requirement as a condition of the Company's banking licence and this is produced quarterly by the Risk Management function.

6.2 Methodology and Approaches to Operational Risk

The CRR sets out three approaches for calculating exposure values and capital requirements for operational risk: Basic Indicator Approach, Standardised Approach, and the Advanced Measurement Approach. The Company has elected to use the Basic Indicator Approach. This requires the Company to hold a capital amount equal to 15% of the average of the sum of net interest income and net non-interest income for the three preceding 12-month financial periods for which audited financial information is available.

In 2019, the Company introduced a Scenario Analysis (“SA”) process for the management of operational risk. SA is an integral part of operational risk management as it allows the entity to identify potential weaknesses in its control framework, which might lead to an operational risk exposure. Therefore, this exercise enables the business to create appropriate action plans in order to mitigate risk exposures in the future, promptly addressing any weaknesses identified. SA leverages a number of internal and external data sources, looking at both past data and future trends. This process will support the Internal Capital Assessment and the Pillar 2 computation from December 2019.

6.3 Operational Risk Mitigation

The Company has put in place policies and procedures to mitigate each of the key elements of operational risk as described above. Operational risk is also mitigated through the holding of capital in the form of Pillar 1 regulatory capital and Pillar 2 capital. SIDAC’s Pillar 2 Internal Capital Adequacy Assessment is based on a Scenario Analysis approach. In addition to the scenarios, SIDAC also developed a correlation matrix which assesses the likelihood of two scenarios occurring at the same time. It is based on the assumption that not all scenarios are likely to materialise simultaneously, which is a prudent approach. The correlation matrix therefore allows for the computation of a ‘diversification benefit’. The Pillar 2 charge is computed as the excess of the Internal Capital Adequacy Assessment over the Pillar 1 amount.

6.4 Operational Risk Stress Testing

Within its Enterprise Wide/ICAAP stress testing SIDAC includes stresses for operational risk which are scenario based. SIDAC includes severe yet plausible operational risks events, selecting those for inclusion after considering a suite of operational risk scenarios.

7 Information Technology risk

Information Technology (IT) risk is now categorised as a separate risk from operational risk and is deemed to be a material risk. This is based on the pervasive nature of IT and cyber security risk and the potential for substantial losses and reputational damage that could be caused by an IT failure. The Company’s IT functions are largely outsourced to its ultimate parent, Scotiabank. Scotiabank and its subsidiaries are exposed to cyber security risks, which may include theft of assets, unauthorized access to sensitive information, or operational disruption such as breaches of cyber security. Scotiabank has implemented a robust and continuously evolving cyber security program to keep pace with evolving threats in which the Company participates. While computer systems continue to be subject to sophisticated cyber-attack attempts, Scotiabank’s countermeasures in place remain effective. The Company, assisted by Scotiabank IT staff, and in particular supported by a shared Cyber Security resource for GBM Europe located in London, continues to actively monitor this risk, leveraging external threat intelligence, internal monitoring, reviewing best practices and implementing additional controls as required to mitigate these risks, while noting that the Company is a less likely target for cyber-crime, since it has no retail dimension. The Company’s Risk Management function also benefits from second line specialist expertise and support in this area provided under an SLA by a Scotiabank resource located in London. While the risk is considered material to the Company, exposure to this risk is sufficiently mitigated by the capital held for operational risk.

8 Compliance Risk (including Conduct Risk)

Compliance risk is the risk that the Company’s business activities may not be conducted in conformity with applicable Regulations, internal policies and procedures and ethical standards expected by regulators, customers, investors, employees and other stakeholders. “Regulations” means all Governmental Acts, laws, rules, regulations, regulatory guidelines and industry or self-regulatory organizational codes of conduct, rules and by-laws.

Compliance Risk is deemed a material risk while conduct risk is considered non-material to SIDAC presently.

Compliance risk arises throughout the organisation with respect to on-going compliance with transactions, documentation and a wide range of prudential and conduct of business regulations, including regulatory reporting. This risk is heightened as a result of:

- Increased volume and complexity of new regulations and changes to existing regulatory obligations (such as MiFID II, EBA/CBI guidance on Remuneration, Volcker Rule, Data Protection Legislation, Anti-Money Laundering, Fitness & Probity , Basel III, Recovery and Resolution Planning, Corporate Governance, Conduct Standards, etc.) and a new focus by regulators on non-financial risk such as conduct risk;
- Increased number of regulatory bodies and associations whose rules or guidance have application to the Company's activities; e.g. CBI, EBA, Basel, ESMA, FATF, OSFI;
- Extra-territorial scope for international regulation e.g. Volcker, FATCA, EMIR;
- Increased volume and complexity of reporting requirements and impact on existing systems; and
- Increased level of scrutiny, enquiry, inspection and regulatory enforcement by the CBI with an expectation that recommendations will be dealt with promptly.

While the risk is considered material to the Company, exposure to this risk is sufficiently mitigated by the capital held for operational risk.

8.1 Governance and Controls

The Board is ultimately responsible for overseeing the execution of the Company's Compliance Risk Summary Framework and Conduct Risk Summary Framework with local supplements. The Board approves a number of policies supporting regulatory compliance and conduct. The Director, Head of Compliance has a reporting line directly to the AC and presents a report to the Committee quarterly on all compliance or regulatory issues arising. The C&RC is the management committee responsible for ensuring that the risk of the Company being non-compliant with new or current legal and regulatory requirements is effectively managed and controlled. The Conduct Risk Committee (a sub-committee of ROC) oversees conduct risk which is reported to the Board.

The C&RC will be replaced by the Compliance and Conduct Committee and the Financial Crime Committee in the first half of 2020. The Conduct Risk Committee will also be unwound at this time with its role becoming the responsibility of the Compliance and Conduct Committee.

9 Liquidity Risk

This is the current or prospective risk to earnings and capital arising from an institution's inability to meet its liabilities when they fall due.

9.1 Liquidity Risk Identification and Mitigation

Liquidity risk is identified as a material risk via the assessment of risk materiality. Through an analysis of its business lines, operating procedures, EBA guidelines and relevant regulatory requirements, the Company has identified several risk drivers to which the institution is exposed in relation to liquidity risk and funding risk. The Company has adopted policies and measures to mitigate these risks.

Tactical Liquidity Risk

Tactical (short-term or operational) liquidity risk associated with daily funding requirements in the normal course of business applicable to the period from day zero to day thirty (in calendar days) is mitigated through the management of the maturity profile of SIDAC's funding and by ensuring adequate liquid assets to cover net outflows, facilitated by the application of many liquidity risk tools including but not limited to:

- Liquidity Coverage Ratio ("LCR")
- Cash Gaps
- Forecasting

Structural Liquidity Risk

Structural (or long-term) liquidity risk is associated with mismatches in effective maturities between assets and liabilities (more specifically the over-reliance on short-term liabilities to fund longer-term, less liquid assets). SIDAC ensures that it acquires appropriate levels of stable / longer dated funding and uses tools such as the Net Stable Funding Ratio ("NSFR") and Weighted Average Remaining Term ("WART") to manage this risk.

Liquid Assets Risk

SIDAC ensures that it maintains a diversified pool of high-quality liquid assets that can be converted to cash in a timely manner in order to cover cash outflows or to cover the additional need for liquidity that may arise over a defined short period of time under stress conditions. This is supported by LCR metrics, Single currency LCR limits and Minimum Liquidity Buffer ("MLB") requirements.

Funding Concentration Risk

SIDAC recognises that is has significant reliance on BNS for funding with the remainder being comprised of a significant portion of capital. SIDAC has identified contingent sources of funding through which it can access alternative funding. It evaluates its ability to withstand crisis situations through the execution of its Liquidity Stress Testing framework.

Cross-Currency Risk

One significant driver of liquidity risk is cross-currency risk as the Company's business is multi-currency, with the key operational currencies identified as EUR, GBP and USD. The Company's capital and its liability base are denominated in USD, sourced from Group affiliates. The Company's business activities require it to fund assets denominated in currencies other than USD. In order for the Treasury function to efficiently fund these non-USD assets, it executes foreign exchange (FX) swaps to fund its non-USD positions.

FX Swaps are transacted on a frequent and ongoing basis and are currently executed with Scotiabank Group entities. Potential future shortfalls in the funding of non-USD currencies are identified in advance and remedied via FX Swaps

The Company is cognisant that its sources of funding are not diversified, and concentration risk is generated as a result of its dependence on FX swap instruments transacted with Group entities. This risk is mitigated by imposing limits on the percentage amount of funding that can be conducted via FX, by holding a large portfolio of liquid assets and other unencumbered assets in various currencies, as well as by managing the maturity mismatch by ensuring diversification of the funding maturity profile. Risk metrics have been established to ensure the aforementioned mitigants are effective (see table 12).

Intraday Liquidity Risk

Intraday liquidity risk is the risk that a bank fails to manage its intraday liquidity properly, which could leave it unable to meet a payment obligation at the time expected, thereby affecting its own liquidity position and that of other parties. The Company faces intraday liquidity risk through participation indirectly in clearing and payment systems via nostro banks used to access them. Its nostro banks are suitably diversified across major international banks. Funding of intraday payments is monitored continuously. External payments are prioritised over inter-group payments and all internal payments are netted where possible. The Company also uses clearing agents for securities. Intraday liquidity risk is monitored via intraday liquidity reports, real time monitoring of major nostro accounts, and monitoring of payments against expected flows amongst other reports.

To mitigate intraday liquidity risk, the Company has overdrafts in place as appropriate. Close monitoring of payments and receipts intraday occurs with escalation of potential non-receipts on a timely basis.

Off-Balance Sheet Liquidity Risk

The main source of the Company's off-balance sheet risk is from undrawn lines under committed credit facilities. The undrawn committed facilities can be drawn in the Company's key operational currencies and also its non-material currencies, the potential for which is comparatively low. As noted above, the Company relies on the FX market to fund its non-USD exposures. Assumptions are made within the Liquidity Stress Test ("LST") framework about the extent and timing of drawings during normal business and under a market disruption.

In addition to the above, to help mitigate liquidity risk, the Company's pool of bonds enables it to raise funds through wholesale banking repo markets, the ECB and other national central banks. In addition, in order to mitigate its funding risk, the Company has a US$1bn committed funding facility from Scotiabank and the primary sources of the Company's funding are deposits from Scotiabank and Scotiabank affiliates.

9.2 Liquidity Risk Management and Risk Measures

The Company's Internal Liquidity Adequacy Assessment Process ("ILAAP") and Liquidity Risk Management Policy set out in detail the risk measurement and management approaches employed to address this risk. By approving the ILAAP, the Board has satisfied itself as far as possible, that the Company will always have sufficient liquidity to meet its obligations when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company adopts a number of tools and methodologies to measure and monitor liquidity risk. These include the monitoring of its LCR, a short-term liquidity measure defined under CRD IV, daily. Banks are required to have sufficient high-quality liquid assets to withstand a 30-calendar day liquidity stress scenario. A regulatory minimum ratio as set out in the CRR and associated implementing legislation and EBA guidelines of 100% applies to the Company. As at 31 October 2019, the Company's LCR exceeded the regulatory minimum and was 330% (31 October 2018: 1,085%). The Board has set its risk appetite for LCR at a level of 120% (see table 12). Additionally, the Company has Board approved limits on the minimum liquidity buffer that it must maintain.

