STATEMENT OF INVESTMENT PRINCIPLES SEPTEMBER 2019

SCOTIABANK PENSION SCHEME (UNITED KINGDOM AND CHANNEL ISLANDS)

1. Introduction

The SPS UK Trustee Limited as Trustee to the Scotiabank Pension Scheme (United Kingdom and Channel Islands) (the "Scheme") has drawn up this Statement of Investment Principles (the "Statement") to comply with the requirements of the Pensions Act 1995 (the "Act") and subsequent legislation. The Statement is intended to affirm the investment principles that govern decisions about the Scheme's investment policy. Details of how this policy has been implemented are set out in a separate Statement of Investment Arrangements ("SIA"), which should be read in conjunction with this Statement. The Trustee's investment responsibilities are governed by the Scheme's Trust Deed and Rules, of which this Statement takes full regard. A copy of the Scheme's Trust Deed is available for inspection upon request.

In preparing this Statement, the Trustee has consulted a suitably qualified person by obtaining written advice from Mercer Limited ("Mercer"). In addition, consultation has been undertaken with the Scheme's sponsoring company, The Bank of Nova Scotia (the "Bank"), to ascertain whether there are any material issues of which the Trustee should be aware in agreeing the Scheme's investment arrangements and, in particular on the Trustee's objectives.

2. Process For Choosing Investments

The stewardship of the Scheme's investment arrangements may be divided into three main areas of responsibility. The first (Sections 3, 4 and 5) deals with the strategic management of the Scheme's assets, which is driven by its investment objectives. The second area (Section 6) is the day-to-day management of those assets. The third part is the ongoing monitoring of the performance of the appointed managers against pre-determined benchmarks (further detail of which is included in the SIA).

The Trustee has decided to implement a de-risking strategy whereby the level of investment risk reduces as the Scheme's funding level improves. The Trustee has agreed the way in which investment risk should be reduced and has delegated the implementation of the de-risking strategy to Mercer. Mercer constructs portfolios of investments that are expected to maximise the return (net of all costs) given the targeted level of risk.

In considering appropriate investments for the Scheme, the Trustee has obtained and considered the written advice of Mercer, whom the Trustee believes to be suitably qualified to provide such advice. The advice received and arrangements implemented are, in the Trustee's opinion, consistent with the requirements of Section 36 of the Pensions Act 1995 (as amended).

3. Investment Objectives

The Trustee's primary objective is to meet member benefit payments as they fall due. In meeting this objective, the Trustee's further objectives are to:

- By means of an agreed combination of investment return and contributions from the Bank, move the Scheme to a position of being fully funded on a de-risked funding basis (gilts + 0.5% p.a.) by October 2025.

- In doing so, to opportunistically reduce the degree of risk in the Scheme's investment arrangements when the funding level improves, thereby helping to protect any gains achieved through market movements.

- To take on investment risk in a controlled way. The Trustee believes that, over the long term, excess return will be generated through investing in equities, other return enhancing asset classes such as corporate bonds and through the use of active management where appropriate. The Trustee recognises that in adopting this approach, the Scheme is exposed to equity market and other risks and this may mean that, in the short term, the return target may either not be achieved or becomes a very easy target (i.e. the short term funding position will be volatile).

The Trustee will monitor progress against this target and discusses this at regular Trustee meetings, where appropriate.

The objectives set out above and the risks and other factors referenced in this Statement are those that the Trustee determines to be financially material considerations. Non-financial considerations (such as member views and investment restrictions) are discussed in Section 10.

4. Risk Management and Measurement

There are various risks to which any pension scheme is exposed. The Trustee's policy on risk management over the Scheme's anticipated lifetime is as follows:

- The primary risk upon which the Trustee focuses is that arising through a mismatch between the Scheme's assets and its liabilities.

- The Trustee recognises that whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Scheme's liabilities as well as producing more volatility in the Scheme's funding position.

