

**Scotiabank Europe plc**

Capital and Risk Management

Pillar 3 Disclosures

As at 31 October 2015

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## **1 INTRODUCTION**

### **1.1 Background**

Scotiabank Europe plc (the “Company”) is subject to legislation issued by the UK government and European Union which seeks to stabilise and strengthen the UK and EU financial system by ensuring that firms, 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, firms are required publicly to disclose specified information (so-called “Pillar 3 disclosures”) to enable market participants to understand how a firm implements the applicable legislation. This should include an explanation of how it identifies and quantifies the risks to which it is exposed together with details of how much capital it holds in respect of these risks.

This document comprises the Company’s Pillar 3 disclosures on capital and risk management as at 31 October 2015. These disclosures have been prepared purely for the purpose of satisfying the Company’s obligations under the Capital Requirements Regulation (Regulation (EU) No. 575/2013) (“CRR”), associated implementing legislation and guidelines issued by the European Banking Authority (“EBA”) and to explain the basis on which the Company has prepared and disclosed certain capital requirements and information about the management of certain risks. These disclosures are made for no other purpose and should not be relied upon in making any financial or investment decision.

The Company is authorised by the UK Prudential Regulation Authority (“PRA”) and regulated by the UK Financial Conduct Authority (“FCA”). The PRA receives information on capital adequacy from, and sets certain capital requirements for, the Company.

Additional relevant information may be found in the Company’s Annual Report and Accounts 2015.

The Company is a wholly owned subsidiary of The Bank of Nova Scotia (the “Parent”). The Parent, its affiliates and subsidiaries, including the Company, are collectively referred to as ‘Scotiabank’.

### **1.2 Scope**

These Pillar 3 disclosures are prepared on an unconsolidated / individual basis.

### **1.3 Principal activities**

The Company is an “authorised person” under The Financial Services and Markets Act 2000.

The Company is a wholly owned subsidiary of The Bank of Nova Scotia, a Canadian financial institution.

The Company markets and sells a range of banking products to large and mid-sized enterprises, banks, investment banks, asset managers, governments and supranational organisations. The Company generates revenue through the extension of credit to corporate clients, market-making and distribution of government bonds, equity financing and base metals trading. The Company’s treasury function supports this activity through prudential management of liquidity exposures and the asset and liability mismatches arising from the Company’s activities.

### **1.4 Business strategy**

The Company’s strategy is aligned with that of the Scotiabank’s Global Banking and Markets (“GBM”) Strategy which is:

*“We will grow by enhancing our client focus, expanding in key regions and capitalising on recent investments in our business. We will leverage the strengths of our client relationships, our broad-based platform of products and services, and our people.”*

GBM has identified the following business initiatives to support the overall strategy:

- Enhance customer focus through a new client segmentation process, identifying our key customers;
- Leverage our global footprint to build a significant and profitable wholesale business in Latin America while aligning our business in Asia Pacific to focus on select local and international customers;
- Strengthen our Customer Data and Analysis;
- Focus on Strategic Sectors, principally Energy, Mining, Infrastructure (including Power and Utilities), and Financial Institutions;
- Optimise our return on capital and use of funding, while investing in systems and operational improvements and enhancing our risk and balance sheet management; and
- Enhancing our Talent and Leadership by attracting and developing high caliber talent, and building a global leadership team with diverse perspectives.

Further information reflecting the linkage between the Company’s overall risk profile and the business strategy can be found in the Strategic Report (Page 5 to Page 9) in the Company’s Annual Report and Accounts 2015.

## 1.5 Governance – Board and Committees

### 1.5.1 The Board

The Company is subject to the provisions of the Companies Act 2006. It is governed by a board of directors (the “Board”) and subject to the Company’s Memorandum and Articles of Association.

The directors are as follows:

Name of Director	Executive / Non-executive	No. of additional directorships	Knowledge, skills and expertise
ME Caplan	Chief Executive Officer / Executive	Holds one Scotiabank directorship and one external directorship	As Head of Europe, Mark provides leadership and oversight for Scotiabank’s European operations and he is also the Chief Executive Officer of Scotiabank Europe plc. Based in London, he is responsible for the overall strategic direction and execution of Scotiabank’s business. Mark has 25 years of experience in the financial services industry, with a breadth of experience in leading capital markets businesses. Before joining Scotiabank in 2010, he worked in a senior capacity for the Bank of Canada and is a former member of the Monetary Policy Review Committee and the Financial System Review Committee. Mark holds an Honours Bachelor of Arts in Business Administration from the Richard Ivey School of Business.
PM Cutts	Non-executive	Holds one executive directorship	Philip Cutts graduated from the London School of Economics and Political Science and is a Chartered Accountant. Philip is an all-round financial services professional with considerable experience of running businesses at executive board level. He was Chief Executive Officer of Credit Suisse UK Limited and spent 25 years with the Royal Bank of Canada Group where he was Vice President and Director, International Wealth Management, London and held senior positions in Structured Finance and Loan Syndications and Finance and Administration.
JM Lloyd	Executive	Holds one Scotiabank and one external directorship	Jane Lloyd is a Chartered Management Accountant with 35 years’ experience in the City of London. Her career has encompassed roles in trading and in compliance and, latterly, management of both operational and finance functions. In her current role as Chief Operating Officer, GBM Europe, Jane is responsible for managing the Operations and Business Support functions in London, in addition to providing local oversight of Technology and the Trading and Operational Risk Control function.
SM Lowe	Executive	Holds one Scotiabank directorship	Steven Lowe is the Managing Director of ScotiaMocatta, London with overall responsibility for sales, trading and distribution of the Company’s European metals business. Prior to his arrival in London, Steven worked for the Parent in Toronto covering a portfolio of North American mining companies with respect to all credit products including debt, project finance and metal derivative transactions. Steven has an MBA from the Ivey School of Business and a Bachelor of Commerce degree from Queen’s University.

Name of Director	Executive / Non-executive	No. of additional directorships	Knowledge, skills and expertise
PSW Smith	Chair / Non-Executive	Holds one Scotiabank directorship	As Chief Financial Officer and Head of Operations for Scotiabank's Global Banking and Markets division, Philip is responsible for the oversight and leadership of all aspects of GBM's Operations groups and the Finance function. He plays a central role in influencing strategy and shaping the financial direction of the division. Prior to this appointment, Philip held the role of Deputy Head of Global Investment Banking, where he was responsible for the equity capital markets and investment banking activities of Scotiabank, including the coordination of advisory activities. Philip also held a variety of positions within Global Banking and Markets in the Wealth Management, Equity Capital Markets, and Investment Banking areas. Philip holds an MBA in Analytic Finance from the University of Chicago and a BA in International Relations from Johns Hopkins University.
KM Spooner	Non-executive	Holds one external non-executive directorship	Kerry Spooner has significant experience as a non-executive director in financial services. She was appointed to the Market Harborough Building Society board in 2006 and retired in April 2015. During her tenure at Market Harborough Building Society Kerry served on the Audit, Risk, Nominations and Remuneration committees. Kerry has 20 years of experience as a solicitor, the last 8 years of which was as a corporate finance partner at Allen & Overy LLP. She has broad domestic and international experience. In addition, Kerry has lived and worked as a lawyer outside the UK. In May 2015 Kerry joined the board of Leek United Building Society as a non-executive director.
RJ Wild	Non-executive	Holds one external non-executive directorship	Robert Wild joined National & Grindlays Bank (later ANZ Banking Group) in 1966 and held various senior management postings internationally prior to becoming Head of UK Domestic Corporate Banking in London in 1992. Robert was later the Managing Director of United National Bank in London.

#### 1.5.1.i Changes during the year

The following changes to the composition of the Board occurred during the year:

- AM O'Donovan and RM Brandman resigned from the Board on 16 December 2014 and 17 December 2014 respectively.
- PSW Smith, Chair / Non-Executive, was elected to the Board at the AGM on 17 December 2014.
- CE Leaver resigned from the Board on 10 June 2015.
- KM Spooner joined the Board on 10 June 2015.

There were no post year-end changes to the composition of the Board.

### **1.5.2 Board Diversity and Recruitment**

The Company's Corporate Governance Policy requires that:

*“the search for new Board candidates is conducted, and appointments made, on merit against objective criteria and with due regard for the benefits of diversity on the Board, including gender. Factors considered by the Board in its review of potential candidates include:*

- *prominence in business, institutions or professions;*
- *residency in and familiarity with the geographic regions where the Bank carries on business;*
- *integrity, honesty and the ability to generate public confidence;*
- *demonstrated sound and independent business judgment;*
- *financial literacy;*
- *knowledge of and experience with financial institutions;*
- *risk management experience;*
- *knowledge and appreciation of public issues and familiarity with local, national and international affairs;*
- *the professional experience required to contribute to the Board's committees;*
- *the ability to allocate sufficient time to the Company for Board and Committee work to discharge his/her responsibilities effectively;*
- *the competencies and skills that the Board considers to be necessary for the Board, as a whole, to possess; and*
- *the competencies and skills that the Board considers each existing director to possess.”*

### **1.5.3 Board & Committee Structure**

A committee structure as described below operated throughout the year. Information on risk reaches the Board directly from its two committees: the Risk Committee (“RC”) and the Audit Committee (“AC”). The Board is supported in its governance of the Company by other Scotiabank committees in London, namely the Executive Committee (“EXCO”) and the Asset and Liability Management Committee (“ALCO”).

#### *1.5.3.i Risk Committee*

Membership of the RC comprises the non-executive and the executive directors; senior management may be invited to the meetings. The RC reports to the Board. During the year, the RC met five times. The RC terms of reference include, amongst other duties:

- reviewing and informing the Board on the Company’s overall risk appetite, tolerance and making recommendations as appropriate;
- assessing and informing the Board on the current risk exposures of the Company;
- reviewing the Company’s overall risk assessment processes that inform the Board’s decision making;
- considering the Company’s capability to identify and manage new risk types;
- approval of key risk-related documents for submission to the Board;
- reviewing management’s procedures to ensure compliance with capital adequacy requirements;
- reviewing risk management aspects of new products and the effectiveness of the Company’s internal controls and risk management systems.

#### *1.5.3.ii Audit Committee*

Membership of the AC comprises the non-executive directors, the Chief Executive Officer (the “CEO”) and the Chair of the Board; senior management may be invited to the meetings. The AC reports to the Board. During the year, the AC met four times. The AC terms of reference include, amongst other duties:

- monitoring the effectiveness of the Parent’s internal audit function as it pertains to its auditing of the Company;
- receiving the reports of the Company’s Compliance Officer;
- consideration of any matters relating to the financial affairs of the Company;
- reviewing ongoing business performance, all internal and external audit reports and the annual Financial Statements before their submission to the Board for approval;
- reviewing management’s procedures to monitor the effectiveness of the systems of accounting and internal control procedures over financial reporting;
- reviewing arrangements established by management for compliance with financial reporting requirements;
- making recommendations to the Board concerning the appointment and remuneration of the external auditors;
- consideration of the scope and planning of the external audit and reviewing the findings of the external auditors;
- monitoring the effectiveness of the external auditor.



#### **1.5.3.iii Executive Committee**

The EXCO has been established to assist in managing the Company's business and fulfilling its strategy, long-term plan, operational plans, annual budget requirements and complying with its risk appetite in an effective and controlled way. The EXCO's responsibility extends to both the Company and The Bank of Nova Scotia London Branch. The EXCO is comprised of the Chief Executive, 2 executive directors and 16 other senior managers.

#### **1.5.3.iv Asset and Liability Management Committee**

The ALCO provides senior management oversight of liquidity risk and meets monthly to review the Company's liquidity profile.