The NSFR supports the maintenance of a stable funding profile and requires the Company to have sufficient quantities of funding from stable sources. The EU published the finalized fifth Capital Requirements Directive CRD V (EU Directive 2019/878) and the second Capital Requirements Regulation (EU) 2019/876 which amends CRR/CRD IV and provides additional clarity on the NSFR. It confirms the 2021 date for a binding regulatory minimum of 100%. The Company has established a Board risk appetite limit in excess of this level at 105% (see table 12). The NSFR ratio is reported weekly to management, monthly to the ALCO and quarterly to the BRC. This ratio is calculated using the Basel Committee on Banking Supervision's rules as laid out in the document *Basel III: The Net Stable Funding Ratio October 2014*. As at 31 October 2019 the NSFR was in excess of the risk appetite metric. The Company also manages the term of its funding through the operation of a WART measure. Funding held is measured against the minimum metric on a daily basis.

Liquidity risk is measured and controlled through the establishment of quantifiable metrics outlined in the Company's Risk Appetite Framework, namely LCR, WART, NSFR, MLB and FX funding metrics. This is supplemented by internal liquidity limits and the performance of daily Liquidity Stress Tests ("LST") applied to the behavioural characteristics of the Company's portfolio.

The LSTs are conducted daily, and the output from the LST is used to calibrate the appropriate size of the MLB on a quarterly basis. The MLB is defined as the minimum liquidity buffer required to cover net stressed cash-outflows under the worst case (maximum net cash-outflow) extreme liquidity stress scenario for the defined liquidity horizon. The MLB mitigates against liquidity stress events that may occur over a short time horizon of 1 week and a longer time horizon of a month.

The Company has established limits on the maximum liability cash flow gap (i.e. mismatch between inflows and outflows) it can operate and limits are set by currency. These are monitored through a cumulative 10 day and 30 day cash flow gap position report.

Forecasting of key liquidity metrics play a key role in evaluating the potential future liquidity risk at SIDAC with the view to implementing any remediation action required in order to ensure adherence to limits.

9.3 Liquidity Stress Testing

The Company's Liquidity Stress Testing Framework (the Framework) governs its Liquidity Stress Testing Program (the LST Program). The LST Program is established to ensure that the Company maintains a sufficient liquidity buffer to mitigate liquidity shortfalls from stress events, such as those defined by the scenarios outlined within the Framework. The LST program defines a range of liquidity stress scenarios that could be encountered and includes idiosyncratic (or Scotiabank specific), market wide and combination scenarios, types of stress tests undertaken, their frequency, methodological details, appropriate assumptions and relevant data infrastructure.

The Framework aligns with the principles outlined in the Committee of European Banking Supervisors (CEBS, now European Banking Authority (EBA)) “Guidelines on Liquidity Buffers & Survival Periods” (December 2009) and the EBA Guidelines on Stress-testing GL2018/04 as well as the BNS Liquidity Stress Testing Operating Framework.

Liquidity stress scenarios are based on varying degrees of severity and plausible events under various time horizons. The scenarios are each divided into two levels of severity: severe and extreme, with the addition of a third level of severity under the combined scenario: extreme plus. Please refer to the following table.

Type	Severity level		
Idiosyncratic	Severe	Extreme	N/A
Market Wide	Severe	Extreme	N/A
Combined	Severe	Extreme	Extreme plus

- Idiosyncratic: This is a firm-specific scenario which is designed to model a funding risk type event. The scenario envisages a significant operational risk event which has a reputational impact resulting in a temporary run on Scotiabank and increased funding requirements. In the scenario, Scotiabank’s difficulty to raise liquidity is assumed to impact its ability to fund its affiliates including SIDAC.
- Market Wide (Global Recession): The scenario envisages several macroeconomic events, as well as an emerging markets debt crisis. SIDAC’s corporate loan book is impacted as clients, suffering from the economic fallout, have lower cash inflows, which results in difficulties meeting payment obligations and higher draws on credit facilities. This coupled with reduced funding from affiliates, creates a liquidity strain on SIDAC.
- Combination: This scenario considers the idiosyncratic and market wide scenarios above happening simultaneously
- Extreme plus Liquidity Condition: This scenario assumes Scotiabank is unable to provide liquidity support to the Company.

With regard to the solvency of the Company, a Reverse Stress Test is conducted on a qualitative basis through discussion at the ALCO and reported upon at BRC. Consideration is given to outcomes resulting in both the insolvency and the un-viability of the Company.

9.4 Contingency Funding Planning

Contingency funding planning is an integral component of the ILAAP and provides a framework for determining appropriate actions in the event of a liquidity crisis event. The Contingency Funding Plan (“CFP”) identifies management actions which could be taken in a stressed scenario. Liquidity Risk Indicators (“LRIs”) have been established as the basis upon which an evaluation of liquidity stress can be made. LRIs are monitored and reported daily providing an early warning of any potential liquidity issues. A Contingency Funding Plan document describes the governance process, key roles and responsibilities and the communication process for the CFP as well as the key stages of the CFP. It is reviewed and approved annually by SIDAC’s Board of Directors.

9.5 Recovery Plan

In addition to the CFP SIDAC has established a Recovery Plan (“RP”) to enable Senior Management to manage a significant deterioration of SIDAC’s financial position, which may threaten its capital adequacy, liquidity or viability. The RP identifies and analyses a variety of Recovery Options that Senior Management could deploy, if necessary, in the event of a severe stress in order to maintain SIDAC’s position above regulatory thresholds and restore its financial strength and viability. Recovery Indicators (“RIs”) including liquidity specific RIs have been established to facilitate the ongoing monitoring, and potential escalation and activation of the Recovery Plan

9.6 Liquidity Risk Governance

The Liquidity Risk Management Framework which is a component of the Risk Management Framework is predicated on the three-lines of defence model.

The Company's Treasury function, which is a first line of defence function, under the direction of the ALCO is responsible for managing the Company's liquidity. Treasury is responsible for ensuring compliance with policies, frameworks and procedures as well as ensuring legal and regulatory compliance. The Risk Management function, a second line of defence function oversees the implementation of the liquidity and funding risk strategy and framework, providing review and challenge of liquidity and funding risks. Risk Management measures, monitors and reports Liquidity and Funding risk to senior leadership as well as Board committees.

The ALCO is the committee responsible for the strategic direction for liquidity and funding risk management. It has oversight and monitoring responsibilities with respect to liquidity and funding risk approving ALCO limits and the methodologies used for measuring and managing liquidity risk. It also reviews and challenges the policies, frameworks, strategies and plans with respect to the management of funding and liquidity risk, and consents to their onward submission to the ExCo and/or BRC as appropriate. It also seeks advice and counsel from Scotiabank GRM as appropriate. The Liquidity and Funding Risk Management Framework and The Liquidity Risk Management Policy receive approval from the Board who also approve liquidity RAF / Board limits.

9.7 Exposure to Liquidity Risk

Table 39 on the following page has been produced in line with the 2017 EBA Guidelines on LCR disclosure (EBA/GL/2017/01). All figures included in the table represent a 12-month rolling average for each quarter of 2019 and with comparatives for 2018 on the subsequent page.

Table 39 – EU LIQ1 – LCR Disclosure

2019		Total unweighted value (average)				Total weighted value (average)			
US$'000		**31 Oct**	**31 Jul**	**30 Apr**	**31 Jan**	**31 Oct**	**31 Jul**	**30 Apr**	**31 Jan**
	HIGH QUALITY LIQUID ASSETS								
1	Total high-quality liquid assets (HQLA)					1,968,383	1,988,449	2,079,741	2,228,889
	CASH OUTFLOWS								
2	Retail deposits and deposits from small business customers, of which:	-	-	-	-	-	-	-	-
3	Stable deposits	-	-	-	-	-	-	-	-
4	Less stable deposits	-	-	-	-	-	-	-	-
5	Unsecured wholesale funding	550,162	640,763	736,944	753,469	550,162	640,756	736,924	753,428
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	-	-	-	-	-	-	-	-
7	*Non-operational deposits (all counterparties)*	139,506	147,314	140,652	128,976	139,506	147,307	140,632	128,935
8	*Unsecured debt*	410,656	493,449	596,292	624,493	410,656	493,449	596,292	624,493
9	Secured wholesale funding					-	-	-	2,039
10	Additional requirements	2,209,107	2,108,373	2,000,687	1,940,917	540,782	544,734	531,494	527,322
11	*Outflows related to derivative exposures and other collateral requirements*	9,299	10,710	12,022	15,623	9,299	10,710	12,022	15,623
12	*Outflows related to loss of funding on debt products*	-	-	-	-	-	-	-	-
13	*Credit and liquidity facilities*	2,199,809	2,097,663	1,988,665	1,925,293	531,484	534,024	519,473	511,699
14	Other contractual funding obligations	48,787	57,478	57,814	29,745	46,774	55,577	56,018	28,113
15	Other contingent funding obligations	-	-	-	-	-	-	-	-
16	**TOTAL CASH OUTFLOWS**					1,137,719	1,241,067	1,324,436	1,310,901
	CASH INFLOWS								
17	Secured lending (e.g. reverse repos)	54,456	25,029	44,072	44,072	-	-	72	72
18	Inflows from fully performing exposures	476,865	489,387	501,829	487,742	474,546	484,777	498,701	484,357
19	Other cash inflows	155,848	205,227	267,768	309,640	155,848	205,227	267,768	309,639
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					-	-	-	-
EU-19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	**TOTAL CASH INFLOWS**	687,169	719,644	813,670	841,453	630,394	690,004	766,541	794,068
EU-20a	*Fully exempt inflows*	-	-	-	-	-	-	-	-
EU-20b	*Inflows Subject to 90% Cap*	-	-	-	-	-	-	-	-
EU-20c	*Inflows Subject to 75% Cap*	687,169	719,644	813,670	841,453	630,394	690,004	766,541	794,068
21	**LIQUIDITY BUFFER**					1,917,429	1,919,097	2,019,779	2,137,905
22	**TOTAL NET CASH OUTFLOWS**					538,675	565,201	580,628	557,085
23	**LIQUIDITY COVERAGE RATIO (%)**					454%	429%	477%	506%

The quarterly 12 month rolling average LCR ranged from 454% to 506% in 2019. The quarterly average HQLA ranged from US$ 1,968mm to US$ 2,229mm. The quarterly weighted average of outflows ranged from US$ 1,138mm to US$ 1,311mm. The quarterly weighted average inflows ranged from US$ 630mm to US$ 794mm. There are no other items in the LCR calculation that are not captured in the LCR disclosure template but that the Company considers relevant for its liquidity profile.