- The Trustee has delegated the asset allocation to Mercer. To control the risk outlined above, the Trustee sets the split between the Scheme's Growth and Matching assets such that the expected return on the portfolio is expected to be sufficient to meet the objectives outlined in Section 3. The overall expected return of the Scheme's assets based on the current investment strategy was calculated to be gilts + 1.8% p.a. as at 30 June 2019. This analysis is updated on an annual basis. As the funding level improves, investments will be switched from growth assets into matching assets with the aim of reducing investment risk.

- Whilst moving towards the target funding level, the Trustee recognises that even if the Scheme is invested in matching assets there may still be a mismatch between the interest-rate and inflation sensitivity of the Scheme's assets and the Scheme's liabilities due to the mismatch in duration between matching assets and actuarial liabilities.

- The Trustee recognises the risks that may arise from the lack of diversification of investments. To control this risk the Trustee has delegated the asset allocation decisions within the Growth and Matching portfolios to Mercer (subject to certain restrictions). Subject to managing the risk from a mismatch of assets and liabilities, Mercer aims to ensure the asset allocation policy in place results in an adequately diversified portfolio. Mercer provides the Trustee with regular monitoring reports regarding the level of diversification and performance of the portfolio. Investment exposure is obtained via pooled vehicles.

- To help the Trustee ensure the continuing suitability of the current investments the Trustee delegates responsibility for the appointment, termination and ongoing monitoring of the Scheme's investment managers to Mercer. Mercer provides the Trustee with regular reports regarding the appointed investment managers to monitor consistency between the expected and experienced levels of risk and return.

- There is a risk that the day-to-day active management of the assets will not achieve the rate of investment return expected by the Trustee. The Trustee recognises that the use of active investment managers involves such a risk. However, for specific asset classes the Trustee believes that this risk is outweighed by the potential gains from successful active management. Likewise, passive management will be used for one of a number of reasons, namely to diversify and reduce risk, and when investing in markets deemed efficient, where the scope for added value is limited.

- To help diversify manager specific risk, the Trustee expects Mercer to make multiple manager appointments within most asset classes.

- Investment may be made in securities that are not traded on regulated markets. Recognising the risks (in particular liquidity and counterparty exposure) such investments will normally only be made with the purpose of reducing the Scheme's mismatch risk relative to its liabilities or to facilitate efficient portfolio management. In any event the Trustee will ensure that the assets of the Scheme are predominantly invested in regulated markets.

- The Trustee recognises the risks inherent in holding illiquid assets. The Trustee has carefully considered the Scheme's liquidity requirements and time horizon when setting the investment strategy and manages liquidity risk by ensuring illiquid asset classes represent an appropriate proportion of the overall investment strategy.

- A number of the delegated funds have the flexibility to use leverage. Leverage, or borrowing, is permitted under the Trust Deed and Rules. The Trustee recognises that the use of leverage brings with it various risks, such as counterparty risk. These risks are mitigated both through the investment manager selection process and investment review of investment manager appointments. In addition, the Trustee considers the degree of overall leverage of the Scheme's assets on at least a quarterly basis, as appropriate.

- The Scheme is subject to currency risk because some of the investment vehicles in which the Scheme invests are denominated or priced in a foreign currency. To limit currency risk, Mercer sets a target non-sterling currency exposure and manages the level of non sterling exposure using currency hedging derivatives such as forwards and swaps.

- The Trustee recognises that environment, social and corporate governance concerns, including climate change, have a financially material impact on returns. Section 10 sets out how these risks are managed.

- Responsibility for the safe custody of the Scheme's assets is delegated to Mercer who has appointed State Street Custodial Services (Ireland) Limited ("State Street") as the custodian of the assets invested in their vehicles. Mercer is responsible for keeping the suitability of State Street under ongoing review.

- Arrangements are in place to monitor the Scheme's investments to help the Trustee check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Trustee meets regularly with Mercer and receives regular reports from Mercer on the underlying investment managers. These reports include an analysis of the overall level of risk and return, along with their component parts, to ensure the risks taken and returns achieved are consistent with those expected.