### **1.6 Policy**

The disclosures in this document have been prepared in accordance with the requirements laid out in the CRR, Part Eight, are both quantitative and qualitative. The disclosures will be issued on an annual basis as at the Company's accounting year-end of 31 October and are published on the Parent's website. Unless otherwise stated, all figures are as at 31 October 2015. The disclosures are not subject to an external audit, but controls comparable to those for the Annual Report and Accounts 2015 have been applied. These disclosures are ratified and approved by the Board.

### **1.7 Future developments**

The Company will in future be required to adhere to further legislative provisions as and when they come into effect. These will be incorporated into the Company's Pillar 3 disclosures in the forthcoming years:

- Capital buffers (article not applicable until 2016)

The Company may wish to adopt the best practices identified by the EBA and the recommendations for enhanced disclosures made by the Enhanced Disclosures Task Force ("EDTF") where disclosures are commensurate with a non-systemically important institution.

## 2 **RISK MANAGEMENT OBJECTIVES AND POLICIES**

This section presents information about the Company's exposure to Credit risk, Liquidity risk, Market risk for trading and non-trading activities and Operational risk; and the Company's objectives, policies and processes for measuring and managing risk.

Effective risk management is fundamental to the success of the Company and is recognised as a core deliverable in the Company's overall approach to strategy management. The Company has a strong and disciplined risk management culture where risk management is a responsibility shared by all of the Company's employees. A key aspect of this culture is diversification across business lines, products and industries.

The Company is firmly committed to the management of risk, recognising that sound internal risk management is essential to its prudent operation, particularly with the growing complexity, diversity and volatility of markets, facilitated by rapid advances in technology and communications. Risk management is given high priority throughout the Company and is integral to the management of the business.

### **2.1 Risk management framework**

The primary goals of risk management are to ensure that the outcomes of risk-taking activities are consistent with the Company's strategies and risk appetite, and that there is an appropriate balance between risk and reward in order to maximise shareholder returns. The Company's risk management framework provides the foundation for achieving these goals. This framework is subject to constant evaluation to ensure that it meets the challenges and requirements of the markets, including regulatory standards and industry best practices.

The Company's risk management framework is predicated on the three-lines-of-defence model. Within this model:

- The first line: Functional business line staff and management incur and own the risks;
- The second line: Global Risk Management and other control functions provide independent oversight and objective challenge to the first line of defence, as well as monitoring and controlling risk; and
- The third line: Internal Audit Department provides assurance that control objectives are achieved by the first and second lines of defence.

The business lines are responsible for the development and execution of business plans that are aligned with the Company's risk management framework and are accountable for the risks they incur. Understanding and managing these risks is a fundamental element of each business plan. Business lines work in partnership with Global Risk Management to ensure that risks arising from their business are thoroughly evaluated and appropriately addressed. Risk education programmes, documented policies and procedures are jointly available to staff in the business lines and Global Risk Management.

Responsibility for risk management policies and the level of risks assumed lies with the Board. The Board requires management to develop, present, update and implement these policies. The structure is designed to provide assurance that no single event, or combination of events, will materially affect the well-being of the Company.

Active, hands-on senior management plays a key role in the identification, evaluation and management of all risks. All credit and new product decisions require direct senior management approval and the loan portfolio is continuously reviewed with assistance from the Parent. Management is supported by a comprehensive structure of independent controls, analysis, reporting processes and periodic examination by the Audit Department, in conjunction with the Parent's Audit group.

The Company has in place an extensive number of limit controls and management information systems to facilitate effective management overview.

The following basic elements of sound risk management are applied to all financial instruments, including derivatives:

- review by the Board and senior management
- risk management processes which integrate product sectorial risk limits
- measurement procedures and information systems

- continuous risk monitoring and frequent management reporting
- segregation of duties, comprehensive internal controls and internal audit procedures.

### **2.1.1 Risk Measurement and Reporting Systems**

The purpose of our risk measurement and reporting systems is to ensure that risks are comprehensively captured with all the attributes necessary to support well-founded decisions, that those attributes are accurately assessed and information is delivered in a timely way for those risks to be successfully managed and mitigated.

Risk measurement and reporting systems are also subject to a governance framework designed to ensure that their build and implementation are fit for purpose and that they are functioning properly. Risk information technology systems development is a key responsibility of Global Risk Management.

The Company continues to invest significant resources in IT systems and processes in order to maintain and improve its risk management capabilities. The Company promotes the deployment of technology where applicable and standards are in place to govern the procurement and operation of systems used to process risk information within business lines and risk functions.

Risk measurement, monitoring and reporting structures are deployed by the Company through an operating model for risk management and control. This model sets out the responsibilities of the risk function in respect of such matters as risk governance and oversight, approval authorities and lending guidelines, global and local scorecards, management information and reporting, and relations with third parties including regulators, rating agencies and auditors.

### **2.2 Credit and counterparty credit risk**

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Company. Credit risk arises in the Company's direct lending operations, and in its funding, investment and trading activities where counterparties have repayments or other obligations to the Company.

The effective management of credit risk requires the establishment of an appropriate credit risk culture. Key credit risk policies and appetite statements are important elements used to create this culture. The Board of Directors reviews and approves the Company's Risk Appetite Framework and adopts the Parent's Credit Risk Policy on an annual basis.

The primary objective of Global Risk Management is to ensure that the outcomes of risk-taking activities are predictable and consistent with the Company's objectives and risk tolerance, and that there is an appropriate balance between risk and reward in order to maximise shareholder returns.

Global Risk Management develops the credit risk management framework and policies that detail, among other things, the credit risk rating systems and associated parameter estimates, the delegation of authority for granting credit, the calculation of the allowance for credit losses and the authorisation of write-offs.

The Credit Risk Policy articulates the credit risk management framework, including:

- key credit risk management principles;
- delegation of authority;
- the credit risk management programme;
- counterparty credit risk management for trading and investment activities; and
- single name/aggregated exposures, beyond which exposures must be reported to the Board.

Credit exposures are segmented by country and by major industry group. Aggregate credit risk limits for each of these segments are also reviewed and approved annually by the Board. Portfolio management objectives and risk diversification are key factors in setting these limits.

The borrower limits are set within the context of established lending criteria and guidelines for individual borrowers, particular industries, countries and certain types of lending, to ensure the Company does not have excessive concentration

in any single borrower, or related group of borrowers, particular industry sector or geographic region. Through the portfolio management process, loans may be syndicated to reduce overall exposure to a single name. Risk is also mitigated through the selective sale of loans.

Banking units and Global Risk Management regularly review the various segments of the credit portfolio on an enterprise-wide basis to assess the impact of economic trends or specific events on the performance of the portfolio, and to determine whether corrective action is required. These reviews include the examination of the risk factors for particular products, industries and countries.

### **2.2.1 Risk measures**

The credit risk rating systems support the determination of key credit risk parameter estimates which measure credit and transaction risk. These risk parameters – probability of default, loss given default and exposure at default are transparent and may be replicated in order to provide consistency of credit adjudication, as well as minimum lending standards for each of the risk rating categories.

The Company's risk rating system utilises Scotiabank's Internal Grade ("IG") codes – a 23 point scale used to differentiate the risk of default of borrowers, and the risk of loss on facilities. IG codes are also used to define credit adjudication authority levels appropriate to the size and risk of each credit application. Lower-rated credits require increasingly more senior management involvement depending upon the aggregate exposure. Where the decision is beyond their authority levels, credit units will refer the request – with its recommendation – to a senior credit committee for adjudication at the Parent level. Senior credit committees also have defined authority levels and, accordingly, forward certain requests to the Risk Policy Committee at the Parent level.

The Company's credit risk rating system is subject to a rigorous validation, governance and oversight framework. The objectives of this framework are to ensure that:

- Credit risk rating methodologies and parameters are appropriately designed and developed, independently validated and regularly reviewed; and
- The review and validation processes represent an effective challenge to the design and development process.

Units within Global Risk Management are responsible for design and development, validation and review of the risk measures and are functionally independent from the business units responsible for originating transactions. Furthermore, within Global Risk Management, the units responsible for design and development are independent from the risk rating approval and credit adjudication units. Internal credit risk ratings and associated risk parameters affect loan pricing, computation of the collective allowance for credit losses, and return on economic capital.

### **2.2.2 Adjudication**

Credit adjudication units within Global Risk Management analyse and evaluate all significant credit requests for credit exposures, to ensure that risks are adequately assessed, properly approved, continually monitored and actively managed. The decision making process begins with an assessment of the credit risk of the individual borrower or counterparty. Key factors considered in the assessment include:

- the borrower's management;
- the borrower's current and projected financial results and credit statistics;
- the industry in which the borrower operates;
- economic trends; and
- geopolitical risk.

Based on this assessment, a risk rating is assigned to the individual borrower or counterparty, using Scotiabank's risk rating systems. A separate risk rating is also assigned at the facility level, taking into consideration additional factors, such as security, seniority of claim, structure, term and any other forms of credit risk mitigation that affect the amount of potential loss in the event of a default of the facility.

Internal borrower and facility risk ratings are assigned when a facility is first authorised, and are promptly re-evaluated and adjusted, if necessary, as a result of changes to the customer's financial condition or business prospects. Re-evaluation is an ongoing process, and is done in the context of general economic changes, specific industry prospects, and event risks, such as revised financial projections, interim financial results and extraordinary announcements. Global Risk Management is the final arbiter of internal risk ratings.

The credit adjudication process also uses a risk-adjusted return on equity profitability model to ensure that the client and transaction structure offers an appropriate return for a given level of risk. For the corporate portfolio, the Loan Portfolio Management Group reviews the profitability model results and provides an opinion on the relative return and pricing of each transaction above a minimum threshold.

Individual credit exposures are regularly monitored by both the business line units and Global Risk Management for any signs of deterioration. In addition, a review and risk analysis of each borrower is conducted annually, or more frequently for higher-risk borrowers. If, in the judgement of management, an account requires the expertise of specialists in workouts and restructurings, it will be transferred to a special accounts group for monitoring and resolution.

The Company obtains advice and counsel from its Parent on all substantial issues. Letters of credit, guarantees and credit risk arising from off balance sheet instruments are managed by the same process. The RC of the Board reviews new credit exposures at least quarterly. Settlement and any other credit risks are restricted through product limits and counterparty netting agreements and the Company has weightings in specific industry sectors for corporate lending to improve risk control.

### **2.2.3 Credit Risk Mitigation – Collateral / Security**

The Company's approach to granting credit facilities is on the basis of capacity to repay rather than placing primary reliance on credit risk mitigants. Mitigation of credit risk is nevertheless a key aspect of effective risk management and takes many forms.

The Company's general policy is to promote the use of credit risk mitigation, justified by commercial prudence and good practice as well as capital efficiency. Specific, detailed policies cover the acceptability, structuring and terms of various types of business with regard to the availability of credit risk mitigation, for example in the form of collateral security. These policies, together with the setting of suitable valuation parameters, are subject to regular review to ensure that they are supported by empirical evidence and continue to fulfil their intended purpose.

#### **2.2.3.i Traded products**

Traded products are transactions such as derivatives, foreign exchange, commodities, repurchase/reverse repurchase agreements, and securities lending/borrowing. Credit risks arising from traded products cannot be determined with certainty at the outset, because during the tenure of a transaction the value of the counterparty's obligation to the Company will be affected by changes in the capital markets (such as changes in stock prices, interest rates, exchange rates). The Parent's Global Risk Management adjudicates credit exposures arising from transacting in traded products by considering their current fair value plus an additional component to reflect potential future changes in their mark-to-market value.