2018		Total unweighted value (average)				Total weighted value (average)			
US$'000		31 Oct	31 Jul	30 Apr	31 Jan	31 Oct	31 Jul	30 Apr	31 Jan
	HIGH QUALITY LIQUID ASSETS								
1	Total high-quality liquid assets (HQLA)					2,230,950	2,327,195	2,354,866	2,316,454
	CASH OUTFLOWS								
2	Retail deposits and deposits from small business customers, of which:	-	-	-	-	-	-	-	-
3	Stable deposits	-	-	-	-	-	-	-	-
4	Less stable deposits	-	-	-	-	-	-	-	-
5	Unsecured wholesale funding	596,661	529,506	453,290	357,794	596,600	529,438	453,223	357,726
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	-	-	-	-	-	-	-	-
7	*Non-operational deposits (all counterparties)*	110,991	105,267	107,247	86,108	110,930	105,199	107,180	86,040
8	*Unsecured debt*	485,670	424,239	346,043	271,686	485,670	424,239	346,043	271,686
9	Secured wholesale funding					2,039	2,039	3,005	3,046
10	Additional requirements	1,984,395	2,026,157	1,963,513	1,900,835	564,057	592,419	574,312	521,167
11	*Outflows related to derivative exposures and other collateral requirements*	20,435	22,708	24,795	21,175	20,435	22,708	24,795	21,175
12	*Outflows related to loss of funding on debt products*	-	-	-	-	-	-	-	-
13	*Credit and liquidity facilities*	1,963,960	2,003,449	1,938,718	1,879,660	543,622	569,711	549,517	499,992
14	Other contractual funding obligations	24,814	18,788	20,477	17,000	23,291	17,341	19,026	15,479
15	Other contingent funding obligations	-	-	-	-	-	-	-	-
16	**TOTAL CASH OUTFLOWS**					1,185,987	1,141,237	1,049,566	897,418
	CASH INFLOWS								
17	Secured lending (e.g. reverse repos)	19,043	19,043	20,085	31,585	72	72	205	220
18	Inflows from fully performing exposures	463,525	364,350	322,845	234,294	459,593	363,036	319,696	231,146
19	Other cash inflows	332,872	367,447	337,354	314,987	332,865	367,431	337,329	314,953
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					-	-	-	-
EU-19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	**TOTAL CASH INFLOWS**	815,440	750,840	680,284	580,866	792,530	730,539	657,230	546,319
EU-20a	*Fully exempt inflows*	-	-	-	-	-	-	-	-
EU-20b	*Inflows Subject to 90% Cap*	-	-	-	-	-	-	-	-
EU-20c	*Inflows Subject to 75% Cap*	815,440	750,840	680,284	580,866	792,530	730,539	657,230	546,319
21	**LIQUIDITY BUFFER**					2,125,543	2,217,651	2,212,802	2,175,239
22	**TOTAL NET CASH OUTFLOWS**					482,982	490,101	464,830	414,703
23	**LIQUIDITY COVERAGE RATIO (%)**					617%	588%	612%	665%

10 Concentration Risk

Concentration risk is the risk associated with any single exposure (or group of exposures that may perform similarly because of a common characteristic or common sensitivity to economic, financial, or business developments) that has the potential to cause considerable risk to earnings and capital. Concentration risk may arise as a result of correlated positions that present exposure to multiple risk factors. Credit concentration risk includes concentrations to the same counterparties or groups of connected counterparties, and counterparties in the same industry sector, geographical region or concentrations from the same activity.

10.1 Concentration Risk Management and Risk Measures

As noted in section 4, the Board has approved a Concentration Risk Policy which sets out types of concentration risk and the levels at which concentrations are regarded as material or significant. Oversight of the Company's management of Concentration risk also includes ALCO, ExCo and Board review and approval of policies and limits relating to credit, market, liquidity, and operational risk as well as quarterly reporting to the BRC on risk concentrations relating to these key risk disciplines and stress testing on sectors where a material concentration is deemed to arise. Specific Board approved limits are set to control the maximum exposure to any counterparty or group of related counterparties. Coupled with this, the regulatory Large Exposure rules must be observed. Industry and country concentration is monitored on a regular basis for internal and regulatory purposes. Overall industry and country exposures are reviewed by the CC on a regular basis.

Credit concentration risk, considered a subset of credit risk, is primarily monitored and controlled by the Company under three categories: exposure to an entity or group of connected entities; exposure by industry; and, exposure by geography. A measure of Credit concentration risk for use in the Company's internal capital calculation is computed on a quarterly basis using the Moody's RiskFrontier model. Using the model, the deviation of the Company's credit portfolio from a well-diversified credit portfolio is assessed by approximating the Company's portion of the consolidated Scotiabank global non-retail portfolio. The difference between the two calculations can be viewed as the diversification benefit that the non-SIDAC exposures in the overall Scotiabank portfolio would provide to reduce the amount of capital otherwise attributable to the SIDAC exposures.

10.2 Concentration Risk Mitigation

As per its Risk Appetite Framework, the Company seeks to avoid excessive risk concentrations through a diversified mix of businesses, products, geographies, currencies and customers. Appropriate management of concentration risk is also ensured by the Company's limits, policies and procedures. Other credit risk mitigation techniques include reviewing risks associated with large indirect credit exposures.

11 Securitisations

The Company acts purely as investor in securitisations and does not act as originator or sponsor for any securitisation activity. The same overall financial objective applies to any securitisation investments, which is to generate a satisfactory return for the risk being taken.

In January 2019, a new framework for European securitisations took effect which consolidates legislation governing European securitisations, and introduces rules for issuing simple, transparent and standardised ("STS") transactions. Pursuant to the grandfathering rules of Article 2 of Regulation (EU) No 2017/ 2401, the Company's investments in securitisations (the securities of which were issued before 1 January 2019) continue to be risk weighted under the Standardised Approach in accordance with Articles 242 - 270 of the CRR. A revised approach as outlined in the securitisation framework will apply to all positions from 1st January 2020 onwards. The Company uses the same nominated ECAIs as above for risk weighting securitisations: S&P and Moody's. At 31 October 2019, the Company held two traditional securitisation positions. One of the positions comprises Class A notes of an asset backed securitisation vehicle and the other is a capital note subordinated to other obligations in a larger Asset Backed Commercial Paper conduit. No new transactions were entered into during the year.

Table 40 – Total outstanding securitisation exposures

31 Oct 2019

US$'000	Exposure value		CQS	RWAs		Total RWA	Capital Requirement
	On Balance Sheet	Off Balance Sheet		20%	1250%		
Loans and receivables	291,442	-	1	58,288	-	58,288	4,663
Investment securities mandatorily measured at FVTPL	45,831	-	Unrated	-	572,891	572,891	45,831
Total	**337,273**	**-**		**58,288**	**572,891**	**631,179**	**50,494**

31 Oct 2018

US$'000	Exposure value		CQS	RWAs		Total RWA	Capital Requirement
	On Balance Sheet	Off Balance Sheet		20%	1250%		
Loans and receivables	286,602	-	1	57,320	-	57,320	4,586
Investment securities mandatorily measured at FVTPL	45,176	-	Unrated	-	564,703	564,703	45,176
Total	331,778	-		57,320	564,703	622,023	49,762

The Class A note of ABS is classified as Loans and receivables while the capital note is classified as Investment securities mandatorily measured at FVTPL

The small increase in securitised assets during the period is due to the effect of the depreciation of the US dollar versus GBP on the loans and receivables securitisation position.

Accounting treatment

At inception, exposures to securitisations in the form of debt instruments are classified into one of the following measurement categories: Amortised cost; Fair value through other comprehensive income (FVOCI); or Fair value through profit or loss (FVTPL) for trading related assets and financial instruments mandatorily or optionally designated as such.

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

The Class A notes continue to be measured at their amortised cost using the effective interest method, with their impairment calculated using the expected credit loss (ECL) approach.

The capital note is classified within Investment securities mandatorily measured at FVTPL (as its cash flows do not represent payments that are solely payments of principal and interest – "SPPI") and is measured at fair value in the balance sheet with realised and unrealised gains and losses recognised in the Profit and Loss account as part of net trading income or net gain/loss from other financial instruments carried at fair value. This position is classified as Level 3 as it does not trade in an active market. It is fair valued based on an internally developed model that requires the use of significant unobservable inputs, involving greater management judgment for valuation purposes. The unobservable inputs used in the valuation primarily include assumptions on the level of cash flows and discount rates. These assumptions are reviewed on an ongoing basis by management.

Monitoring of risks

In relation to the capital note position the Company conducts an annual valuation review which incorporates changes in the expected average life, cash flows received and projected, and discount rate to use. The ALCO approve this document. Outside of the formal annual revaluation model review, SIDAC Treasury and Risk Management personnel liaise with the Securitisation Manager at Scotiabank USA on a quarterly basis, or more frequently if required. Various factors are considered such as liquidity, pricing, term of the Commercial Paper, delinquencies, pool amounts, fees and the external economic environment. If any factors are deemed to have a material impact on the pricing assumptions a recommendation to update the valuation can take place outside of the formal annual review process.

In relation to the Class A notes, these are the Senior ranking notes with only net swap payments ranking ahead of principal and interest on the notes. The Company performs monitoring and analysis of the transactions based on the investor report provided by the borrower on a monthly basis. This includes an analysis of delinquency ratios, retention and return rates and the level of overcollateralization. A formal review and update is also provided to the Risk Management function at least annually which includes relevant stress testing.

Credit risk

The securitisations are subject to a credit risk capital charge under the Standardised Approach of US$ 50.5mm as at 31 October 2019 (2018: US$ 49.8mm). Using Moody's ratings, the Class A notes position attract a risk-weighting of 20%. As a result of being unrated, the capital note is risk-weighted at 1250%. The Company does not avail of available techniques of hedging or unfunded protection to mitigate the exposures to securitisations.

Other risks

There are a number of possible inherent risks in purchasing certain securitised notes including: the performance of the underlying assets; the explicit support of the Issuer and its financial stability; volatility in the market value of securitised notes; and liquidity risk that the SPV issuing the purchased securitisation notes has insufficient income from the underlying assets to meet its obligations. The Company is not subject to these other risks in a material way which would require additional regulatory capital beyond what has been provided under the Standardised Approach.

12 Asset Encumbrance

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

The asset encumbrance disclosure templates, shown on the following two pages, have been compiled in accordance with the Commission Delegated Regulation (EU) 2017/2295 on disclosure of encumbered and unencumbered assets under Article 443 of the CRR. The regulation requires that the data is presented as a median calculation. The reported amounts are median values based on quarter end point in time amounts over the year to 31 October 2019.

Table 41 – Encumbered and unencumbered assets

		31 Oct 2019				31 Oct 2018			
US$'000		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090	010	040	060	090
010	**Assets of the reporting institution**	**3,550**		**5,095,780**		47,562		6,862,710	
030	Equity instruments	-		8,320		-		13,686	
040	Debt securities	-	-	2,740,857	2,740,857	41,247	41,247	3,503,393	3,503,393
050	of which: covered bonds	-	-	45,263	45,263	-	-	62,801	62,801
060	of which: asset-backed securities	-	-	45,229	45,229	-	-	45,284	45,284
070	of which: issued by general governments	-	-	1,355,244	1,355,244	4,983	4,983	1,493,161	1,493,161
080	of which: issued by financial corporations	-	-	1,294,218	1,294,218	17,247	17,247	1,475,633	1,475,633
090	of which: issued by non-financial corporations	-	-	508,300	508,300	19,018	19,018	658,065	658,065
120	Other assets	3,550		2,410,757		6,315		3,333,297	

Table 42 – Collateral received (encumbered and unencumbered)

		31 Oct 2019		31 Oct 2018	
US$'000		Fair value of encumbered collateral received or own debt securities issued	Fair value of unencumbered collateral received or own debt securities issued available for encumbrance	Fair value of encumbered collateral received or own debt securities issued	Fair value of unencumbered collateral received or own debt securities issued available for encumbrance
		010	040	010	040
130	**Collateral received by the reporting institution**	-	**160,770**	-	-
140	Loans on demand	-	-	-	-
150	Equity instruments	-	-	-	-
160	Debt securities	-	-	-	-
190	of which: issued by general governments	-	160,770	-	-
220	Loans and advances other than loans on demand	-	-	-	-
230	Other collateral received	-	-	-	-
240	**Own debt securities issued other than own covered bonds or asset-backed securities**	-	-	-	-
241	**Own covered bonds and asset-backed securities issued and not yet pledged**		-		-
250	**Total assets, collateral received and own debt securities issued**	**3,550**		**47,562**	

Table 43 – Sources of encumbrance

		31 Oct 2019		31 Oct 2018	
		Matching liabilities, contingent liabilities or securities lent	**Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered**	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
US$'000		**010**	**030**	**010**	**030**
010	**Carrying amount of selected financial liabilities**	**3,689**	**3,550**	46,972	47,562
011	of which: Derivatives	3,689	3,550	5,635	6,315
012	of which: Repurchase agreements	-	-	41,337	41,247

As an integral aspect of its business, the Company engages in activities that result in certain assets being encumbered. The majority of encumbrance arises from its repo and reverse repo transactions. Other sources of encumbrance are collateral pledged under CSA agreements with OTC derivative counterparties.