- The Trustee monitors the Bank's covenant on a regular basis and continues to have an ongoing dialogue with the Bank as to regards of the Bank's ability and willingness to fund the Scheme.

Should there be a material change in the Scheme's circumstances, the Trustee will advise Mercer, who will review whether and to what extent the investment arrangements should be altered; in particular whether the current de-risking strategy remains appropriate.

The Trustee will monitor these risks as part of the ongoing monitoring of the Scheme's investment strategy. In addition, the Trustee will engage in regular dialogue with the Bank to ensure that all parties are aware of the risks that are being run and are comfortable with these.

5. Investment Strategy

The Trustee, with advice from the Scheme's Investment Consultant (Mercer) and Scheme Actuary, reviewed the Scheme's investment strategy in 2018. This review considered the Trustee's investment objectives, its ability and willingness to take risk (the risk budget) and how this risk budget should be allocated and implemented (including de-risking strategies).

Following the review, the key decision was to seek a long-term solution to 'de-risk' the Scheme's assets relative to its liabilities over time using a dynamic trigger based de-risking framework. The Trustee decided to engage Mercer to implement their de-risking strategy.

The de-risking rule mandates the following practices:

- To hold sufficient growth assets to target full funding on a prudent long-term funding basis;

- To reduce the volatility in the funding level by reducing un-hedged liability exposures;

- To monitor the progress in the funding level and to capture improvements in the funding level promptly, if they arise.

The de-risking strategy takes account of the Scheme's initial funding level on a prudent long-term funding basis and is based on a model of the progression of the Scheme's funding level.

The de-risking triggers and relevant constraints which form the basis of the Scheme's dynamic investment strategy are set out in a separate document – the Statement of Investment Arrangements.

For the avoidance of doubt, once the funding level has moved through a band, the asset allocation will not be automatically "re-risked" should the funding level deteriorate. The investment strategy will be reviewed on an annual basis to ensure that the triggers set remain appropriate and amended if required. Regular, known, deficit contributions (unless otherwise agreed) will not in isolation cause the breach of a funding level trigger.

The Trustee has delegated the allocation of assets within the growth and matching portfolios to Mercer.

Responsibility for monitoring the Scheme's asset allocation and undertaking any rebalancing activity when the range restrictions are breached is delegated to Mercer. Mercer reports quarterly to the Trustee on any breaches to the range guidelines.

The first annual review took place in the first quarter of 2017, where the Trustee allowed for the change in contributions that had been agreed as a result of the closure of the Scheme to future accrual. These additional contributions allowed the Scheme to set lower funding level triggers such that the Trustee's and Bank's objectives could still be achieved with less risk being taken. Subsequent market movements meant that Scheme breached three funding level triggers. Further detail is set out in the SIA.

6. **Day–to-Day Management of the Assets**

The Trustee has delegated day-to-day management of the assets to Mercer, who in turn delegates responsibility for the investment of the assets to a range of underlying specialist investment managers. Mercer is responsible for the selection, appointment, removal and monitoring of the underlying investment managers. The underlying investment managers have full discretion to buy and sell investments on behalf of the Scheme subject to agreed constraints.

The Trustee is satisfied that Mercer has the appropriate knowledge and experience to choose and combine the underlying investment managers and ensure that they are fit to manage the Scheme's investments.

The Trustee regularly reviews the continuing suitability of the Scheme's investments, including Mercer's ability to select, appoint, remove and monitor the appointed managers. Mercer is regulated by the Financial Conduct Authority.

7. **Realisation of Investments**

Mercer and the underlying investment managers, selected by Mercer,have discretion in the timing of realisation of investments, subject to the parameters stipulated in the appointment documentation, and will take account of the liquidity of those investments in exercising their discretion.

8. **Cash Flow and Cash Flow Management**

Cash flows, whether positive or negative, are used to move the Scheme's asset allocation and allocation to the individual underlying investment managers back towards the strategic allocation appropriate at that point in time given the level of de-risking that may have occurred.