The credit adjudication process also includes an evaluation of potential wrong way risk, which arises when the derivative transactions and the collateral pledged against them can result in mark-to-market exposure varying due to market conditions that positively or negatively impact the counterparty's creditworthiness. There are two types of wrong-way risk:

- General wrong-way risk occurs when market conditions detrimental to the counterparty's creditworthiness generate credit exposure in a derivative transaction with that counterparty. i.e. the company becomes in-the-money.
- Specific wrong-way risk occurs when the derivative underlying is directly linked to the counterparty's creditworthiness. For example, buying credit protection on an entity from that entity directly or accepting the counterparty's own bonds or shares as collateral will result in the counterparty's creditworthiness worsening as exposure increases. As a counterparty's cost of credit protection increases reflecting a higher probability of

default, so does the company's credit exposure as a result of the mark-to-market exposure of the credit protection contract going against the counterparty.

The Company uses a range of internally approved methodologies and tools to measure, monitor and control wrong-way risk. Global Risk Management is responsible for the control and the monitoring process. This includes daily monitoring and a quarterly submission of wrong-way risk information to the RC.

Credit risk associated with traded products is managed within the same credit adjudication process as the lending business. The Company considers the credit risk arising from lending activities, as well as the potential credit risk arising from transacting in traded products with that counterparty.

Derivatives are generally transacted under industry standard International Swaps and Derivatives Association ("ISDA") Master Agreements, which allow for a single net settlement of all transactions covered by that agreement in the event of a default or early termination of the transactions. ISDA agreements are frequently accompanied by an ISDA Credit Support Annex ("CSA"), the terms of which may vary according to each party's view of the other party's creditworthiness. CSAs can require one party to post initial margin at the onset of each transaction. CSAs also allow for variation margin to be called if total uncollateralised mark-to-market exposure exceeds an agreed upon threshold. Such variation margin provisions can be one-way (only one party will ever post collateral) or bi-lateral (either party may post depending upon which party is in-the-money). The CSA will also detail the types of collateral that are acceptable to each party, and the haircuts that will be applied against each collateral type. The terms of the ISDA Master Agreements and CSAs are taken into consideration in the calculation of counterparty credit risk exposure.

The Company routinely obtains collateral and security and ensures that any collateral held is sufficiently liquid, legally effective, enforceable and regularly reassessed. In the normal course of business, the Company receives collateral on certain transactions to reduce its exposure to counterparty credit risk. In the normal course of business, securities and other assets are transferred to secure an obligation or participate in clearing or settlement systems. Asset transfer transactions are conducted under terms that are common and customary to standard derivative, securities borrowing and lending and other lending activities.

All Securities Financing Transactions ("SFT") are undertaken under industry standard documentation, either on Investment Dealers Association ("IDA") Repurchase / Reverse Repurchase Transaction Agreement, a Public Securities Association ("PSA") Master Repurchase Agreement, or a Global Master Repurchase Agreement ("GMRA").

#### 2.2.3.ii *Non-traded products*

##### *Collateral*

The most common method of mitigating credit risk is to take collateral. A mortgage over the asset is usually taken to help secure claims. Physical collateral is also taken in various forms of specialised lending and leasing transactions where income from the physical assets that are financed is also the principal source of facility repayment. In the commercial and industrial sectors, charges are created over business assets such as premises, stock and debtors.

Collateral and security can be an important mitigant of credit risk. The Company uses two methods of credit mitigation; direct and indirect. The main direct credit risk mitigation is the taking of security or collateral, such as:

- Aircraft
- Inventory
- Land and buildings
- Marketable securities
- Property, plant and equipment
- Ship mortgages
- Others

The frequency of valuation depends on the class of asset. A margin requiring excess collateral value to the loan value, with triggers requiring the collateral to be increased when breached, will generally be required. Credit risk mitigation may also be achieved through the taking of guarantees and indemnities from third parties.

#### *Guarantees*

When the Company extends credit to corporate banking customers they may be supported by financial guarantees from a third party. In nearly all circumstances where guarantees are in place these are received from the parent, subsidiary or sister company of the borrower. Only in exceptional circumstances, for instance where the financing is of strategic importance to the guarantor, is the guarantee provided by a company that is not the parent, subsidiary or sister company of the borrower. The Company performs an annual review of the borrower and within that review an analysis of the credit position of the guarantor, the effectiveness of the guarantee and the financial covenants applicable to the guarantor is also performed. The credit step quality of a particular transaction where a full and unlimited guarantee is in place will be based on the creditworthiness of the guarantor and is achieved through affiliation or probability of default substitution. In terms of assessing the creditworthiness of a guarantor, the adjudication process detailed in section 2.2.2 is followed.

#### *Indemnities*

The Company does not have indemnities from third parties as at 31 October 2015 (2014: Nil).

#### *2.2.3.iii Credit derivatives*

The Company does not have any credit derivatives as at 31 October 2015 (2014: Nil).

#### *2.2.3.iv Other mitigants*

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

#### **2.2.4 Past due but not impaired financial assets**

Past due is defined as when any amount of principal, interest or fee has not been paid at the date it was due.

Past due but not impaired financial assets, other than those carried at fair value through profit or loss, are those for which contractual interest or principal payments are past due, but the Company believes that impairment is not appropriate on the basis of the level of collateral available and / or the stage of collection of amounts owed to the Company.

## 2.3 *Liquidity risk*

Liquidity risk is the risk that the Company is unable to meet its financial obligations in a timely manner at reasonable prices. Financial obligations include liabilities to depositors, payments due under derivative contracts, settlement of securities borrowing and repurchase transactions, and lending and investment commitments. Liquidity risk arises from fluctuations in cash flows.

Effective liquidity risk management is essential to maintain the confidence of depositors and counterparties, manage the Company's cost of funds and to support core business activities, even under adverse circumstances. The liquidity risk management process ensures that the Company is able to honour all of its financial commitments as they fall due.

Liquidity risk is also managed within the framework of policies and limits that are approved by the Board. The Board receives reports on risk exposures and performance against approved limits. The ALCO provides senior management oversight of liquidity risk and meets monthly to review the Company's liquidity profile.

The key elements of the liquidity risk framework are:

- Measurement and modelling – the Company's liquidity model measures and forecasts cash inflows and outflows, including off-balance sheet cash flows on a daily basis. Risk is managed by a set of key limits over the maximum net cash outflow by currency over specified short- term horizons (cash gaps), a minimum level of core liquidity, and liquidity stress tests.
- Reporting – Global Risk Management provides independent oversight of all significant liquidity risks, risk measurement, stress testing, monitoring and reporting.
- Stress testing – the Company performs liquidity stress testing on a regular basis, to evaluate the effect of both industry-wide and Scotiabank-specific disruptions on the Company's liquidity position. Liquidity stress testing has many purposes including:
  - Helping the Company to understand the potential behaviour of various on-balance sheet and off-balance sheet positions in circumstances of stress; and
  - Based on this knowledge, facilitating the development of risk mitigation and contingency plans.
- Contingency planning – the Company maintains a liquidity contingency plan that specifies an approach for analysing and responding to actual and potential liquidity events. The plan outlines an appropriate governance structure for the management and monitoring of liquidity events, processes for effective internal and external communication, and identifies potential counter measures to be considered at various stages of an event.
- Core liquidity – the Company maintains a pool of highly liquid, unencumbered assets that can be readily sold or pledged to secure borrowings under stressed market conditions or due to specific events.

The Company has developed an Individual Liquidity Adequacy Assessment ("ILAA") as required by the PRA. The Company has also developed a suite of stress tests and limits, the results of which are reviewed by senior management on a regular basis. In addition, the ALCO and the RC review the Company's liquidity position.

### 2.3.1 *Liquid assets*

Liquid assets are a key component of liquidity management and the Company holds these types of assets in sufficient quantity to meet potential needs for liquidity management. Liquid assets can be used to generate cash either through sale, repurchase transactions or other transactions where these assets can be used as collateral to generate cash, or by allowing the asset to mature. Liquid assets include deposits at central banks, deposits with commercial banks, call and other short-term loans, marketable securities, and securities received as collateral from securities financing and derivative transactions. Liquid assets do not include borrowing capacity from central bank facilities.

Marketable securities are securities traded in active markets, which can be converted to cash within a timeframe that is in accordance with the Company's liquidity management framework. Assets are assessed considering a number of factors, including the time it would take to convert them to cash. Marketable securities included in liquid assets are comprised of securities specifically held as a liquidity buffer or for asset liability management purposes, trading securities and collateral received for securities financing and derivative transactions.



## **2.4 Market risk**

Market risk is the risk of loss from changes in market prices and rates (including interest rates, credit spreads, equity prices, foreign exchange rates and commodity prices), the correlations among them, and their levels of volatility.

The Company quantifies, monitors, controls and communicates market risk on the trading and non-trading activities which is also an essential part of the Risk Appetite Framework.

### **2.4.1 Market risk factors**

The principal market risk factors that affect the Company are listed below together with the types of risk reporting measures used:

#### **2.4.1.i Interest rate risk**

The risk of loss due to changes in the level and / or the volatility of interest rates. This risk affects instruments such as, but not limited to, debt securities, loans, deposits and derivatives. Interest rate risks are managed through sensitivity, gap, stress testing, annual income and VaR limits and mitigated through portfolio diversification and hedges using interest rate derivatives and debt securities.

#### **2.4.1.ii Credit spread risk**

The risk of loss due to changes in the market price and volatility of credit, or the creditworthiness of issuers. This risk is mainly concentrated in loan and debt securities portfolios. Risk is managed through sensitivity, stress testing and VaR limits.

#### **2.4.1.iii Equity risk**

The risk of loss due to changes in prices, volatility or any other equity related risk factor of individual equity or equity linked securities. Equity risks are managed through sensitivity, VaR and stress testing limits and mitigated through portfolio diversification and hedges. The Company did not have any material exposure to equity risk during the financial year.

#### **2.4.1.iv Commodity risk**

The risk of loss due to changes in price volatility of base metals. Both physical and derivative commodity positions are exposed to this risk. Risk is managed through aggregate and net trading position, sensitivity, stress testing and VaR limits and mitigated through hedges using commodity derivatives.

#### **2.4.1.v Foreign exchange risk**

The risk of loss due to changes in foreign exchange rates. The Company does not have material exposure to foreign currency risk. Any residual FX risks are managed through sensitivity, VaR and stress testing limits and mitigated through FX hedges.

### **2.4.2 Risk Measurement Summary**

#### **2.4.2.i Value At Risk ("VaR")**

VaR is a statistical method of measuring potential loss due to market risk based upon a common confidence interval and time horizon. The Company calculates VaR daily using a 99% confidence level, and a one-day holding period for its trading portfolios. This means that once in every 100 days, the trading positions are expected to lose more than the VaR estimate. VaR has two components: general market risk and debt specific risk. The Company calculates general market risk VaR using historical simulation based on 300 days of market data.

Changes in VaR between reporting periods are generally due to changes in positions, volatilities and/or correlations between asset classes. VaR is also used to evaluate risks arising in certain funding and investment portfolios.

#### *2.4.2.ii Stress testing*

A limitation of VaR is that it only reflects the recent history of market volatility and a specific one year stress period, respectively. To complement these measures, stress testing examines the impact that abnormally large changes in market factors and periods of prolonged inactivity might have on trading portfolios. Stress testing scenarios are designed to include large shifts in risk factors as well as historical and theoretical multi risk market events. Historical scenarios capture severe movements over periods that are significantly longer than the one-day holding period captured in VaR, such as the 2008 Credit Crisis or the 1998 Russian Financial Crisis.

Stress testing provides management with information on potential losses due to tail events. In addition, the results from the stress testing programme are used to verify that the Company's market risk capital is sufficient to absorb these potential losses.