The Company primarily adopts standard collateral agreements and collateralises based on industry standard contractual agreements (mostly CSA, ISDA, and GMRA).

13 Remuneration

As SIDAC employees participate in a compensation structure and programmes that apply to BNS employees globally, the SIDAC Board and the BNS Human Resources Committee ("BNS HRC") work together to fulfil the oversight responsibilities contained in their respective mandates outlined below. The SIDAC Board reviews and adopts the BNS Compensation Policy on an annual basis with any differing local practices reflected in a Board approved Addendum to this policy. The most recent adoption of the BNS Compensation Policy was in May 2019 and no material changes were made to the local Addendum.

13.1 Qualitative Disclosure

13.1.1 Governance

Role of SIDAC Board

The SIDAC Board is responsible for oversight of SIDAC's remuneration policy and local regulatory processes, within the overarching framework of the BNS Compensation Policy, the BNS Clawback Policy, as well as SIDAC's Addendum to both policies. SIDAC's remuneration policy sets out a pay-for-performance philosophy that supports the organization's strategic focus, encourages strong corporate performance and helps SIDAC and BNS create and sustain shareholder value over the long term. Among other things, the remuneration policy outlines SIDAC's and BNS' approach to compensation risk oversight in incentive plan design and funding. It outlines the minimum deferral rates for senior executives and individuals whose roles may have a material impact on the risk profile of the business, including roles in control and support functions.

The Board is ultimately responsible for ensuring that SIDAC has in place remuneration policies and practices that are consistent with sound and effective risk management and do not promote excessive risk-taking. The Board monitors remuneration adequacy, effectiveness and related governance and is responsible for overseeing the implementation of and ensuring compliance with SIDAC's remuneration practices in accordance with remuneration-related regulatory requirements and SIDAC's remuneration policy.

SIDAC does not use variable remuneration vehicles or methods that facilitate avoidance of the *EBA Guidelines on Sound Remuneration Policies*.

Additionally, the Board is responsible for:

- Approving the remuneration for executive-level employees[6] as well as other identified Material Risk Takers ("MRTs");

[6] Executive-level employees for the purposes of MRT identification are members of the SIDAC Executive Committee (voting members).

- Approving SIDAC's remuneration policy and overseeing that policies, practices and processes are in compliance with such policy;
- Assessing the achievement of performance targets and the need for any ex-post risk adjustments;
- Reviewing remuneration decisions in the context of SIDAC's risk appetite; and
- Overseeing that appropriate compensation frameworks are in place, which may include the adoption of new incentive plans or material changes to existing plans, in accordance with the compensation programmes and policies of the parent company, BNS.

The Board reviews those material matters that are discussed with, or decisions made by, the BNS HRC which are relevant to SIDAC, and provides local oversight, review and input on remuneration matters, where appropriate. The Board interacts with the BNS HRC as required.

The Board met 17 times during fiscal 2019, of which 5 of the meetings included discussion of remuneration matters. Composition of the Board is as referenced in section 3.1.2 of this document.

During 2019, the Board was supported in executing its remuneration mandate by SIDAC's ROC. The primary objective of the ROC is to provide oversight and guidance on remuneration-related matters and to implement BNS human resources and compensation policies and procedures as applicable to SIDAC. The ROC has reporting responsibility to the Board and the BNS Compensation Review Committee ("BNS CRC", a management committee of BNS) for remuneration-related matters. Specifically, the ROC's remuneration responsibilities include:

- Ensuring all employee incentive plans approved on behalf of SIDAC are in compliance with applicable legislation and regulations and regulatory guidelines including, but not limited to, the remuneration requirements of the CRD IV and related EBA Guidelines and Regulatory Technical Standards/Regulations;
- Annually approving the MRT Identification Procedures, SIDAC MRTs and the MRT Exclusion Report and waiver recommendations submitted to the Board;
- A SIDAC conduct sub-committee of the ROC reviews and approves the list of risk and conduct breach incidents, and recommends ex-ante and/or ex-post adjustments to individual incentive awards for MRTs and other SIDAC employees involved in a material risk or misconduct incident to the BNS CRC for approval by the SIDAC Board; and
- Reviewing the compensation principles and programmes of BNS as applicable to SIDAC.

Role of The Bank of Nova Scotia Human Resources Committee

BNS has an established Human Resources Committee of its Board of Directors (the "Parent Board"), which is responsible for setting global policies for BNS on compensation, overseeing the compensation governance framework and ensuring that compensation arrangements are consistent with and promote effective risk management. The BNS HRC assumes decision-making responsibilities relating to compensation and annual disclosure and related reviews and recommends to the Parent Board for approval the content and effectiveness of the BNS Compensation Policy, as informed by corporate human resources and independent advisors, and ensures that they align with BNS' strategic objectives.

At an Enterprise level, the BNS HRC is responsible for:

- Compensation philosophy and human resources policies and practices – oversees alignment with BNS' pay-for-performance strategy and risk appetite;
- Compensation programmes – oversees material compensation programmes and incentive plans and makes recommendations to the Parent Board with respect to these programmes. Reviews compensation disclosure and recommends approval to the Parent Board prior to publication;
- Compensation governance – reviews evolving governance practices and the alignment of compensation policies with best practices and the remuneration-related requirements of the Financial Stability Board ("FSB"), CBI, EBA and shareholder advisory firms such as Institutional Shareholder Services ("ISS") and Glass Lewis, and monitors compliance; and

- Managing compensation risk – meets with the Parent Board's Risk Committee to jointly review and recommend all key elements of material incentive plans, including plan design, targets, metrics and potential pay-outs. Seeks independent advice and input from a third-party advisor.

The BNS HRC retains an external, qualified third party to advise on compensation matters including matters that are applicable to SIDAC, for example, regulatory trends and updates in the European Union.

The BNS HRC held eight meetings in 2019 (2018: seven meetings), including two joint sessions with the Parent Board's Risk Committee. Additional information on BNS HRC composition and compensation decision-making can be found in the Parent's Management Proxy Circular at http://www.scotiabank.com/ca/en/0,,917,00.html.

13.1.2 Material Risk Taker Criteria

SIDAC follows EBA regulatory technical standards[7] and identifies the following groups of employees as MRTs based on qualitative criteria (related to the role and decision-making authority of employees) and quantitative criteria (related to the level of total gross remuneration in absolute or relative terms):

a) SIDAC executive-level employees;

b) Employees leading business line functions with a significant proportion of revenues, numbers of staff and capital usage;

c) Employees leading control and stewardship functions including risk, compliance, finance, audit and HR;

d) Employees responsible for developing and implementing SIDAC's business line strategy;

e) Employees whose activities are deemed to have a material impact on SIDAC's risk profile;

f) Higher earners and employees involved in trading activities who have a material impact on the risk profile of SIDAC; and

g) SIDAC's non-executive Board members.

13.1.3 Link between pay and performance

In addition to base salary, SIDAC's remuneration programme includes a mix of annual and deferred incentives – which together are variable pay and known as "pay-at-risk" since they are not guaranteed. In compliance with the requirements as set out within Article 94 (1) CRD IV, and SIDAC shareholder approval on July 18, 2014, SIDAC has capped variable pay at a maximum ratio of 200% of fixed compensation for its MRTs.

Total remuneration of SIDAC employees, including MRTs, may be comprised of fixed remuneration (i.e., base salary, non-discretionary pension, other benefits and all allowances including mobility-related allowances) and variable remuneration (i.e., annual incentives and deferred incentives). Severance pay, if any, is determined on a case-by-case basis and involves input from the legal, human resources and compliance departments. Additionally, the advice of external counsel is sought to ensure any severance payment is sound.

In determining the appropriate mix of fixed and variable remuneration, an employee's ability to affect results over the longer term, the mix for similar positions in the markets in which SIDAC competes, and market practice are all considered.

Guaranteed variable remuneration is not part of SIDAC's remuneration approach. However, in particular circumstances, such as in hiring or restructuring situations, such payments may be required. In such cases, payment would only be made in accordance with the provisions of the regulation, including application of deferral and clawback requirements.

Additionally, SIDAC executive-level employees and managing directors are required to hold equity in BNS to ensure their interests are aligned with those of BNS shareholders. Common shares, outstanding share units (example: restricted share units) and holdings through the BNS Employee Share Ownership Plan all count towards meeting this requirement.

[7] Under Article 92(2) of the CRD, the EBA introduced regulatory technical standards to set out the criteria to identify categories of staff whose professional activities have a material impact on the firm's risk profile (Commission Delegated Regulation (EU) No 604/2014 (the 'RTS')).

13.1.4 Design and Structure of Remuneration

Salary

Base salary compensates employees for fulfilling their day-to-day roles and responsibilities, including leadership and management duties. Total remuneration, including base salary and incentives, is reviewed annually and adjusted where appropriate based on each employee's role and experience, sustained performance, internal job value and local external market practice.

Pension Plan

SIDAC operates two registered pension schemes for its employees, a defined benefit pension ("DB") scheme which is closed to new members effective November 2005, and a defined contribution scheme ("DC"). The schemes are funded over the employees' period of service and the assets of the schemes are held in separate trustee-administered funds. In addition, SIDAC makes employer contributions that mirror the DC scheme to Personal Retirement Savings Accounts ("PRSAs") for temporary or fixed-term employees.

Variable Remuneration

Variable pay is comprised of annual incentives and deferred incentives. For all Group Treasury and back- and middle-office employees, including employees in control functions (i.e., risk management, compliance, internal audit and finance) and supporting personnel who are not client-facing, these incentives are delivered through the Annual Incentive Plan ("AIP") and deferred compensation programmes. For GBM front-office employees, these incentives are delivered through the Global Banking and Markets Incentive Plan ("GBMIP") where a portion of the GBMIP award is delivered as upfront incentives and a portion is delivered as deferred incentives. See 13.1.5 and 13.1.6 below.

The separate plans outlined above ensure independence of incentives for control functions from the front-office business they support.

13.1.5 Annual Incentives (Upfront Variable Remuneration)

Rationale & Eligibility Criteria

All SIDAC employees are eligible to participate in an annual incentive plan. Annual incentives are designed to reward employees for their contribution to the achievement of BNS' annual financial and non-financial goals.

In 2019, SIDAC had two annual incentive programmes for employees, including MRTs, designed to reward employees for their contribution to the achievement of annual goals.

- AIP, for all back- and middle-office employees, including employees in control function roles and supporting personnel who are not client-facing, as well as Group Treasury employees;
- GBMIP, for GBM front-office employees in designated units and roles that support revenue generation. The GBMIP programme includes an upfront component and a deferred component. That is, a portion of the annual GBMIP award is paid upfront and the remainder is deferred to provide alignment to BNS' longer-term performance (see 13.1.6 below).

Performance Measurement/Assessment

The AIP rewards employees based on BNS' performance on financial and customer metrics for the fiscal year and also on individual performance, which has a significant impact on final awards. The AIP includes risk-adjusted measures that reflect the full range of potential risks. The aggregate AIP pool is determined based on BNS' achievement on a scorecard of all-Bank measures: ROE, earnings per share ("EPS"), operating leverage and customer goals, adjusted for performance relative to peers, as well as a discretionary risk adjustment that is approved by the Parent Board after considering performance against BNS' Risk Appetite Framework.