9. **Rebalancing**

Responsibility for monitoring the Scheme's asset allocation and undertaking any rebalancing activity is delegated to Mercer. Mercer will review the actual balance between the Growth and Matching portfolios on an ongoing basis. If at any time the actual balance between the Growth and Matching portfolio is deemed to be outside the appropriate tolerance range Mercer will seek to rebalance these allocations back towards the target allocations. Although Mercer has discretion to vary the tolerance range, it is the intention that the Growth portfolio allocation will not drift by more than 5%, in absolute terms, away from the relevant target allocation.

The ranges have been designed to ensure that unnecessary transaction costs are not incurred by frequent rebalancing.

In the event of a funding level trigger being breached, the assets will be rebalanced to bring them in line with the reduced growth portfolio weight, under the new de-risking band, as defined in the SIA.

10. ESG, Stewardship, and Climate Change

The Trustee believes that environmental, social, and corporate governance (“ESG”) factors may have a material impact on investment risk and return outcomes, and that good stewardship can create and preserve value for companies and markets as a whole. The Trustee also recognises that long-term sustainability issues, particularly climate change, present risks and opportunities that increasingly may require explicit consideration.

The Trustee has given appointed investment managers full discretion in evaluating ESG factors, including climate change considerations, and exercise voting rights and stewardship obligations attached to the investments, in accordance with their own corporate governance policies and current best practice, including the UK Corporate Governance Code and UK Stewardship Code.

The Trustee considers how ESG, climate change and stewardship is integrated within Mercer’s investment processes and those of the underlying managers in the monitoring process. Mercer has its own sustainable investment policy which forms part of its investment decisions. A copy of the policy is available upon request. Mercer is expected to provide reporting on a regular basis, at least annually, on ESG integration progress, stewardship monitoring results, and climate-related metrics such as carbon foot printing for equities and/or climate scenario analysis for diversified portfolios.

Member views

Member views are not taken into account in the selection, retention and realisation of investments.

Investment Restrictions

The Trustee has not set any investment restrictions on the appointed investment managers in relation to particular products or activities, but may consider this in future.

11. Additional Assets

The Trustee invests members' additional voluntary contributions with Aegon UK, Equitable Life Assurance Society and Prudential Assurance Company Limited.

With the assistance of the Scheme's consultants, these arrangements are reviewed from time to time to ensure that the investment performance achieved is acceptable and the investment profile of the funds remains consistent with the objectives of the Trustee, given its understanding of the needs of the members.

12. Fee Structures

Mercer levies a fee (plus VAT where applicable) based on a percentage of the value of the assets under management which covers the design and annual review of the de-risking strategy, and investment management of the assets. In addition the underlying managers also levy fees based on a percentage of the value of the assets under management. Some of the underlying managers may also levy fees based on their performance.

13. Conflicts of Interest

The Trustee maintains a separate Conflicts of Interest policy, for identifying, managing and monitoring any conflicts of interest which may arise in relation to the Scheme. Each Trustee will notify the Chairman of the Trustee of any conflict of interest in respect of their Trustee duties as soon as is practicable after becoming aware of the potential conflict. Similarly, the Investment Consultant will notify the Chairman of the Trustee of any conflict of interest in respect of their advice to the Trustee as soon as is practicable after becoming aware of the potential conflict. Where a conflict does occur that individual will not take part in the discussion on that particular matter.

14. Review Of This Statement

The Trustee will review this Statement in response to any material changes to any aspects of the investment strategy detailed above. This will occur no less frequently than every three years to coincide with the Actuarial Valuation. Any such change to the Statement will be based on written expert investment advice. Any such review will be carried out in consultation with the Bank.

Signed for and on behalf of the SPS UK Trustee Limited as Trustee to the Scotiabank Pension Scheme (United Kingdom and Channel Islands)

Signed by Steve Tyson …………………………………………………………	24 September 2019 …………………………………..
Signature	***Date***
Signed by Michael Wren …………………………………………………………	22 September 2019 ……………………………………
Signature	***Date***
Signed by Steve Dobson …………………………………………………………	24 September 2019 ……………………………………
Signature	***Date***