#### *2.4.2.iii Sensitivity analysis*

In trading portfolios, sensitivity analysis is used to measure the effect of changes in risk factors, including prices and volatility, on financial products and portfolios. These measures apply across product types and are used for limit monitoring and management reporting.

In non-trading portfolios, sensitivity analysis assesses the effect of changes in interest rates on current earnings and on the economic value of shareholders' equity. The Company's sensitivity analysis for limit and disclosure purposes is measured through positive and negative parallel shifts in the underlying interest rate curves.

#### *2.4.2.iv Gap analysis*

Gap analysis is used to assess the interest rate sensitivity of re-pricing mismatches in the Company's non-trading operations. Under gap analysis, interest rate sensitive assets, liabilities and off-balance sheet instruments are assigned to defined time periods based on expected re-pricing dates. Products with a contractual maturity are assigned an interest rate gap term based on the shorter of the contractual maturity date and the next re-pricing date. Products with no contractual maturity are assigned an interest rate gap based on observed historical consumer behaviour.

#### *2.4.2.v Hedging*

The Company uses derivative financial instruments to facilitate client transactions and for hedging purposes. The Company uses forward foreign exchange, interest rate and other derivative products. Derivatives that are not held for trading or designated in a qualifying hedge relationship are fair valued through the Statement of Comprehensive Income as shown in the statutory accounts.

On initial designation of the hedge, the Company formally documents the relationship between the hedging instruments and the hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Company makes an assessment, both at the inception of the hedge relationship and an on-going basis, as to whether the hedging instruments are to be highly effective in offsetting the changes in fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80% - 125%.

In a fair value hedge, changes in the fair value of a derivative hedging instrument designated are recognised in Statement of Comprehensive Income. The hedged item also is stated at fair value in respect of the risk being hedged; the gain or loss attributable to hedged risk is recognised in Statement of Comprehensive Income. For a derivative instrument to be designated in a hedge relationship the transaction must be reasonably expected to match or eliminate a significant proportion of the risk inherent in the assets, liabilities, other positions or cash flows being hedged and which results from potential movements in interest rates, exchange rates and market values. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued

prospectively. When a fair value hedge is discontinued, any cumulative adjustment to the hedged item is amortised using effective interest rate basis to the Statement of Comprehensive Income. If a designated hedge is no longer effective, the associated derivative instrument is subsequently carried at fair value without any offset from the hedged item.

The Company does not have economic hedges that do not qualify for hedge accounting under IAS 39 'Financial Instruments: Recognition and Measurement' as at the reporting date.

#### **2.4.3 Funding and investment activities**

Market risk arising from the Company's funding and investment activities is identified, managed and controlled through the Company's asset-liability management processes.

##### *2.4.3.i Interest rate risk*

Interest rate risks in the non-trading portfolios are predominately driven by the interest rate mismatch (i.e. repricing frequency) in the asset and liability exposures. Interest rate risk arising from the Company's lending, funding and investment activities is managed in accordance with approved policies and limits, which are designed to control the risk to net interest income and economic value of shareholders' equity. The income limit measures the effect of a specified change in interest rates on the Company's annual net interest income over the next twelve months, while the economic value limit measures the impact of a specified change in interest rates on the present value of the Company's net assets. These limits are set according to the documented risk appetite of the Company.

Gap analysis, simulation modelling and sensitivity analysis are used to assess exposures and for limit monitoring and planning purposes. The Company's interest rate risk exposure calculations are generally based on the earlier of contractual re-pricing or maturity of on-balance sheet and off-balance sheet assets and liabilities, although certain assets and liabilities such as deposits without a fixed maturity are assigned a maturity profile based on the longevity of the exposure. Expected prepayments from loans and cashable investment products are also incorporated into the exposure calculations.

The Company utilises swaps when required by particular customer transactions, but hedges its position using a back to back contract with its Parent in order to mitigate any exposures from these transactions.

## 2.5 Operational risk

Operational risk is the risk of loss, whether direct or indirect, to which the Company is exposed due to inadequate or failed internal processes or systems, human error or external events. Operational risk includes legal and regulatory risk, business process and change risk, fiduciary or disclosure breaches, technology failure, financial crime and environmental risk.

The Company aims to minimise all operational risks and reputational impacts. An operational risk event has the potential to significantly erode capital capacity and reduce the Company's net income. Therefore, the Company sets and develops limits, policy and framework to manage and mitigate operational risk.

Operational risk can not only result in financial loss, but also regulatory sanctions and damage to the Company's reputation. The Company is very successful at managing operational risk with a view to safeguarding client assets and preserving shareholder value.

Operational risks are managed and controlled within the individual business lines and a wide variety of checks and balances to address operational risks have been developed as an important part of the Company's risk management culture. They include adoption of the overall, group-wide standards and policies established by the Parent to ensure proper risk analysis and control, including risk management policies, a rigorous planning process, regular organisational review, thorough enforcement of the Parent's Guidelines on Business Conduct, and clearly defined and documented approval authorities. The Company is also subject to a documented compliance programme, the elements of which are regulatory awareness, regulatory risk assessment, compliance monitoring and reporting. As well, regular audits by the Parent's Audit Department include comprehensive reviews of the design and operation of internal control systems in all business and support groups, new products and systems, and the reliability and integrity of data processing operations. The Audit Committee approves an annual audit scope and plan, and reviews all subsequent reports and management responses to ensure appropriate corrective action is taken.

### 2.5.1 Operational Risk Management Framework

Scotiabank's Operational Risk Management Framework sets out an integrated approach to identify, assess, control, mitigate and report operational risks across the Company. The following are key components of Scotiabank's Operational Risk Management Framework:

- The Company's Risk and Control Assessment programme, which is managed by Global Risk Management's central operational risk unit, includes formal reviews of significant units, operations and processes to identify and assess operational risks. This programme provides a basis for management to ensure that key risks have been identified and that controls are functioning effectively. Business line management attests to the accuracy of each assessment and develops action plans to mitigate risks if controls are not identified as effective. Results of these reviews are summarised and reported to senior management and the Board.
- The Company has a standard inventory of operational risks which are discussed and considered in each risk assessment.
- The Company's Key Risk Indicator (KRI) programme provides management with an early warning system of changes in risk exposure that may indicate that an operational risk appetite or tolerance may be breached.
- Scotiabank's centralised operational loss event database, which is managed and maintained by the central operational risk unit within Global Risk Management, captures key information on operational losses. This data is analysed, benchmarked against industry loss data and significant metrics and then reported to senior management and the Parent's Board to provide insight into operational risk exposures, appetites and trends.
- Scotiabank is a member of the Operational Risk Data Exchange Association (ORX), an international consortium of banks that share anonymised loss data. This industry data is used to support risk identification and assessment. Discussion forums within ORX also help to ensure that the Company adopts all industry best practices and developments.
- Scotiabank's monitoring of industry events, identifies significant losses incurred at other financial institutions and provides a reference for reviewing and assessing the Company's own risk exposure.
- Scotiabank's New Products and Activities Policy, which describes the general principles applicable to the review, approval and implementation of new products/activities in the Company is intended to provide overarching

guidance. Processes are in place at the all-Bank level and in each business line for evaluation of risk in new businesses, services and products.

- Bank-wide communications plan has been developed to enhance the awareness and understanding of operational risk across Scotiabank.
- The elements of the Operational Risk Management Framework are also integrated into the overall risk management processes across all levels of Scotiabank, including the evaluation, review, approval and implementation of new products and services. A standard risk assessment tool named the New Initiative Risk Assessment (“NIRA”) template has been developed to be used by all Product Sponsors when assessing and reviewing all risks relating to new products and services. The review of risks using the NIRA template is a minimum requirement for every new product or service in scope of the New Product and Services Risk Management Policy.

## 2.6 Board Risk Management Declaration

The Board is responsible for reviewing the effectiveness of the Company's risk management framework and internal controls which are designed to manage and mitigate the risks of not achieving business objectives.

The Board considers that it has in place adequate systems and controls with regard to the Company's profile and strategy and an appropriate array of assurance mechanisms, properly resourced and skilled, to avoid or minimise loss.

## 2.7 Board Approved Risk Statement

The primary goals of risk management are to ensure that the outcomes of risk-taking activities are consistent with the Company's strategies and risk appetite, and that there is an appropriate balance between risk and reward in order to maximise shareholder returns. The Company's risk management framework provides the foundation for achieving these goals.

The Company's risk strategy consists of the following components:

1. **Governing Financial Objectives:** summarise the overarching financial objectives of the Company in terms of profitability, capital adequacy and access to financial resources.
2. **Strategic Principles:** are primarily aimed at building franchise value by generating superior financial returns.
3. **Risk Management Principles:** guide the Company's overall approach to the management of risk-taking activities.

The Company's risk management framework is applied on an enterprise-wide basis and consists of three elements; risk governance, risk appetite and risk management techniques which are underpinned by Scotiabank's strong risk culture.



The risk appetite measures are integrated into decision making, monitoring and reporting processes, with early warning trigger levels set to drive any required corrective action before overall tolerance levels are reached.

The Board expresses the Company's Risk Appetite through a number of key Risk Appetite measures:

Group	Dimensions	Measure	Frequency of Monitoring
Sustainable Earnings	Return on Equity	Ratio of net income before tax to common shareholders equity based on year to date performance.	Monthly
	Productivity Ratio	Productivity Ratio – ratio of non-interest expenses to net revenue	Monthly
Maintaining Capital Adequacy	Target Regulatory Capital Ratio	The Company calculates its Internal Capital Ratio (internal capital for Pillar 1 risk plus add-on for Pillar 2 risks) within its ICAAP. After review of the Company's ICAAP, PRA sets Individual Capital Guidance.	Quarterly
	Capital Buffer	After review of the Company's ICAAP, PRA sets a capital buffer which can only be utilised during times of stress	Quarterly
Effective Liquidity and Funding Management	Survival Horizon	The amount of time the Company needs to have sufficient liquidity to meet its obligations during a liquidity crisis.	Weekly
	Unencumbered Assets	Amount of unencumbered assets which can be liquidated to enable the Company to meet its obligations during a liquidity crisis, as determined in its ILAA. After review of the Company's ILAA, PRA sets Individual Liquidity Guidance ("ILG") which includes the amount and composition of its Liquid Assets Buffer ("LAB").	Weekly
Individual Risk Metrics	Market Risk	Maximum Value at Risk (VaR) for all trading books at 99% confidence interval based on historical market movements	Daily
	Interest Rate Risk in the Non-Trading Book	Annual Income (AI): maximum effect of a +/- 100bp parallel shift in yield curves on the Company's annual income	Daily
		Economic Value (EV): maximum effect of a +/- 100bp parallel shift in yield curves on the net present value of the Company's assets and liabilities.	Daily
	Credit Risk	Credit Risk Strategy as set out in the relevant appendix in the Company's ICAAP.	Ongoing
		Limits on maximum authorised portfolio, any single credit exposure, total authorised loans below IG75, industry limits and maximum loan loss in any one year.	Monthly
	Counterparty Credit Risk	Limit on any single counterparty credit risk exposure.	Daily
	Operational Risk	Single event and year-to-date loss as a percentage of pre-tax income	Ongoing
	Reputational Risk	Damage to the Company's and/or Scotiabank's brand or franchise value	Ongoing
Regulatory Compliance	Regulatory breaches with severe adverse consequences	Ongoing	

The required disclosure of key ratios and figures relating to the Company's risk profile has not been included in the above table as, in the opinion of the Board, this information is sensitive and would undermine the Company's competitive position. The Company has operated within the Risk Appetite limits during the year and there were no breaches reported.

### 3 **CAPITAL ADEQUACY**

The Company is well capitalised and maintains a strong capital base to support the development of the business and ensures that the Pillar 1 capital requirements and Individual Capital Guidance (“ICG”) are met at all times. As a result, the Company maintains capital ratios comfortably above minimum regulatory requirements.