The GBMIP rewards eligible employees of GBM for the achievement of GBM's overall and business line objectives. The aggregate GBMIP pool is determined based on GBM's net income before bonus and taxes ("NIBBT") and net income after tax ("NIAT"), adjusted for performance relative to peers and overall BNS performance, as well as a discretionary risk adjustment that is approved by the BNS HRC after considering performance against BNS' Risk Appetite Framework. Individual awards consider individual and business line performance, as well as market positioning and the pool of funds available.

Risk Adjustment

Prior to the awards being approved, the Parent's Chief Risk Officer assesses whether there are any other potential risks that should be reflected in the incentive pool funding and recommends adjustments – where appropriate – to the BNS HRC. Additionally, SIDAC's Managing Director and Chief Risk Officer produces a risk assessment on operations and adherence to business risk appetite. For further details please refer to section 13.1.7.

Deferral and Vesting[8]

For participants in the AIP programme:

- Non-exempt MRTs[9] receive 50% of their AIP award in immediately-vested Restricted Share Units ("RSUs") pursuant to the BNS Restricted Share Unit Plan for Participants in the European Economic Area (the "EEA RSU Plan") and the remainder is paid in non-deferred cash.
- Exempt MRTs[9] and other SIDAC employees participating in AIP receive their full award in non-deferred cash. There is no regulatory restriction on how the payment of their annual incentive should be made.

For participants in the GBMIP programme:

- The percentage of the upfront portion of the GBMIP award varies depending on GBM job level.
- Non-exempt MRTs receive 50% of their GBMIP upfront portion in immediately-vested RSUs pursuant to the EEA RSU Plan and the remainder is paid in non-deferred cash.
- Exempt MRTs and other GBMIP employees receive their full GBMIP upfront portion in cash.

RSUs awarded to all MRTs do not attract reinvested dividend equivalents and are subject to a 12-month retention period prior to payment. Payment of the immediately-vested RSUs is based on the value of the units at the time of payment in cash.

13.1.6 Deferral Incentives (Deferred Variable Remuneration)

Rationale & Eligibility Criteria

A portion of the incentive awards made to MRTs is deferred to reward them for sustained performance over a three- or five-year period. Deferred incentive awards include RSUs and Deferred Cash Awards.

For AIP participants, the EEA RSU Plan is intended for key individuals who have the ability to assist in creating future shareholder value. Employees in control function roles and supporting personnel who are not client-facing at the internal director level and above may be eligible to receive grants of deferred compensation. On a case-by-case basis, in order to meet the deferral requirements of the EBA Guidelines, RSUs may be awarded to non-exempt MRTs below director level (employees below director level are typically not eligible for RSU awards) as a carve-out of their annual incentive.

All GBM front-office employees in client-facing roles and roles that support revenue generation are eligible to participate in the GBMIP programme. Participants may receive a portion of their GBMIP award in deferred incentives which includes EEA RSUs, where the portion of the total deferred incentive is dependent on the total variable incentive awarded and may vary between 15% - 40% depending on GBM job level. The EEA RSU Plan is an integral part of the GBMIP designed to align the interests of GBM employees with those of BNS shareholders. On a case-by-case basis and in order to meet the deferral requirements of the EBA Guidelines, non-exempt MRTs in GBM may receive a higher portion of their incentive as deferred incentive than is indicated by their job level.

Deferred Cash Awards are intended for non-exempt MRTs only. All non-exempt MRTs in SIDAC are eligible to receive Deferred Cash Awards, and such awards make up 50% of the total deferred incentive.

[8] Note that the EBA deferral rules are not a regulatory requirement for SIDAC as the company is not categorised as a significant institution, but SIDAC has chosen to apply the criteria to non-exempt MRTs.
[9] Exempt MRTs are those for whom a waiver has been granted by the CBI, exempting them from full application of the MRT remuneration rules.

Performance Measurement/Assessment

For AIP participants, the EEA RSU Plan is designed to reward nominated employees at the internal director level and certain executives in Ireland for delivering sustained shareholder value.

For GBMIP participants, the EEA RSU Plan allows GBM employees to receive a portion of their incentive award as RSUs tied to BNS common share price.

RSUs gain value with the appreciation in the Parent's common share price.

Deferral and Vesting

AIP participants at the internal director level and above may be eligible to receive grants of deferred compensation in addition to an AIP award. Deferral and vesting of deferred incentives for MRTs are as follows:

- Non-exempt MRTs receive 50% of their deferred award in RSUs and 50% as Deferred Cash Awards. Both RSUs and Deferred Cash Awards vest pro-rata over a three- or five-year deferral period depending on the MRT's role[10]. The portion of the total incentive deferred varies between 40% and 60%, depending on the non-exempt MRT's remuneration[11].
- Exempt MRTs and other AIP-eligible employees, depending on seniority, may receive deferred compensation on a discretionary basis based on individual performance and potential, and awards typically range between 0% - 40% of total incentives received. Awards are made entirely in RSUs that vest 100% at the end of three years.

GBMIP participants receive a portion of their award as deferred compensation.

- Non-exempt MRTs who are GBMIP participants have the same vesting and deferral criteria as non-exempt MRT participants of the AIP programme (see above).
- Exempt MRTs and other GBMIP participants receive their entire deferred award in RSUs that vest in equal instalments over three years. The portion of total deferred incentive varies between 15% - 40% depending on GBM job level.

Risk Adjustments

Prior to the awards vesting, the Parent's Chief Risk Officer assesses whether there are any other potential risks that should be reflected in the amount vesting and recommends adjustments, where appropriate, to the BNS HRC and Risk Committee. Additionally, SIDAC's Chief Risk Officer produces a risk assessment on operations and adherence to business risk appetite. For further details please refer to section 13.1.7.

13.1.7 Risk Management and Risk Adjustment

SIDAC's and BNS' approach to risk management and compensation is to ensure alignment of compensation with the respective organizations' risk profile and risk time horizon. The compensation programme takes into account the risks that employees take on behalf of SIDAC and BNS, and ensures compensation takes into consideration prospective risks and outcomes.

In designing employee compensation programmes, SIDAC and BNS strive to ensure that:

1. Risk is carefully managed, so that all business performance targets and individual/department objectives can be accomplished within established risk policies, limits, processes and standards. The key metrics on which incentive compensation plans are based are approved by the Parent Board. Employees are discouraged from taking unreasonable and excessive risks through a strong internal risk culture that is reinforced by compensation programmes. By delivering incentive compensation through a combination of annual, mid-term and long-term

[10] 3-year vesting for MRTs occurs on a pro-rata basis at the end of years 1 through 3. Where a SIDAC MRT also meets BNS' definition of a Material Risk Impact (MRI) employee a 5-year vesting occurs on a pro-rata basis at the end of years 1 through 5. MRI employees are those employees whose role can have a material impact on BNS' risk profile.

[11] 60% deferral applies to High-earner MRTs which are those MRTs whose variable remuneration exceeds €300,000. 40% deferral applies to all other non-exempt MRTs

incentives that reflect the organization's risk profile and by deferring a substantial portion of the incentive compensation paid to senior executives and other employees whose actions can have a material impact on risk, employees are discouraged from taking unreasonable and excessive risks. Caps are also placed on annual incentive funding in conjunction with stress-testing potential pay-outs and implementing share ownership and post-retirement share retention requirements to ensure shareholder alignment on a long-term basis.

2. The Board is responsible for ensuring compliance with key CBI and EU remuneration regulatory requirements and overseeing the implementation of policies and procedures to support the requirements, including those of the EBA, CBI, CRD IV and CRR. The Compliance function analyses the impact of SIDAC's remuneration on compliance with legislation, regulations, internal policies and risk culture and reports any findings.
3. SIDAC has a compensation adjustment process for all employees, the purpose of which is to maintain the alignment between risk and rewards to ensure that variable remuneration is paid / vests only if it is sustainable, taking into account the financial situation of SIDAC, and justified on the basis of the performance of SIDAC, the business area and the individual(s) concerned. Under this framework, SIDAC may take action to adjust variable remuneration either individually or collectively. This process includes SIDAC's Managing Director and Chief Risk Officer conducting a risk assessment on operations and adherence to business risk appetite, and the Board's assessment on the achievement of performance targets and the need for ex-post risk adjustment, including any proposed application of malus and clawback arrangements in SIDAC. Additionally, the process includes input from SIDAC Finance on the quality and sustainability of net income and profit that feeds into the determination of bonus spend in SIDAC, and evaluations conducted for SIDAC through its ICAAP to ensure SIDAC has been prudent in managing its capital.
4. Measures for incentive programmes are thoroughly reviewed by the BNS senior executive leadership team: A committee has been established of the President and CEO of the Parent and his direct reports, the BNS Human Capital Committee ("BNS HCC"), that provides senior leaders with the opportunity to review and evaluate the key aspects of material incentive programmes from an overall policy and comprehensive risk basis.
5. The Parent Board's Risk Committee participates in reviews of the design and results of incentive programmes: The Risk Committee members and the HRC members jointly review and approve the design, metrics, targets, and payouts of material incentive programmes. In addition, SIDAC's Chief Risk Officer, produces a risk assessment analysis on operations and adherence to business risk appetite.
6. Key control and support functions are focused on overall corporate interests: this focus ensures that compensation for employees responsible for areas such as risk management, legal, compliance, finance, internal audit, anti-money laundering and human resources is tied to overall BNS performance rather than the performance of any one line of business they may support. Control function management has day-to-day responsibility and ultimate accountability for control function employees including hiring decisions, performance appraisals, and compensation.
7. To ensure appropriate linkage between incentive compensation and risk, possible breaches are reviewed for Material Risk Impact (MRI) employees throughout the Parent organisation by the BNS CRC (whose membership includes the global heads of finance, risk management, legal, compliance, internal audit and human resources) and for MRTs in SIDAC by the SIDAC ROC.
8. Clawback provisions: The BNS Clawback Policy and SIDAC's 'Schedule B' of the same policy, applies to covered individuals and employee groups, including SIDAC MRTs. Employees may forfeit outstanding awards, be required to repay previous compensation or have future grants reduced if there is: a) employee misconduct, misbehaviour, fraud or gross negligence; b) material risk management failure of the firm and/or business unit; c) material misstatement of the Parent's or a business of the Parent's financial results; d) material downturn in financial performance; e) significant increases in the Parent's or a business of the Parent's economic or regulatory capital base; or f) any regulatory sanctions where the conduct of the covered individual contributed to the sanctions.
9. Anti-hedging and non-assignability provisions prohibit employees from utilizing hedging strategies or derivatives to circumvent the risk alignment effects of the Parent's compensation programmes.
10. Compensation programmes are reviewed independently of management. The Parent's internal audit group conducts an annual review of compensation programmes and practices, reporting directly to the BNS HRC. The review includes all material compensation plans and programmes, and assessment of the appropriateness of these plans and programmes against organisational goals and risk profile as well as the FSB principles and standards,

and an assessment of appropriateness of pay-outs relative to performance and risk. At the local level, SIDAC's internal audit and compliance teams conduct reviews of the remuneration programmes applicable to SIDAC employees against remuneration-related regulatory requirements.

13.2 Quantitative Disclosure

The following pages show compensation awards and related data for 2019 and prior fiscal year MRTs, all employees (who are not MRTs), and Directors who are not executives of SIDAC. The information is reported by major business areas (Front Office; Control and Support Functions) and by management level (Senior Management[13]; Non-Senior Management). Given the relatively small size of SIDAC's business areas, front office is a consolidation of the Corporate Banking and Group Treasury businesses. The figures reflect the full value of the compensation awarded to MRTs in a manner appropriate to the size, nature and internal organization of SIDAC. No employees received total remuneration exceeding EUR 1 million in either 2019 or the prior fiscal year.