A summary of the key regulatory metrics is as follows:

	<b>31 October 2015</b>	31 October 2014
	<b>USD ‘000s</b>	USD ‘000s (restated)
Common equity tier 1 capital	1,759,178	1,754,314
Tier 1 capital	1,759,178	1,754,314
Total regulatory capital	1,779,649	1,779,885
Common equity tier 1 capital ratio	20.00%	19.19%
Tier 1 capital ratio	20.00%	19.19%
Total capital ratio	20.23%	19.47%
Total risk weighted assets (“RWAs”)	8,797,554	9,142,499

#### **3.1 Internal capital adequacy assessment**

The Company carries out an annual internal capital adequacy assessment, last performed as at 31 October 2014, which considers the adequacy of the capital held and assesses the impact of five year forward looking stress scenarios. The approach to the Company’s assessment of the adequacy of its internal capital to support current and future activities has been to identify the material risks in the business and then determine the level of internal capital required by the Company.

The Company’s management took the following steps in making its assessment:

- a. undertook an adequacy assessment for each significant Pillar 1 risk;
- b. identified other material Pillar 2 risks which could impact the Company and undertook further adequacy assessments to determine the Pillar 2 add-on for these risks;
- c. combined the adequacy assessments for Pillar 1 and Pillar 2 risks – the adequacy assessment for aggregated required capital;
- d. compared the results of the adequacy assessment with the Company’s current Pillar 1 regulatory capital calculations for each risk type and took the higher charge;
- e. undertook stress testing using severe but plausible scenarios in order to assess future capital capacity. These scenarios were also modelled to include potential management actions to conserve capital.

Based on assessments performed, management is satisfied that with appropriate management actions in place, the Company’s available capital is sufficient to support its risk profile and strategic plans under regulatory requirements and that it has sufficient capital to cover the main elements of severe stress in the short and medium term. This will enable the Company to realise its business objectives, implement intended strategy and in the severe stress scenario execute its contingency plans. Based on the results, it was concluded that the Company would not require any future capital injections and could rely on its existing capital base.



### 3.2 Capital requirements

The following summary table details the risk-weighted exposure amounts and Pillar 1 capital requirements of the Company as at:

31 October 2015	Risk weighted exposure amounts USD '000s	Capital requirements USD '000s
Credit risk	6,280,142	502,411
Counterparty risk	842,273	67,382
Market risk	1,212,328	96,987
Operational risk	441,596	35,328
Credit valuation adjustments	21,215	1,697
<b>Total capital requirements</b>	<b>8,797,554</b>	<b>703,805</b>
<hr/>		
31 October 2014	Risk weighted exposure amounts USD '000s	Capital requirements USD '000s
Credit risk	5,388,370	431,070
Counterparty risk	846,426	67,714
Market risk	2,624,543	209,963
Operational risk (restated)	463,301	37,064
Credit valuation adjustments	59,239	4,739
<b>Total capital requirements</b>	<b>9,381,879</b>	<b>750,550</b>

## 4 CAPITAL RESOURCES

### 4.1 Regulatory capital

The table below summarises the composition of the Company's regulatory capital as at 31 October 2015:

Transitional own funds disclosure template				
		(A) AMOUNT AT DISCLOSURE DATE (USD'000s)	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No 575/2013
	<b>Common Equity Tier 1 (CET1) capital: instruments and reserves</b>			
1	Capital instruments and the related share premium accounts	985,795	26 (1), 27, 28, 29, EBA list 26 (3)	985,795
	of which: Instrument type 1	985,795	EBA list 26 (3)	985,795
2	Retained earnings	783,420	26 (1) (c)	783,420
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	1,263	26 (1)	1,263
6	<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>1,770,478</b>		<b>1,770,478</b>
	<i>Common Equity Tier 1 (CET1) capital: regulatory adjustments</i>			
7	Additional value adjustments (negative amount)	(10,718)	34, 105	(10,718)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	(582)	36 (1) (c), 38, 472 (5)	(582)
28	<b>Total regulatory adjustments to Common Equity Tier 1 (CET1)</b>	<b>(11,300)</b>		<b>(11,300)</b>
29	<b>Common Equity Tier 1 (CET1) capital</b>	<b>1,759,178</b>		<b>1,759,178</b>
	<b>Tier 2 (T2) capital</b>			
	<i>Tier 2 (T2) capital: instruments and provisions</i>			
50	Credit risk adjustments	20,471	62 (c) & (d)	20,471
58	<b>Tier 2 (T2) capital</b>	<b>20,471</b>		<b>20,471</b>
59	<b>Total capital (TC - T1 + T2)</b>	<b>1,779,649</b>		<b>1,779,649</b>

The table below summarises the composition of the Company's regulatory capital as at 31 October 2014 (restated):

Transitional own funds disclosure template				
Common Equity Tier 1 (CET1) capital: instruments and reserves		(A) AMOUNT AT DISCLOSURE DATE (USD'000s)	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No 575/2013
1	Capital instruments and the related share premium accounts	985,795	26 (1), 27, 28, 29, EBA list 26 (3)	985,795
	of which: Instrument type 1	985,795	EBA list 26 (3)	985,795
2	Retained earnings	783,358	26 (1) (c)	783,358
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	2,019	26 (1)	2,019
6	<b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>1,771,172</b>		<b>1,771,172</b>
	<i>Common Equity Tier 1 (CET1) capital: regulatory adjustments</i>			
7	Additional value adjustments (negative amount)	(15,962)	34, 105	(15,962)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	(896)	36 (1) (c), 38, 472 (5)	(896)
28	<b>Total regulatory adjustments to Common Equity Tier 1 (CET1)</b>	<b>(16,858)</b>		<b>(16,858)</b>
29	<b>Common Equity Tier 1 (CET1) capital</b>	<b>1,754,314</b>		<b>1,754,314</b>
<b>Tier 2 (T2) capital</b>				
	<i>Tier 2 (T2) capital: instruments and provisions</i>			
50	Credit risk adjustments	25,571	62 (c) & (d)	25,571
58	<b>Tier 2 (T2) capital</b>	<b>25,571</b>		<b>25,571</b>
59	<b>Total capital (TC - T1 + T2)</b>	<b>1,779,885</b>		<b>1,779,885</b>

**Prudential filters**

	<b>31 October 2015</b>	31 October 2014
	<b>USD '000s</b>	USD '000s
Additional valuation adjustments ("AVAs")	(10,718)	(15,636)
Independent price verification ("IPVs") adjustments	-	(326)
<b>Value adjustments due to the requirements of prudential valuation</b>	<b>(10,718)</b>	<b>(15,962)</b>

**Note:** The Company is using Simplistic Approach to calculate AVAs.

**Deductions to capital**

	<b>31 October 2015</b>	31 October 2014
	<b>USD '000s</b>	USD '000s
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	(582)	(896)

No exposure values have been deducted from own funds as at 31 October 2015 (2014: Nil).

*Called up share capital*

The Company has 1 billion authorised ordinary shares of which 617.55 million are allotted, called up and paid. Each share is issued at USD 1.5963.

*Accumulated other comprehensive income*

The revaluation of available-for-sale items is reflected under accumulated other comprehensive income.

**Capital restrictions**

The Company has no restrictions applied to the calculation of capital in accordance with the CRD IV and the capital instruments, prudential filters and deductions to which those restrictions apply (2014: Nil).

#### 4.2 Reconciliation

The following table shows reconciliation between equity and total regulatory capital as at:

	<b>31 October 2015</b>	31 October 2014
	<b>USD '000s</b>	USD '000s (restated)
Called up share capital	985,795	985,795
Retained earnings	857,884	826,595
Accumulated other comprehensive income	1,263	2,019
<b>Total equity from statutory accounts</b>	<b>1,844,942</b>	<b>1,814,409</b>
<b>Regulatory deductions from equity;</b>		
Proposed dividend	(74,464)	(43,237)
Deferred tax deduction	(582)	(896)
Value adjustments due to the requirements of prudential valuation	(10,718)	(15,962)
<b>Common equity tier 1 capital</b>	<b>1,759,178</b>	<b>1,754,314</b>
<b>Tier 2 capital</b>		
General credit risk adjustments	20,471	25,571
<b>Tier 2 capital</b>	<b>20,471</b>	<b>25,571</b>
<b>Total regulatory capital</b>	<b>1,779,649</b>	<b>1,779,885</b>

Capital instruments main features template		
1	Issuer	Scotiabank Europe plc
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	English
	<b>Regulatory treatment</b>	
4	Transitional Capital Requirements Regulation (“CRR”) rules	N/A
5	Post-transitional CRR rules	N/A
6	Eligible at solo / (sub-) consolidated / solo & (sub-) consolidated	Unconsolidated
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognised in regulatory capital (currency in million, as of the reporting date)	USD 985.8 million
9	Nominal amount of instrument	617.55 million
9a	Issue price	USD 1.5963
9b	Redemption price	N/A
10	Accounting classification	Allotted, called up and fully paid
11	Original date of issuance	The Company was incorporated in 1964 with two shares. Since then a number of share issuances have occurred, the last issuance being in 2000.
12	Perpetual or dated	N/A
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	<b>Coupons / Dividends</b>	
17	Fixed or floating dividend / coupon	See Dividends policy below
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	N/A

Capital instruments main features template		
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A
	<i>(1) Insert 'N/A' if the question is not applicable</i>	

### Dividends policy

The Company's Articles of Association (the "Articles") provide that the directors may pay dividends, subject to the provisions of the Articles, the Companies Acts and there being sufficient profit.

## 5 **CREDIT AND COUNTERPARTY CREDIT RISK**

### 5.1 ***Use of External Credit Assessment Institutions ("ECAIs")***

The Company uses the standardised approach when calculating credit and counterparty risk. The standardised approach requires banks to use risk assessments prepared by ECAIs or Export Credit Agencies ("ECAs") to determine the risk weightings applied to rated counterparties.

The Company uses external credit assessments provided by Moody's Investors Services ("Moody's") to determine the risk weight of rated counterparties in each of the following standardised credit risk exposure classes:

- Central governments or central banks
- Regional governments or local authorities
- Multilateral development banks
- International organisations
- Institutions
- Corporates
- Equity
- High risk
- Exposures in default

The Company uses external credit assessments provided by Dominion Bond Rating Service ("DBRS") to determine the risk weight of rated counterparties in the following standardised credit risk exposure class:

- Securitisation positions

Moody's and DBRS are recognised by the PRA as eligible external credit assessment institutions for the purposes of calculating credit risk requirements under the standardised approach. The external ratings of Moody's and DBRS are mapped to the prescribed credit quality step assessment scale that in turn produces standard risk weightings.

When calculating the risk-weighted value of an exposure using ECAI risk assessments, systems look up the available ratings for customers according to the EBA's rating selection rules. The system then applies the EBA's prescribed credit quality step mapping to derive from the rating the relevant risk weight.

Credit quality step	Moody's assessments
1	Aaa to Aa3
2	A1 to A3
3	Baa1 to Baa3
4	Ba1 to Ba3
5	B1 to B3
6	Caa1 and below

  

Credit quality step	DBRS assessments
1	AAA to AA
2	A
3	BBB
4	BB
5	B
6	CCC to D

All other exposure classes are assigned risk weightings as prescribed in the EBA's rulebook.



As the standardised approach applies to both credit and counterparty credit risk, the following table covers both risk categories. The table below shows the exposure amounts associated with the credit quality steps and the relevant risk weightings as at (only credit quality steps with exposures are shown):

**31 October 2015**

Credit quality step	Exposure (pre credit risk mitigation)	Exposure (post credit risk mitigation)	RWAs	Capital requirements
	USD '000s	USD '000s	USD '000s	USD '000s
1	7,532,923	2,613,896	110,989	8,879
2	349,464	170,482	70,246	5,620
3	670,630	660,599	660,012	52,801
4	386,366	386,366	386,366	30,909
5	205,888	205,888	308,832	24,707
Unrated	25,676,881	7,785,543	5,585,971	446,878
	<b>34,822,152</b>	<b>11,822,774</b>	<b>7,122,416</b>	<b>569,794</b>

**31 October 2014**

Credit quality step	Exposure (pre credit risk mitigation)	Exposure (post credit risk mitigation)	RWAs	Capital requirements
	USD '000s	USD '000s	USD '000s	USD '000s
1	6,819,450	3,187,418	207,284	16,583
2	1,691,838	281,158	126,049	10,084
3	489,720	469,352	466,511	37,321
4	334,639	288,915	288,593	23,087
5	94,905	94,905	142,358	11,389
Unrated	33,702,818	7,428,301	5,004,001	400,320
	<b>43,133,370</b>	<b>11,750,049</b>	<b>6,234,796</b>	<b>498,784</b>

## 5.2 Credit risk

Credit risk arises in the Company's direct lending operations, and in its funding, investment and trading activities where counterparties have repayment or other obligations to the Company.

The Company utilises the standardised approach when calculating credit and counterparty credit risk for Pillar 1 regulatory purposes.

The following tables analyse regulatory credit risk weighted exposures and capital requirements as at:

31 October 2015	Exposure value USD '000s	Average exposure value USD '000s	RWAs USD '000s	Capital requirements USD '000s
<b>Credit risk</b>				
<i>Standardised approach (SA) exposure classes</i>				
Central governments and central banks	1,908,391	1,788,283	16,226	1,298
Institutions	61,603	122,286	12,321	986
Corporates	6,220,126	6,049,071	6,131,480	490,518
Exposures in default	9,912	13,242	9,912	793
Items associated with particular high risk	6,721	6,657	10,082	807
Equity	2,432	2,408	2,432	195
Securitisation positions	66,056	16,514	33,028	2,642
Other items	60,519	47,649	64,662	5,173
<b>Total</b>	<b>8,335,760</b>	<b>8,046,110</b>	<b>6,280,143</b>	<b>502,412</b>
31 October 2014	Exposure value USD '000s	Average exposure value USD '000s	RWAs USD '000s	Capital requirements USD '000s
<b>Credit risk</b>				
<i>Standardised approach (SA) exposure classes</i>				
Central governments and central banks	2,112,613	1,884,640	24,421	1,954
Institutions	109,842	246,454	21,968	1,757
Corporates	5,348,282	5,332,226	5,156,646	412,532
Exposures in default	17,512	29,206	26,268	2,101
Items associated with particular high risk	8,556	7,518	12,834	1,027
Equity	2,520	2,598	2,520	202
Securitisation positions	356,894	331,705	94,448	7,556
Other items	57,881	80,567	49,265	3,941
<b>Total</b>	<b>8,014,100</b>	<b>7,914,914</b>	<b>5,388,370</b>	<b>431,070</b>

Geographic distribution of regulatory exposure asset classes as at:

31 October 2015	United Kingdom		European Union		Rest of world		Total	
	Exposure value	RWAs	Exposure value	RWAs	Exposure value	RWAs	Exposure value	RWAs
	USD '000s	USD '000s	USD '000s	USD '000s	USD '000s	USD '000s	USD '000s	USD '000s
<b>Credit risk</b>								
<i>Standardised approach (SA) exposure classes</i>								
Central governments and central banks	851,504	-	546,164	-	510,723	16,226	1,908,391	16,226
Institutions	4,756	951	25,474	5,095	31,373	6,275	61,603	12,321
Corporates	1,606,435	1,633,368	1,763,566	1,625,922	2,850,125	2,872,190	6,220,126	6,131,480
Exposures in default	-	-	-	-	9,912	9,912	9,912	9,912
Items associated with particular high risk	6,721	10,082	-	-	-	-	6,721	10,082
Equity	2,432	2,432	-	-	-	-	2,432	2,432
Securitisation positions	-	-	66,056	33,028	-	-	66,056	33,028
Other items	60,519	64,662	-	-	-	-	60,519	64,662
<b>Total</b>	<b>2,532,367</b>	<b>1,711,495</b>	<b>2,401,260</b>	<b>1,664,045</b>	<b>3,402,133</b>	<b>2,904,603</b>	<b>8,335,760</b>	<b>6,280,143</b>

31 October 2014	United Kingdom		European Union		Rest of world		Total	
	Exposure value	RWAs	Exposure value	RWAs	Exposure value	RWAs	Exposure value	RWAs
	USD '000s	USD '000s	USD '000s	USD '000s	USD '000s	USD '000s	USD '000s	USD '000s
<b>Credit risk</b>								
<i>Standardised approach (SA) exposure classes</i>								
Central governments and central banks	287,419	-	1,108,986	-	716,208	24,421	2,112,613	24,421
Institutions	56,424	11,284	11,850	2,370	41,568	8,314	109,842	21,968
Corporates	1,592,883	1,574,989	1,338,100	1,164,360	2,417,299	2,417,299	5,348,282	5,156,648
Exposures in default	-	-	15,962	23,943	1,550	2,324	17,512	26,267
Items associated with particular high risk	8,556	12,834	-	-	-	-	8,556	12,834
Equity	2,520	2,520	-	-	-	-	2,520	2,520
Securitisation positions	-	-	356,894	94,447	-	-	356,894	94,447
Other items	57,881	49,265	-	-	-	-	57,881	49,265
<b>Total</b>	<b>2,005,683</b>	<b>1,650,892</b>	<b>2,831,792</b>	<b>1,285,120</b>	<b>3,176,625</b>	<b>2,452,358</b>	<b>8,014,100</b>	<b>5,388,370</b>

Industry sector classification of regulatory exposure asset classes as at:

31 October 2015	Finance and insurance	Government, educational, health and social services	Transportation and storage	Wholesale and retail	Manufacturing	Others	Total
	USD '000s	USD '000s	USD '000s	USD '000s	USD '000s	USD '000s	USD '000s
<b>Credit risk</b>							
<i>Standardised approach (SA) exposure classes</i>							
Central governments and central banks	-	1,884,917	10,817	-	-	12,657	1,908,391
Institutions	61,603	-	-	-	-	-	61,603
Corporates	1,292,887	-	1,625,519	165,692	476,988	2,659,041	6,220,127
Exposures in default	-	-	9,912	-	-	-	9,912
Items associated with particular high risk	6,721	-	-	-	-	-	6,721
Equity	2,432	-	-	-	-	-	2,432
Securitisation positions	66,056	-	-	-	-	-	66,056
Other items	-	-	-	-	-	60,518	60,518
<b>Total</b>	<b>1,429,699</b>	<b>1,884,917</b>	<b>1,646,248</b>	<b>165,692</b>	<b>476,988</b>	<b>2,732,216</b>	<b>8,335,760</b>

31 October 2014	Finance and insurance	Government, educational, health and social services	Transportation and storage	Wholesale and retail	Manufacturing	Others	Total
	USD '000s	USD '000s	USD '000s	USD '000s	USD '000s	USD '000s	USD '000s
<b>Credit risk</b>							
<i>Standardised approach (SA) exposure classes</i>							
Central governments and central banks	-	2,096,333	16,280	-	-	-	2,112,613
Institutions	109,842	-	-	-	-	-	109,842
Corporates	1,358,529	-	1,472,441	118,743	541,428	1,857,141	5,348,282
Exposures in default	-	-	-	-	-	17,512	17,512
Items associated with particular high risk	8,556	-	-	-	-	-	8,556
Equity	2,520	-	-	-	-	-	2,520
Securitisation positions	356,894	-	-	-	-	-	356,894
Other items	-	-	-	-	-	57,881	57,881
<b>Total</b>	<b>1,836,341</b>	<b>2,096,333</b>	<b>1,488,721</b>	<b>118,743</b>	<b>541,428</b>	<b>1,935,534</b>	<b>8,014,100</b>

Residual maturity breakdown of regulatory exposure asset classes on a contractual basis as at:

31 October 2015	Less than 1 year USD '000s	Between 1 and 5 years USD '000s	More than 5 years USD '000s	Undated USD '000s	Total USD '000s	Risk weighted assets USD '000s
<b>Credit risk</b>						
<i>Standardised approach (SA) exposure classes</i>						
Central governments and central banks	1,884,917	10,817	-	12,657	1,908,391	16,226
Institutions	133	-	-	61,470	61,603	12,321
Corporates	1,002,269	4,775,754	442,103	-	6,220,126	6,131,480
Exposures in default	-	9,912	-	-	9,912	9,912
Items associated with particular high risk	-	-	-	6,721	6,721	10,082
Equity	-	-	-	2,432	2,432	2,432
Securitisation positions	-	66,056	-	-	66,056	33,028
Other items	-	-	-	60,519	60,519	64,662
<b>Total</b>	<b>2,887,319</b>	<b>4,862,539</b>	<b>442,103</b>	<b>143,799</b>	<b>8,335,760</b>	<b>6,280,143</b>
<b>31 October 2014</b>						
	Less than 1 year USD '000s	Between 1 and 5 years USD '000s	More than 5 years USD '000s	Undated USD '000s	Total USD '000s	Risk weighted assets USD '000s
<b>Credit risk</b>						
<i>Standardised approach (SA) exposure classes</i>						
Central governments and central banks	-	2,112,613	-	-	2,112,613	24,421
Institutions	-	51,157	-	58,685	109,842	21,968
Corporates	850,091	3,864,599	633,592	-	5,348,282	5,156,648
Exposures in default	1,550	-	15,962	-	17,512	26,267
Items associated with particular high risk	-	3,911	-	4,645	8,556	12,834
Equity	-	-	-	2,520	2,520	2,520
Securitisation positions	-	76,896	279,998	-	356,894	94,447
Other items	-	-	-	57,881	57,881	49,265
<b>Total</b>	<b>851,641</b>	<b>6,109,176</b>	<b>929,552</b>	<b>123,731</b>	<b>8,014,100</b>	<b>5,388,370</b>

### 5.3 Counterparty credit risk

An economic loss occurs if the transaction or a portfolio of transactions with the counterparty has a positive economic value at the time of default. It arises for Over-The-Counter (“OTC”) derivatives and SFTs and is calculated in both trading and non-trading books,

Under Basel III, the Company uses the mark-to-market method when calculating the risk-weighted assets for derivatives and uses the financial comprehensive method when calculating the risk-weight assets for SFTs.