13.2.1 Material Risk Takers

The tables below summarise total remuneration for 2019 and prior fiscal year for MRTs and includes variable remuneration awards made after the end of the fiscal year to reflect decisions made during the compensation planning cycle. The Deferred Remuneration Outstanding table is a snapshot of outstanding deferred remuneration as of October 31st and deferred remuneration awarded / redeemed during the respective fiscal year.

During 2019, no sign-on payments were made to MRTs (2018: nil), and no MRTs received severance payments during fiscal 2019 (2018: one former MRT received a non-deferred severance payment of US$936,560. Per EBA guidelines, this mandatory severance payment was not included in the calculation of the former employee's ratio between variable to fixed remuneration; and has not been included in any of the tables below).

Table 44 – Fixed and Variable Remuneration for 2019 MRTs (pro-rated for part-year MRTs or employees who joined SIDAC or transferred in from or out to the BNS group)

31 October 2019 US$'000	**Remuneration for the fiscal year**	**Front Office[12]**	**Control and Support Functions**	**Senior Management[13]**	**Non-Senior Management**
Number of Identified Staff	**15**	**7**	**8**	**9**	**6**
Fixed					
Cash[14]	2,863	880	1,983	2011	852
Total Fixed Pay	**2,863**	**880**	**1,983**	**2011**	**852**
Variable					
Non-deferred cash	357	135	222	255	102
Non-deferred share linked instruments	357	135	222	255	102
Deferred cash	283	111	172	215	68
Deferred share linked instruments	283	111	172	215	68
Total Variable Pay	**1,280**	**492**	**788**	**940**	**340**
Total remuneration	**4,143**	**1,372**	**2,771**	**2951**	**1192**
Ratio between variable and fixed component of remuneration	**45%**	**56%**	**41%**	**47%**	**40%**

[12] Front Office Includes Group Treasury and Corporate Banking Employees
[13] For purposes of quantitative disclosures, 'Senior Management' in these tables refers to the SIDAC Executive Committee (voting members). For additional clarity, this is different than the definition of MRI employee used for the purpose of applying deferral rules (see section 13.1.7).
[14] Includes base salary, pension, benefits and total allowances. Base salaries are reflected at a point in time (e.g. 31 October 2019 for full-year MRTs) for consistency with how variable pay awards are determined.

Table 45 – Variable pay earned during fiscal year 2019 for MRTs, split between cash and share-linked instruments

31 October 2019 US$'000	Awarded for the fiscal year	Front Office[12]	Control and Support Functions	Senior Management[13]	Non-Senior Management
Number of Identified Staff	**15**	**7**	**8**	**9**	**6**
Cash					
Non-deferred cash	357	135	222	255	102
Deferred cash	283	111	172	215	68
Total Cash	**640**	**246**	**394**	**470**	**170**
Share Linked Instruments					
Non-deferred share linked instruments	357	135	222	255	102
Deferred share linked instruments	283	111	172	215	68
Total Share Linked Instruments	**640**	**246**	**394**	**470**	**170**
Total Variable Pay	**1,280**	**492**	**788**	**940**	**340**

Table 46 – Deferred remuneration outstanding as at 31 October 2019 and awarded/redeemed in fiscal 2019

The values of outstanding awards are estimated using the closing share price of BNS common shares on 31 October, 2019 of C$75.54. The table includes former MRTs who remain entitled to deferred compensation (i.e., deferred cash, deferred share-linked instruments), as well as prior awards granted to MRTs including grants when the employees were employed by SIDAC but not in MRT roles. The table does not include deferred remuneration that was awarded in December 2019 for fiscal 2019 – these awards will be included in the 2020 Pillar 3 disclosure table.

31 October 2019 US$'000	Total deferred remuneration	Front Office[12]	Control and Support Functions	Senior Management[13]	Non-Senior Management
Outstanding and Vested[15]	26	-	26	12	14
Outstanding and Unvested	1,543	317	1,226	918	625
Awarded during financial year	1,016	161	855	654	362
Paid Out	428	136	292	202	225
Reduced through performance adjustments	-	-	-	-	-

Table 47 – Fixed and Variable Remuneration for 2018 MRTs (pro-rated for part-year MRTs or employees who joined SIDAC or transferred in from or out to the BNS group)

31 October 2018 US$'000	Remuneration for the fiscal year	Front Office[12]	Control and Support Functions	Senior Management[13]	Non-Senior Management
Number of Identified Staff	**14**	**5**	**9**	**7**	**7**
Fixed					
Cash[14]	2,861	771	2,090	1,573	1,288
Total Fixed Pay	**2,861**	**771**	**2,090**	**1,573**	**1,288**
Variable					
Non-deferred cash	370	82	288	226	144
Non-deferred share linked instruments	370	82	288	226	144
Deferred cash	274	55	219	178	96
Deferred share linked instruments	274	55	219	178	96
Total Variable Pay	**1,288**	**274**	**1,014**	**808**	**480**
Total remuneration	**4,149**	**1,045**	**3,104**	**2,381**	**1,768**
Ratio between variable and fixed component of remuneration	**45%**	**36%**	**49%**	**51%**	**37%**

[15] Vesting Includes the additional 12-month retention period for EEA RSUs prior to payment.

Table 48 – Variable pay earned during fiscal year 2018 for MRTs, split between cash and share-linked instruments

31 October 2018 US$'000	**Awarded for the fiscal year**	**Front Office**[12]	**Control and Support Functions**	**Senior Management**[13]	**Non-Senior Management**
Number of Identified Staff	**14**	**5**	**9**	**7**	**7**
Cash					
Non-deferred cash	370	82	288	226	144
Deferred cash	274	55	219	178	96
Total Cash	**644**	**137**	**507**	**404**	**240**
Share Linked Instruments					
Non-deferred share linked instruments	370	82	288	226	144
Deferred share linked instruments	274	55	219	178	96
Total Share Linked Instruments	**644**	**137**	**507**	**404**	**240**
Total Variable Pay	**1,288**	**274**	**1,014**	**808**	**480**

Table 49 – Deferred remuneration outstanding as at 31 October, 2018 and awarded/redeemed in fiscal 2019

The values of outstanding awards are estimated using the closing share price of BNS' common shares on 31 October 2018 of C$70.65. The table includes former MRTs who remain entitled to deferred compensation (i.e., deferred cash, deferred share-linked instruments), as well as prior awards granted to MRTs including grants when the employees were employed by SIDAC but not in MRT roles. The table does not include deferred remuneration that was awarded in December 2018 for fiscal 2018 – these awards are included in the 2019 table above.

Additionally, this table includes outstanding and redeemed deferred remuneration for the former CEO whose assignment ended in May 2018 but does not include information for the CEO as her assignment to SIDAC was effective May 2018 – these awards are included in the 2019 table above.

31 October 2018 US$'000	**Total deferred remuneration**	**Front Office**[12]	**Control and Support Functions**	**Senior Management**[13]	**Non-Senior Management**
Outstanding and Vested[15]	18	-	18	18	-
Outstanding and Unvested	882	279	603	783	99
Awarded during financial year	643	215	428	610	33
Paid Out	936	243	694	910	26
Reduced through performance adjustments	-	-	-	-	-

13.2.2 All Employees (who are not MRTs)

The table below summarises total remuneration earned during the 2019 and prior fiscal year for all employees of SIDAC (excluding MRTs) and includes variable remuneration awards made after the end of the fiscal year to reflect decisions made during the compensation planning cycle. This table does not include any mandatory severance payments made to employees who have departed the firm (mandatory severance payments made to departed MRTs are disclosed above).

Table 50 – All employee remuneration (excluding MRTs)

US$'000	**Fixed Remuneration**	**Variable Remuneration**	**Total Remuneration**	**Number of Employees**
31 October 2019				
Control and Support Functions	4,333	741	5,074	49
Front Office	499	93	592	8
Total	4,832	834	5,666	57
31 October 2018				
Control and Support Functions	3,699	700	4,399	33
Front Office	686	216	902	15
Total	**4,385**	**916**	**5301**	**48**

13.2.3 SIDAC Board

The table below summarises total remuneration earned during the 2019 and prior fiscal year for remunerated Directors who are not executives of SIDAC. For additional clarity, the table includes remuneration for the two Chairmen of the Board in 2019. In the previous year, the Chairman of the Board was not remunerated. These Directors received their entire remuneration as fixed compensation (i.e., they received no variable compensation).

Additionally, the table includes remuneration for the two Chairmen of the Board in fiscal 2019 (both former and current Chairmen are retired from BNS). In the previous year, the Chairman of the Board was a non-executive Director who was not independent and did not receive any remuneration from SIDAC in 2018.

Table 51 – Non-Executive Director Remuneration

US$'000	Fixed Remuneration	Variable Remuneration	Total Remuneration		Number of Non-Executive Directors
31 October 2019	261	-	261		7
31 October 2018	150	-	150		4

14 Appendix 1 – Countercyclical Capital Buffer

The Company is required to maintain an institution specific countercyclical buffer ("CcyB"). The table below shows the geographical distribution of the Company's credit exposure relevant for the calculation of its CcyB:

Table 52 – Countercyclical capital buffer – geographical distribution of credit exposures

US$'000	**Own Funds requirements**					
Country	of which: General Credit exposures	of which: Securitisation	Total Own Funds requirements	**Own Funds requirements weights**	**CcyB rate**	**Weighted CcyB rate**
United Arab Emirates	1,986		1,986	0.007		
Belgium	2,827		2,827	0.010		
Bermuda	5,663		5,663	0.020		
Bahamas	1,604		1,604	0.006		
Canada	559		559	0.002		
Switzerland	6,126		6,126	0.022		
Germany	10,735		10,735	0.039		
Spain	2,320		2,320	0.008		
Finland	3,533		3,533	0.013		
France	31,634		31,634	0.114	0.25%	0.000284
United Kingdom	61,303		61,303	0.221	1.00%	0.002205
Ireland	8,790		8,790	0.032	1.00%	0.000316
Isle of man	885		885	0.003		
Jersey	12,129		12,129	0.044		
Cayman Islands	7,999		7,999	0.029		
Luxembourg	4,791	4,663	9,454	0.034		
Marshall Islands	904		904	0.003		
Netherlands	15,374		15,374	0.055		
Norway	426		426	0.002	2.00%	0.000031
Poland	3,000		3,000	0.011		
Sweden	1,785		1,785	0.006	2.50%	0.000160
United States	41,287	45,831	87,118	0.313		
Virgin Islands	1,851		1,851	0.007		
Total	**227,511**	**50,494**	**278,005**	**1.000**		**0.002997**

The additional countercyclical capital buffer requirement as at 31 October 2019 is shown below for the Company (31 October 2018: US$ 11.2mm)

Table 53 – Countercyclical capital buffer

US$'000	
Total Risk Exposure amount	3,929,038
Institution specific countercyclical capital buffer	0.2997%
Institution specific countercyclical capital buffer requirement	**11,775**