The table below reflects the counterparty credit risk exposure by exposure class and product as at:

31 October 2015	Securities Financing Transactions		Derivatives		Other		Settlement risk		Total counterparty credit risk	
	Exposure value	RWAs	Exposure value	RWAs	Exposure value	RWAs	Exposure value	RWAs	Exposure value	RWAs
	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
	'000s	'000s	'000s	'000s	'000s	'000s	'000s	'000s	'000s	'000s
<i>By exposure class;</i>										
Central governments and central banks	25,353	2,035	158,857	-	-	-	-	-	184,210	2,035
Institutions	187,915	187,915	480,716	480,716	14,388	14,388	-	-	683,019	683,019
Corporates	336,369	67,274	244,470	48,894	1,515	303	-	-	582,354	116,471
Central clearing counterparties	488,945	9,779	1,462,213	29,244	86,272	1,725	-	-	2,037,430	40,748
	<b>1,038,582</b>	<b>267,003</b>	<b>2,346,256</b>	<b>558,854</b>	<b>102,175</b>	<b>16,416</b>	-	-	<b>3,487,013</b>	<b>842,273</b>

  

31 October 2014	Securities Financing Transactions		Derivatives		Other		Settlement risk		Total counterparty credit risk	
	Exposure value	RWAs	Exposure value	RWAs	Exposure value	RWAs	Exposure value	RWAs	Exposure value	RWAs
	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
	'000s	'000s	'000s	'000s	'000s	'000s	'000s	'000s	'000s	'000s
<i>By exposure class;</i>										
Central governments and central banks	84,363	5,939	-	-	-	-	-	-	84,363	5,939
Institutions	424,312	85,056	191,889	38,402	55,364	11,073	-	-	671,565	134,531
Corporates	219,946	219,946	426,340	426,340	13,261	13,261	-	-	659,547	659,547
Central clearing counterparties	779,989	15,600	1,201,224	24,024	339,260	6,785	-	-	2,320,473	46,409
	<b>1,508,610</b>	<b>326,541</b>	<b>1,819,453</b>	<b>488,766</b>	<b>407,885</b>	<b>31,119</b>	-	-	<b>3,735,948</b>	<b>846,426</b>

The table below reflects the counterparty credit risk exposure by geographical region as at:

31 October 2015	United Kingdom		European Union		Rest of world		Total	
	Exposure value	RWAs	Exposure value	RWAs	Exposure value	RWAs	Exposure value	RWAs
	USD	USD	USD	USD	USD	USD	USD	USD
	'000s	'000s	'000s	'000s	'000s	'000s	'000s	'000s
<i>By exposure class;</i>								
Central governments and central banks	15,178	-	169,032	2,035	-	-	184,210	2,035
Institutions	108,499	21,700	180,032	36,006	293,823	58,765	582,354	116,471
Corporates	163,922	163,922	64,848	64,848	454,249	454,249	683,019	683,019
Central clearing counterparties	1,939,535	38,790	97,895	1,958	-	-	2,037,430	40,748
	<b>2,227,134</b>	<b>224,412</b>	<b>511,807</b>	<b>104,847</b>	<b>748,072</b>	<b>513,014</b>	<b>3,487,013</b>	<b>842,273</b>

31 October 2014	United Kingdom		European Union		Rest of world		Total	
	Exposure value	RWAs	Exposure value	RWAs	Exposure value	RWAs	Exposure value	RWAs
	USD	USD	USD	USD	USD	USD	USD	USD
	'000s	'000s	'000s	'000s	'000s	'000s	'000s	'000s
<i>By exposure class;</i>								
Central governments and central banks	54,666	-	29,697	5,939	-	-	84,363	5,939
Institutions	271,093	54,412	126,229	25,269	274,243	54,848	671,565	134,529
Corporates	300,760	300,760	76,647	76,647	282,140	282,140	659,547	659,547
Central clearing counterparties	2,146,636	42,933	173,837	3,478	-	-	2,320,473	46,411
	<b>2,773,155</b>	<b>398,105</b>	<b>406,410</b>	<b>111,333</b>	<b>556,383</b>	<b>336,988</b>	<b>3,735,948</b>	<b>846,426</b>

## 5.4 Impairment of financial assets

### 5.4.1 Loans and advances and doubtful debts

Loans are designated as non-performing as soon as management has doubts as to the ultimate collectability of principal or interest or when contractual payments of principal or interest are 90 days overdue. When a loan is designated as non-performing, an individual impairment provision is raised if required. There are two basic types of provisions, individual impairment and collective provision.

### 5.4.2 Individual impairment

For the loans where objective evidence of impairment exists, individual impairments are recognised. Loan impairment is recognised when, in management's opinion, there is no longer reasonable assurance that interest and principal payments will be made on a timely basis. Impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate, and comparing the resultant present value with the loan's current carrying amount. Any loss is charged in the Statement of Comprehensive Income.

Objective evidence that loans and advances are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Company on terms that the Company would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of borrowers or issuers such as adverse changes in the payment status or economic conditions that correlate with defaults.

A summary of impaired and past due loans is as follows:

	<b>Gross Value</b>	<b>Impairment</b>	Gross Value	Impairment
	<b>31 October 2015</b>	<b>31 October 2015</b>	31 October 2014	31 October 2014
	<b>USD '000s</b>	<b>USD '000s</b>	USD '000s	USD '000s
Not past due	<b>19,525,812</b>	-	28,095,545	-
More than 90 days past due	<b>13,785</b>	<b>3,871</b>	-	-
<i>Of which:</i>				
<i>Shipping – Marshall Islands</i>	<i>13,785</i>	<i>3,871</i>	-	-
<b>Total</b>	<b>19,539,597</b>	<b>3,871</b>	28,095,545	-

### 5.4.3 Collective provisions

Collective provisions are made in relation to losses, which although not specifically identified, exist in the loan portfolio based upon objective evidence at the Statement of Financial Position date. Provisions are charged directly to the Statement of Comprehensive Income.

Individually assessed loans for which no evidence of loss has been identified are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This arises from impairment at the Statement of Financial Position date which will only be individually identified in the future.

The collective impairment allowance is determined after taking into account:

- Historical loss experience in portfolios of similar credit risk characteristics (for example, by industry sector or loan grade);
- The estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual loan; and
- Management's judgement as to whether current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.



The period between a loss occurring and its identification is estimated by business line management.

#### 5.4.4 Loans written off

The Company has specific provisions of USD 3.9 million as at 31 October 2015 (2014: Nil).

The amount of loan write off is assessed on a case by case basis with advice and counsel sought from the Parent. Full or partial write-offs of loans and advances are generally recorded when management believes there is no realistic prospect of a full recovery of interest and principal payments being made on a timely basis.

The following table reflects a reconciliation of specific and collective credit risk adjustments for impaired exposures as at:

<b>31 October 2015</b>	<b>Specific USD '000s</b>	<b>Collective USD '000s</b>	<b>Total USD '000s</b>
<b>Balance as at 1 November 2014</b>	-	<b>25,571</b>	<b>25,571</b>
Amounts written off	-	-	-
Recoveries of advances written off in previous year	36	-	36
Charge to the Statement of Comprehensive Income	3,835	(4,214)	(379)
Other movements	-	(886)	(886)
<b>Balance as at 31 October 2015</b>	<b>3,871</b>	<b>20,471</b>	<b>24,342</b>

  

31 October 2014	Specific USD '000s	Collective USD '000s	Total USD '000s
Balance as at 1 November 2013	22,880	22,181	45,061
Amounts written off	(26,031)	-	(26,031)
Recoveries of advances written off in previous year	140	-	140
Charge to the Statement of Comprehensive Income	3,478	3,483	6,961
Other movements	(467)	(93)	(560)
<b>Balance as at 31 October 2014</b>	-	<b>25,571</b>	<b>25,571</b>

The collective provision for bad and doubtful debts is made against loans and advances to cover incurred loan losses, which are present in any portfolio of loans and advances of this size although not specifically identified. The collective provision reflects the Directors' view of such losses in the portfolio given current lending levels, the credit cycle and the economic climate.

## 5.5 Credit risk mitigation

Refer to Page 13-15 of the document for further information on credit risk mitigation techniques.

### 5.5.1 Valuing collateral

Valuation strategies are established to monitor collateral mitigants to ensure that they will continue to provide the anticipated secure secondary repayment source. The frequency of valuation depends on the class of asset. At the one extreme e.g. term notes supported by mortgage collateral, valuation of the notes against the loan will be carried out daily. At the other extreme, professional independent valuations of collateral such as ships are more likely to be required once or twice a year. A margin requiring excess collateral value to the loan value, with triggers requiring the collateral to be increased when breached, will generally be required.

The table below reflects the collateral utilised to mitigate exposure by geographical region as at:

31 October 2015	United Kingdom USD '000s	European Union USD '000s	Rest of world USD '000s	Total USD '000s
<i>By exposure class;</i>				
Central governments and central banks	833,472	581,342	-	<b>1,414,814</b>
Corporates	4,894,780	33,488	257,632	<b>5,185,900</b>
Institutions	9,171,287	3,375,165	3,852,213	<b>16,398,665</b>
<b>Total</b>	<b>14,899,539</b>	<b>3,989,995</b>	<b>4,109,845</b>	<b>22,999,379</b>
<hr/>				
31 October 2014	United Kingdom USD '000s	European Union USD '000s	Rest of world USD '000s	Total USD '000s
<i>By exposure class;</i>				
Central governments and central banks	1,475,720	1,400,999	-	2,876,719
Corporates	5,919,177	-	678,907	6,598,084
Institutions	14,327,317	6,677,340	903,861	21,908,518
<b>Total</b>	<b>21,722,214</b>	<b>8,078,339</b>	<b>1,582,768</b>	<b>31,383,321</b>

The table below reflects the exposure for each asset class that is covered by eligible financial collateral as at:

<b>31 October 2015</b>	<b>Exposure (pre-collateral) USD '000s</b>	<b>Collateral USD '000s</b>	<b>Exposure (post-collateral) USD '000s</b>
<b>By exposure class;</b>			
Central governments or central banks	3,507,415	1,414,814	<b>2,092,601</b>
Corporates	12,089,044	5,185,900	<b>6,903,144</b>
Exposures in default	9,912	-	<b>9,912</b>
Institutions	19,080,053	16,398,665	<b>2,681,388</b>
Items associated with particular high risk	6,721	-	<b>6,721</b>
Equity	2,432	-	<b>2,432</b>
Other items	60,519	-	<b>60,519</b>
Securitisation positions	66,056	-	<b>66,056</b>
<b>Total</b>	<b>34,822,152</b>	<b>22,999,379</b>	<b>11,822,773</b>

<b>31 October 2014</b>	<b>Exposure (pre-collateral) USD '000s</b>	<b>Collateral USD '000s</b>	<b>Exposure (post-collateral) USD '000s</b>
<b>By exposure class;</b>			
Central governments or central banks	5,073,697	2,876,719	2,196,978
Corporates	12,605,913	6,598,084	6,007,829
Exposures in default	17,512	-	17,512
Institutions	25,010,397	21,908,518	3,101,879
Items associated with particular high risk	8,556	-	8,556
Equity	2,520	-	2,520
Other items	57,881	-	57,881
Securitisation positions	356,894	-	356,894
<b>Total</b>	<b>43,133,370</b>	<b>31,383,321</b>	<b>11,750,049</b>

The Company has analysed the eligibility of collateral under all approaches and methods as defined in CRR Article 197.

### 5.5.2 Treatment of guarantees

A guarantee does not reduce the amount of the exposure that the Company is subject to, however it can reduce the risk weighting applied to the loan when calculating credit risk. As at 31 October 2015, the effect of a guarantee in place transferred USD 125 million of exposure from 100% to 20% risk weighting (2014: USD 200 million). The obligor and the guarantor both fall within 'Corporates' exposure class.

## 6 CREDIT VALUATION ADJUSTMENT

The Company's regulatory capital charge for credit valuation was USD 1.7 million as at 31 October 2015 (2014: USD 4.7 million). The Company uses the Standardised method to calculate credit valuation adjustments.

CRD IV introduced a new regulatory capital charge to cover the risk of mark-to-market losses on expected counterparty risk derivatives and SFTs; this is called a credit valuation adjustment.

### 6.1 *Derivative assets analysis*

Under IFRSs, netting is only permitted if a legal right of set-off exists and the cash flows are intended to be settled on a net basis. Under EBA regulatory rules, however, netting is applied for capital calculations if there is a legal certainty and the positions are managed on a collateralised basis.