15 Appendix 2 – CRR Roadmap

Table 54 – CRR Roadmap

CRR Ref	High Level Summary	Company Reference
431	**Scope of disclosure requirements**	
431 (1)	Requirement to publish Pillar 3 disclosures.	Scotiabank (Ireland) Designated Activity Company Pillar 3 Disclosures as at October 2019
431 (2)	Firms with permission to use specific operational risk methodologies must disclose operational risk information.	Not applicable
431 (3)	Institution must have a policy covering frequency of disclosures, their verification, comprehensiveness and overall appropriateness.	Section 1.3
431 (4)	Explanation of ratings decision upon request.	Not applicable
432	**Non-material, proprietary or confidential Information**	
432 (1)	Institutions may omit information that is not material if certain conditions are respected.	SIDAC complies with all relevant disclosure requirements with regards to non-material, proprietary or confidential information.
432 (2)	Institutions may omit information that is proprietary or confidential if certain conditions are respected.	
432 (3)	Where 432 (1) and (2) apply this must be stated in the disclosures, and more general information must be disclosed.	
432 (4)	Use of 432 (1) or (2) is without prejudice to scope of liability for failure to disclose material information.	
433	**Frequency of disclosure**	
433 (1)	Disclosures must be published once a year at a minimum, and more frequently if necessary.	Section 1.3
433 (2)	Disclosures should be published in line with the publication of the Financial Statements	Section 1.3
434	**Means of disclosures**	
434 (1)	To include of disclosures in one appropriate medium, or provide clear cross-references.	Section 1.3
434 (2)	Disclosures made under other requirements (e.g. accounting) can be used to satisfy Pillar 3 if appropriate.	Not applicable
435	**Risk management objectives and policies**	
435 (1) (a)	Disclose information on strategies and processes; organisational structure, reporting systems and risk mitigation/hedging.	Sections 3 -10 as applicable for each of the risks
435 (1) (b)		
435 (1) (c)		
435 (1) (d)		
435 (1) (e)	Inclusion of a declaration approved by the Board on adequacy of risk management arrangements.	Section 3
435 (1) (f)	Inclusion of a concise risk statement approved by the Board.	Section 3
435 (2)	Information on governance arrangements, including information on Board composition and recruitment, and risk committees.	Section 3.1
435 (2) (a)	Number of directorships held by directors.	Section 3.1
435 (2) (b)	Recruitment policy of Board members, their experience and expertise.	Section 3.1
435 (2) (c)	Policy on diversity of Board membership and results against targets.	Section 3.1
435 (2) (d)	Disclosure of whether a dedicated risk committee is in place, and number of meetings in the year.	Section 3.1
435 (2) (e)	Description of information flow on risk to Board.	Section 3.1 Section 3.3
436	**Scope of application**	
436 (a)	Name of institution.	Section 1.1
436 (b)	Difference in basis of consolidation for accounting and prudential purposes, naming entities that are:	Section 1.3
436 (b) (i)	Fully consolidated;	Not applicable
436 (b) (ii)	Proportionally consolidated;	Not applicable

CRR Ref	High Level Summary	Company Reference
436 (b) (iii)	Deducted from own funds;	Not applicable
436 (b) (iv)	Neither consolidated nor deducted.	Not applicable
436 (c)	Impediments to transfer of funds between parent and subsidiaries.	Not applicable
436 (d)	Capital shortfalls in any subsidiaries outside of scope of consolidation.	Not applicable
436 (e)	Making use of articles on derogations from a) prudential requirements or b) liquidity requirements for individual subsidiaries/entities.	Not applicable
437	**Own funds**	
437 (1) 437 (1) (a) 437 (1) (b) 437 (1) (c) 437 (1) (d) (i) 437 (1) (d) (ii) 437 (1) (d) (iii) 437 (1) (e) 437 (1) (f)	Requirements regarding capital resources table.	Section 2.3 Appendix 1 Appendix 4 Appendix 5
437 (2)	EBA to publish implementation standards for points above.	Not applicable
438	**Capital requirements**	
438 (a)	Summary of institution's approach to assessing adequacy of capital levels.	Section 2
438 (b)	Result of ICAAP on demand from authorities.	Not applicable
438 (c)	Capital requirement amounts for credit risk for each Standardised Approach exposure class.	Section 4.3
438 (d) (i) 438 (d) (ii) 438 (d) (iii) 438 (d) (iv)	Capital requirements amounts for credit risk for each Internal Ratings Based Approach exposure class.	Not applicable
438 (e)	Capital requirements amount for market risk or settlement risk, or large exposures where they exceed limits.	Section 5.1
438 (f)	Capital requirement amounts for operational risk, separately for the basic indicator approach, the standardised approach, and the advanced measurement approaches as applicable.	Section 2.3
438 endnote	Requirement to disclose specialised lending exposures and equity exposures in the banking book falling under the simple risk weight approach.	Not applicable
439	**Exposure to counterparty credit risk (CCR)**	
439 (a)	Description of process to assign internal capital and credit limits to CCR exposures.	Section 4.6
439 (b)	Discussion of process to secure collateral and establishing reserves.	Section 4.6
439 (c)	Discussion of management of wrong-way exposures.	Section 4.8
439 (d)	Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade.	Section 4.6
439 (e)	Derivation of net derivative credit exposure.	Section 4.6
439 (f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods.	Section 4.6
439 (g)	Notional value of credit derivative hedges and current credit exposure by type of exposure.	Not applicable
439 (h)	Notional amounts of credit derivative transactions for own credit, intermediation, bought and sold, by product type.	Not applicable
439 (i)	Estimate of alpha, if applicable.	Not applicable
440	**Capital buffers**	

CRR Ref	High Level Summary	Company Reference
440 (1) (a)	Geographical distribution of relevant credit exposures.	Section 4.3 and Appendix 3
440 (1) (b)	Amount of the institution specific countercyclical capital buffer.	Appendix 1
440 (2)	EBA will issue technical implementation standards related to 440 (1).	Not applicable
441	**Indicators of global systemic importance**	
441 (1)	Disclosure of the indicators of global systemic Importance.	Not applicable
441 (2)	EBA will issue technical implementation standards related to 441 (1).	Not applicable
442	**Credit risk adjustments**	
442 (a)	Disclosure of bank's definitions of past due and impaired.	Section 4.5
442 (b)	Approaches for calculating credit risk adjustments.	Section 4.5
442 (c)	Disclosure of pre-CRM EAD by exposure class.	Section 4.3
442 (d)	Disclosures of pre-CRM EAD by geography and exposure class.	Section 4.3
442 (e)	Disclosures of pre-CRM EAD by industry and exposure class.	Section 4.3
442 (f)	Disclosures of pre-CRM EAD by residual maturity and exposure class.	Section 4.3
442 (g) 442 (g) (i) 442 (g) (ii) 442 (g) (iii)	Breakdown of impaired, past due, specific and general credit adjustments, and impairment charges for the period, by exposure class or counterparty type.	Section 4.5
442 (h)	Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography.	Section 4.5
442 (i) 442 (i) (i) 442 (i) (ii) 442 (i) (iii) 442 (i) (iv) 442 (i) (v)	Reconciliation of changes in specific and general credit risk adjustments.	Section 4.5
442 endnote	Specific credit risk adjustments recorded to income statement are disclosed separately.	Section 4.5
443	**Unencumbered assets**	
443	EBA shall issue guidelines specifying the disclosure of unencumbered assets	Section 12
444	**Use of ECAIs**	
444 (a)	Names of the ECAIs used in the calculation of Standardised Approach RWAs, and reasons for any changes.	Section 4.2
444 (b)	Exposure classes associated with each ECAI.	Section 4.2
444 (c)	Explanation of the process for translating external ratings into credit quality steps.	Section 4.2
444 (d)	Mapping of external rating to credit quality steps.	Section 4.2
444 (e)	Exposure value pre- and post-credit risk mitigation, by credit quality step.	Section 4.3
445	**Exposure to market risk**	
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.	Section 5.1
446	**Operational risk**	
446	Disclosure of the scope of approaches used to calculate operational risk, discussion of advanced methodology and external factors considered.	Section 6.2
447	**Exposure in equities not included in the trading book**	
447 (a)	Differentiation of exposures based on objectives.	Not applicable
447 (b)	Recorded and fair value and actual prices of exchange traded equity where it differs from fair value.	Not applicable
447 (c)	Types, nature and amounts of the relevant classes of equity exposures.	Not applicable
447 (d)	Realised cumulative gains and losses on sales over the period.	Not applicable

CRR Ref	High Level Summary	Company Reference
447 (e)	Total unrealised gains/losses, latent revaluation gains/losses, and amounts included within Tier 1 capital.	Not applicable
448	**Exposure to interest rate risk on positions not included in the trading book**	
448 (a)	Nature of risk and key assumptions in measurement models.	Section 5.1
448 (b)	Variation in earnings or economic value, or other measures used by the bank from upward and downward shocks to interest rates, by currency.	Section 5.1
449	**Exposure to securitisation positions**	
449 (a)	Objectives in relation to securitisation activity.	Section 11
449 (b)	Nature of other risks in securitised assets, including liquidity.	Section 11
449 (c)	Risks in re-securitisation activity stemming from seniority of underlying securitisations and ultimate underlying assets.	Section 11
449 (d)	The roles played by institutions in the securitisation process.	Section 11
449 (e)	Indication of the extent of involvement in these roles.	Section 11
449 (f)	Processes in place to monitor changes in credit and market risks of securitisation exposures, and how the processes differ for re-securitisation exposures.	Section 11
449 (g)	Description of the institution's policies with respect to hedging and unfunded protection, and identification of material hedge counterparties.	Not applicable
449 (h)	Approaches to calculation of RWA for securitisations mapped to types of exposures.	Section 11
449 (i)	Types of SSPEs used to securitise third-party exposures, and list of SSPEs.	Not applicable
449 (j)	Summary of accounting policies for securitisations:	Section 11
449 (j) (i)	Treatment of sales or financings;	Section 11
449 (j) (ii)	Recognition of gains on sales;	Section 11
449 (j) (iii)	Approach to valuing securitisation positions;	Not applicable
449 (j) (iv)	Treatment of synthetic securitisations;	Not applicable
449 (j) (v)	Valuation of assets awaiting securitisations;	Not applicable
449 (j) (vi)	Recognition of arrangements that could require the bank to provide support to securitised assets.	Not applicable
449 (k)	Names of ECAIs used for securitisations.	Section 11
449 (l)	Full description of Internal Assessment Approach.	Not applicable
449 (m)	Explanation of changes in quantitative disclosures.	Section 11
449 (n)	Banking and trading book securitisation exposures:	
449 (n) (i)	Amount of outstanding exposures securitised;	Not applicable
449 (n) (ii)	On balance sheet securitisation retained or purchased, and off-balance sheet exposures;	Section 11
449 (n) (iii)	Amount of assets awaiting securitisation;	Not applicable
449 (n) (iv)	Early amortisation treatment; aggregate drawn exposures, capital requirements;	Not applicable
449 (n) (v)	Deducted or 1250%-weighted securitisation positions;	Not applicable
449 (n) (vi)	Amount of exposures securitised and recognised gains or losses on sales.	Not applicable
449 (o)	Banking and trading book securitisations by risk band:	
449 (o) (i)	Retained and purchased exposure and associated capital requirements, broken down by risk-weight bands;	Section 11
449 (o) (ii)	Retained and purchased re-securitisation exposures before and after hedging and insurance; exposure to financial guarantors broken down by guarantor credit worthiness.	Not applicable
449 (p)	Impaired assets and recognised losses related to banking book securitisations, by exposure type.	Not applicable
449 (q)	Exposure and capital requirements for trading book securitisations, separately into traditional.	Not applicable
449 (r)	Whether the institution has provided financial support to securitisation vehicles.	Not applicable
450	**Remuneration Policy**	
450	Disclosures on Remuneration	Section 13

CRR Ref	High Level Summary	Company Reference
451	**Leverage**	
451 (1) (a)	Leverage ratio, and breakdown of total exposure measure, including reconciliation to Financial Statements, and derecognised fiduciary items.	Section 2.4
451 (1) (b)		
451 (1) (c)		
451 (1) (d)	Description of the risk management approach to mitigate excessive leverage, and factors that impacted the leverage ratio during the year.	Section 2.4
451 (1) (e)		
451 (2)	EBA to publish implementation standards for points above.	Not applicable
452	**Use of the IRB Approach to credit risk**	
452 (a)	Permission for use of the IRB approach from authority.	Not applicable
452 (b)	Explanation of:	
452 (b) (i)	Internal rating scales mapped to external ratings;	
452 (b) (ii)	Use of internal ratings for purposes other than capital requirement calculations;	
452 (b) (iii)	Management and recognition of credit risk mitigation;	
452 (b) (iv)	Controls around ratings systems.	
452 (c)	Description of ratings processes for each IRB asset class, provided separately.	
452 (c) (i)		
452 (c) (ii)		
452 (c) (iii)		
452 (c) (iv)		
452 (c) (v)		
452 (d)	Exposure values by IRB exposure class, separately for Advanced and Foundation IRB.	
452 (e)	For wholesale exposure classes, disclosed separately by obligor grade:	
452 (e) (i)	Total exposure, separating loans and undrawn exposures where applicable;	
452 (e) (ii)	Exposure-weighted average risk weight;	
452 (e) (iii)	Undrawn commitments and average exposure values by asset class.	
452 (f)	For retail exposure classes, same disclosures as under 452 (e), by risk grade or EL grade.	
452 (g)	Actual specific risk adjustments for the period and explanation of changes.	
452 (h)	Commentary on drivers of losses in preceding period.	
452 (i)	Disclosure of predicted against actual losses for sufficient period, and historical analysis to help assess the performance of the rating system over a sufficient period.	
452 (j)	For all IRB exposure classes:	
452 (j) (i)	Where applicable, PD and LGD by each country where the bank operates.	
452 (j) (ii)		
453	**Use of credit risk mitigation techniques**	
453 (a)	Use of on- and off-balance sheet netting.	Not applicable
453 (b)	How collateral valuation is managed.	Section 4.4
453 (c)	Description of types of collateral used	Section 4.4
453 (d)	Types of guarantor and credit derivative counterparty, and their creditworthiness.	Section 4.4
453 (e)	Disclosure of market or credit risk concentrations within risk mitigation exposures.	Section 4.4 Section 5.2
453 (f)	For exposures under either the Standardised or Foundation IRB approach, disclose the exposure value covered by eligible collateral.	Section 4.4
453 (g)	Exposures covered by guarantees or credit derivatives.	Section 4.4
454	**Use of the Advanced Measurement Approaches to operational risk**	
454	Description of the use of insurance or other risk transfer mechanisms to mitigate operational risk.	Not applicable

CRR Ref	High Level Summary	Company Reference
455	**Use of Internal Market Risk Models**	
455 (a) (i)	Disclosure of the characteristics of the market risk models.	Not applicable
455 (a) (ii)	Disclosure of the methodology and description of comprehensive risk measure and incremental risk charge.	
455 (a) (iii)	Descriptions of stress tests applied to the portfolios.	
455 (a) (iv)	Methodology for back-testing and validating the models.	
455 (b)	Scope of permission for use of the models.	
455 (c)	Policies and processes to determine which exposures are to be included in the trading book, and to comply with prudential valuation requirements.	
455 (d)	High/Low/Mean values over the year of VaR, sVaR, comprehensive risk measure and incremental risk charge.	
455 (d) (i)		
455 (d) (ii)		
455 (d) (iii)		
455 (e)	The elements of the own fund calculation.	
455 (f)	Weighted average liquidity horizons of portfolios covered by models.	
455 (g)	Comparison of end-of-day VaR measures compared with one-day changes in portfolio's value.	

16 Appendix 3 – Geographical Distributions

For all tables that require a breakdown by geographical distribution, a threshold of 5% of the net value of exposures by geographical area has been used as the materiality threshold for disclosure of individual jurisdictions.

As such the immaterial jurisdictions are as follows:

1. Other European countries: Belgium, Switzerland, Denmark, Spain, Finland, Guernsey, Isle of Man, Jersey, Luxembourg, Norway, Poland, Sweden.
2. Other Asia-Pacific countries: Hong Kong, New Zealand, Singapore.
3. Other geographical areas: United Arab Emirates, Bermuda, Bahamas, Cayman Islands, Marshal Islands, Virgin Islands.

Also included in 'other geographical areas' are the following supranational organisations, as per EBA guidance:

Asian Development Bank, Council of Europe Development Bank, European Investment Bank, Inter-American Development Bank, International Bank for Reconstruction and Development, International Finance Corporation, Nordic Investment Bank.

17 Appendix 4 – Own Funds Disclosure

Table 55 – Own funds disclosure template

		AMOUNT AT		
		31 OCTOBER 2019	31 OCTOBER 2018	CRR Article Reference
	Common Equity Tier 1 capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	40,000	40,000	26(1), 27, 28, 29
	of which: Ordinary shares	40,000	40,000	
2	Retained earnings	1,572,013	2,166,578	26(1)(c)
3	Accumulated other comprehensive income (and any other reserves)	12,083	812,837	26(1)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**1,624,096**	**3,019,415**	
	Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(1,781)	(2,400)	34, 105
8	Intangible assets (net of related tax liability) (negative amount)	(462)	(500)	36(1)(b), 37
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)	-	-	36(1)(j)
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(2,243)**	**(2,900)**	
29	**Common Equity Tier 1 (CET1) capital**	**1,621,853**	**3,016,515**	
44	**Additional Tier 1 (AT1) capital**	**-**	**-**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**1,621,853**	**3,016,515**	
	Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	40,000	40,000	62, 63
58	**Tier 2 (T2) capital**	**40,000**	**40,000**	
59	**Total capital (TC = T1 + T2)**	**1,661,853**	**3,056,515**	
60	**Total risk-weighted assets**	**3,901,155**	**4,958,993**	
	Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of total risk exposure amount	41.6%	60.8%	92(2)(a)
62	Tier 1 (as a percentage of total risk exposure amount)	41.6%	60.8%	92(2)(b)
63	Total capital (as a percentage of total risk exposure amount)	42.6%	61.6%	92(2)(c)
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	2.17%	2.10%	CRD 128, 129, 130, 131,133
65	of which: capital conservation buffer requirement	1.88%	1.88%	
66	of which: countercyclical buffer requirement	0.30%	0.22%	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)[1]	37.1%	56.3%	CRD 128
	Amounts below the thresholds for deduction (before risk-weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions	-	-	36(1)(h), 45, 46, 56(c), 59, 60, 66(c), 69, 70
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions	-	-	36(1)(i), 45, 48
	Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	-	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	48,764	61,987	62

18 Appendix 5 – Reconciliation of equity in the Financial Statements to Regulatory own funds and main features of the Company's capital instruments

The tables below show the reconciliation between the equity reported in the Financial Statements to Regulatory own funds and the main features of the Company's capital instruments issued.

Table 56 – Reconciliation of equity in Financial Statements to Regulatory own funds

	Fully Loaded	
US$'000	**31 October 2019**	**31 October 2018**
Capital base		
Shareholder's funds[1]	1,664,096	3,059,415
Less Tier 2 instruments[2]	(40,000)	(40,000)
Total equity less instruments not qualifying as CET1	1,624,096	3,019,415
Regulatory adjustments[3]		
Value adjustments due to the requirements for prudent valuation	(1,781)	(2,400)
Intangible assets	(462)	(500)
Common equity tier 1	**1,621,853**	**3,016,515**
Additional tier 1	-	-
Total tier 1 capital	**1,621,853**	**3,016,515**
Tier 2		
Tier 2 instruments	40,000	40,000
Total tier 2 capital	**40,000**	**40,000**
Total capital	**1,661,853**	**3,056,515**

(1) As per page 13 of the Company's Financial Statements.

(2) See table 50 (preference shares)

(3) CRD IV transitional rules that were applicable to SIDAC have lapsed since 2018 and all measures are fully phased in. Last year the Company adopted IFRS 9 and elected not to apply the new transitional arrangements specified in Article 473(a) of the CRR. As such, the Company's own funds, capital and leverage ratios already reflect the full impact of IFRS 9 ECLs.

Table 57 – Capital instruments main features template – Ordinary equity

Capital instruments main features templates				
1	Issuer	Scotiabank (Ireland) DAC	Scotiabank (Ireland) DAC	Scotiabank (Ireland) DAC
2	Unique identifier (1)	N/A	N/A	N/A
3	Governing laws of the instrument (2)	Irish law	Irish law	Irish law
	Regulatory treatment			
4	Transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1	Common Equity Tier 1
6	Eligible at: solo; consolidated; solo & consolidated	Solo	Solo	Solo
7	Instrument type	Ordinary shares	Ordinary shares	Ordinary shares
8	Amount recognised in regulatory capital (US$'000)	5,000	15,000	20,000
9	Nominal amount of instrument (US$'000)	5,000	15,000	20,000
9a	Issue price	US$ 1.00	US$ 1.00	US$ 1.00
9b	Redemption price	N/A	N/A	N/A
10	Accounting classification	Shareholders' equity	Shareholders' equity	Shareholders' equity
11	Original date of issuance	31 Aug 1989	06 Jul 1990	07 Jul 1992
12	Perpetual or dated	Perpetual	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity	No maturity
14	Issuer call subject to prior Supervisory approval	N/A	N/A	N/A
15	Optional call date	N/A	N/A	N/A
	Contingent call dates and redemption amount	N/A	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A	N/A

Capital instruments main features templates				
	Coupon/dividends			
17	Fixed or floating dividend/coupon	N/A	N/A	N/A
18	Coupon rate and any related index	N/A	N/A	N/A
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory - in terms of timing	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory - in terms of amount	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	N/A	N/A	N/A
22	Noncumulative or cumulative	N/A	N/A	N/A
23	Convertible or non-convertible	N/A	N/A	N/A
24	If convertible, conversion trigger(s)	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A
30	Write-down features	N/A	N/A	N/A
31	If write-down, write down triggers	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism (4)	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation	N/A	N/A	N/A
36	Non-compliant transitioned features	No	No	No
37	If yes, specify non-compliant features	N/A	N/A	N/A

Table 58 – Capital instruments main features – Preference shares

Capital instruments main features templates			
1	Issuer	Scotiabank (Ireland) DAC	Scotiabank (Ireland) DAC
2	Unique identifier (1)	N/A	N/A
3	Governing laws of the instrument (2)	Irish law	Irish law
	Regulatory treatment		
4	Transitional CRR rules	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2
6	Eligible at: solo; consolidated; solo & consolidated	Solo	Solo
7	Instrument type	Preference Shares	Preference Shares
8	Amount recognised in regulatory capital (US$'000)	20,000	20,000
9	Nominal amount of instrument (US$'000)	20,000	20,000
9a	Issue price	US$ 1.00	US$ 1.00
9b	Redemption price	US$ 1.00	US$ 1.00
10	Accounting classification	Shareholders' equity	Shareholders' equity
11	Original date of issuance	06 Jul 1990	07 Jul 1992
12	Perpetual or dated	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity

Capital instruments main features templates			
14	Issuer call subject to prior Supervisory approval	Yes	Yes
15	Optional call date	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A
	Coupon/dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	6-month LIBOR	6-month LIBOR
19	Existence of a dividend stopper	No	No
20a	Fully discretionary, partially discretionary or mandatory - in terms of timing	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory - in terms of amount	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	N/A	N/A
22	Noncumulative or cumulative	Noncumulative	Noncumulative
23	Convertible or non-convertible	N/A	N/A
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	N/A	N/A
31	If write-down, write down triggers	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism (4)	N/A	N/A
35	Position in subordination hierarchy in liquidation	N/A	N/A
36	Non-compliant transitioned features	No	No
37	If yes, specify non-compliant features	N/A	N/A