The table below reflects a comparison of derivative assets accounting balances and counterparty credit risk exposure as at:

<b>31 October 2015</b>	<b>Accounting USD '000s</b>	<b>Regulatory USD '000s</b>
Gross positive fair value of contracts	1,755,009	1,755,009
Netting benefits	(856,851)	(1,315,612)
Netted current credit exposure	898,158	439,397
Collateral held	-	(11,983)
<b>Net derivatives credit exposure</b>	<b>898,158</b>	<b>427,414</b>
31 October 2014	Accounting USD '000s	Regulatory USD '000s
Gross positive fair value of contracts	716,455	716,455
Netting benefits	(368,879)	(492,447)
Netted current credit exposure	347,576	224,008
Collateral held	-	(15,288)
Net derivatives credit exposure	347,576	208,720

## 6.2 Reverse repurchase agreements and other similar secured lending analysis

Under IFRSs, the assets and liabilities are offset and the net amount is reported in the financial statements when there is a legally enforceable right to offset the recognised amounts and there is an interaction to settle on a net basis, or realise the asset and settle the liability as simultaneously.

The table below reflects the impact of master netting arrangements on reverse repurchase agreements and other similar secured lending as at:

	<b>31 October 2015</b>	31 October 2014
	<b>USD '000s</b>	USD '000s
Reverse repurchase agreements and other similar secured lending (gross)	12,363,495	17,806,731
Netting arrangements	(4,140,303)	(2,585,671)
<b>Reverse repurchase agreements and other similar secured lending (net)</b>	<b>8,223,192</b>	<b>15,221,060</b>

## 7 SECURITISATION

The Company is involved in securitisation deals where it acts as an investor as at the reporting date. Although the Company has acted as an investor in previous financial periods, the current deals are new for the year. The securitisation comprises the senior tranches of auto asset backed securities.

The positions are reflected in the table below:

31 October 2015	On Balance Sheet	Off Balance Sheet	Total	Risk weighed assets	Fair value hierarchy
	USD '000s	USD '000s	USD '000s	USD '000s	
Available-for-sale	-	-	-	-	Level 2
Loans and receivables	49,238	33,637	82,875	33,028	Level 3
	<b>49,238</b>	<b>33,637</b>	<b>82,875</b>	<b>33,028</b>	
31 October 2014	On Balance Sheet	Off Balance Sheet	Total	Risk weighed assets	Fair value hierarchy
	USD '000s	USD '000s	USD '000s	USD '000s	
Available-for-sale	279,960	-	279,960	55,999	Level 2
Loans and receivables	59,724	34,243	93,967	38,448	Level 3
	<b>339,684</b>	<b>34,243</b>	<b>373,927</b>	<b>94,447</b>	

### Accounting treatment

Available-for-sale assets are initially recognised at fair value and changes therein are recognised directly in equity through Other Comprehensive Income. When these assets are derecognised, the cumulative gain or loss in equity is transferred to Statement of Comprehensive Income. The fair value of these assets is determined by reference to their quoted market price or, if not available, a recognised valuation technique. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Loans and receivables are initially recorded at fair value plus any attributable transaction costs and subsequently measured at amortised cost using the effective interest rate method, less impairment losses. Level 3 inputs are unobservable inputs for the asset or liability (i.e. not based on observable market data).

*Monitoring*

Scotiabank's asset-backed finance team performs monthly surveillance and analysis of the transactions based on the settlement report provided by the borrower. A formal review and update is provided to the Parent's credit team at least annually and a third party audit firm conducts an annual due diligence of the securitisation report and associated mechanics.

*Credit risk*

The securitisations are subject to a credit risk capital charge under the standardised approach and the capital requirement is USD 2.6 million as at 31 October 2015 (2014: USD 7.6 million). Using DBRS ratings, the loans and receivables position attracts a risk-weighting of 50%.

*Other risks*

There are a number of 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.

**8 MARKET RISK**

The Company adopts the standardised approach to calculate market risk for regulatory purposes, more specifically maturity based method for calculation of general debt instruments risk and maturity ladder approach for commodity risk.

The table below provides risk weighted exposure amounts and capital requirements arising from Market risk as at:

<b>31 October 2015</b>	<b>Risk weighted exposure USD '000s</b>	<b>Capital requirements USD '000s</b>
<b>Market risk</b>		
Traded debt instruments	638,125	65,701
Foreign exchange	6,098	488
Commodities	490,435	39,235
Underwriting	77,670	6,214
<b>Total</b>	<b>1,212,328</b>	<b>96,987</b>
<hr/>		
31 October 2014	Risk weighted exposure USD '000s	Capital requirements USD '000s
<b>Market risk</b>		
Traded debt instruments	1,769,525	141,562
Foreign exchange	3,030	242
Commodities	851,988	68,159
Underwriting	-	-
<b>Total</b>	<b>2,624,543</b>	<b>209,963</b>

## 9 OPERATIONAL RISK

The Company uses the Basic Indicator Approach (“BIA”) for calculating the capital requirement for Operational risk which is 15% of the average over three years of the relevant indicator, and uses audited figures to perform the calculations. The relevant indicator is the sum of all the elements listed below:

- Interest receivable and similar income
- Interest payable and similar charges
- Income from shares and other variable / fixed – yield securities
- Commissions / fees receivable
- Commissions / fees payable
- Net profit or loss on financial operations
- Other operating income

The table below provides the risk weighted exposure amounts and capital requirements for Operational risk as at:

31 October 2015	Risk weighted exposure USD '000s	Capital requirements USD '000s
<b>Operational risk</b>		
Operational Risk (BIA)	441,596	35,328
<b>Total</b>	<b>441,596</b>	<b>35,328</b>

31 October 2014	Risk weighted exposure USD '000s (restated)	Capital requirements USD '000s (restated)
<b>Operational risk</b>		
Operational Risk (BIA)	463,301	37,064
<b>Total</b>	<b>463,301</b>	<b>37,064</b>

**10 OTHER RISKS****10.1 Interest rate risk on positions not included in the trading book**

Interest rate risk arises when there is a mismatch between positions, which are subject to interest rate adjustments within a specific period.

In the Company's funding / lending activities, fluctuations in interest rates are reflected in interest margins and earnings. Where there are significant mismatches of interest rate risk or where the Company enters into any fixed rate note loan obligations, appropriate hedging techniques are employed to manage the interest rate exposure at all times to limit this risk. The Company utilises swaps when required by particular customer transactions, but hedges its position using a back to back contract with its Parent in order to mitigate any exposures from these transactions.

**10.1.1 Sensitivity analysis**

A change of 1% in interest rates at the financial year-end date would have increased (decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the Statement of Financial Position date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect of financial instruments with variable interest rates, financial instruments at fair value through profit or loss or available-for-sale with fixed interest rates and the fixed rate element of interest rate swaps.

**31 October 2015**

				USD '000s		
	USD	EUR	GBP	Total (Gross)	Impact of Tax	Total (Net)
<b>Profit or loss (net of tax)</b>						
Increase by 1%	(743)	1,794	1,884	2,935	(773)	2,162
Decrease by 1%	743	(1,794)	(1,884)	(2,935)	773	(2,162)

**31 October 2014**

				USD '000s		
	USD	EUR	GBP	Total (Gross)	Impact of Tax	Total (Net)
<b>Profit or loss (net of tax)</b>						
Increase by 1%	(739)	1,893	154	1,308	(343)	965
Decrease by 1%	739	(1,893)	(154)	(1,308)	343	(965)



## 10.2 Equities not included in the trading book

The Company had unlisted equity investments in the non-trading book of USD 4.9 million as at 31 October 2015 (2014: USD 7.0 million) which are non-core assets and classified as available-for-sale items.

Historically, the Company had invested in various Leverage buy-out funds which have all been sold with the exception of one fund. The Equities are London Metal Exchange (“LME”) class B shares and held for clearing member status.

The table below reflects a breakdown of non-trading book equity investments as at:

	<b>31 October 2015</b> USD '000s	31 October 2014 USD '000s
Leverage buy-out funds (unlisted)	2,396	4,465
Equities (unlisted)	2,432	2,520
<b>Total drawn amount</b>	<b>4,828</b>	6,985

### *Accounting treatment*

Equities classified as available-for-sale assets are initially recognised at fair value plus any attributable transaction costs and changes therein are recognised directly in equity through Other Comprehensive Income. When equity is derecognised, the cumulative gain or loss in equity is transferred to the Statement of Comprehensive Income. The fair value of these assets is determined by reference to their quoted market price or, if not available, a recognised valuation technique. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

The net gain from disposal of equity securities amounted to USD 1.3 million for the financial year ended 31 October 2015 (2014: USD 1.1 million). The unrealised gains recorded through the Other Comprehensive Income amounted to USD 1.0 million as at 31 October 2015 (2014: USD 2.3 million).

### *Valuation*

The Leverage buy-out funds are valued by the General Partner. The LME shares have no dividend participation and are valued at historical purchase price.

### *Credit risk*

The capital requirements amounted to USD 1.0 million; with the Leverage buy-out fund being classified as high risk for regulatory reporting purposes (2014: USD 1.2 million).

**11 LEVERAGE**

The leverage ratio is a transparent, comparable measure not affected by risk weightings. It is calculated as tier 1 capital divided by total exposure measure as per CRD IV article 429(2). The company has chosen to calculate the leverage ratio using total tier 1 capital as per CRD IV article 499(2).

At 31 October 2015 the leverage ratio was 6.89% (5.63% average for 12 months), significantly above PRAs proposed minimum of 3% and above the internal minimum requirement set by the Board of Directors.

The level of leverage is actively monitored by the company's Board of Directors, Asset Liability Committee and Audit Committee and regularly assessed alongside capital and capital ratios. The committees also monitor compliance with risk management, assist in assessing market trends, economic and political developments, and providing global strategic direction for all aspects of risk management. Additionally a Risk Committee of the Board provides a forum for in-depth review and analysis of the risks to which the Company is subject.

The leverage ratio has increased by 1.96% during the year. Total exposure value has reduced by USD 10.1 billion mainly due to reduced reverse repurchase agreement trading.

<b>Summary reconciliation of accounting assets and leverage ratio exposures</b>	<b>31 October 2015</b>	31 October 2014
	<b>USD 'millions</b>	USD 'millions
Total assets as per published financial statements	20,955	31,032
Adjustments for derivative financial instruments	1,459	1,472
Adjustments for SFTs	1,052	1,509
Adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	2,043	1,560
Other adjustments	21	25
<b>Total leverage ratio exposure</b>	<b>25,530</b>	35,598

**Leverage ratio common disclosure**  
**USD 'millions**

	<b>2015</b>	<b>2014</b>
<b>On-balance sheet exposures (excluding derivatives and SFTs)</b>		
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	20,077	30,710
(Asset amounts deducted in determining Tier 1 capital)	-	-
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	20,077	30,710
<b>Derivative exposures</b>		
Replacement cost associated with <i>all</i> derivatives transactions (i.e net of eligible cash variation margin)	439	224
Add-on amounts for PFE associated with <i>all</i> derivatives transactions (mark-to-market method)	1,918	1,595
(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
Total derivative exposures	2,358	1,819
<b>Securities financing transaction exposures</b>		
Counterparty credit risk exposure for SFT assets	1,052	1,509
Total securities financing transaction exposures	1,052	1,509
<b>Other off-balance sheet exposures</b>		
Off-balance sheet exposures at gross notional amount	4,174	3,451
(Adjustments for conversion to credit equivalent amounts)	(2,131)	(1,891)
Other off-balance sheet exposures	2,043	1,560
<b>Capital and total exposures</b>		
Tier 1 capital	1,759	1,754
Total leverage ratio exposures	25,530	35,598
<b>Leverage ratio</b>		
Leverage ratio	6.89%	4.93%
<b>Choice on transitional arrangements and amount of derecognised fiduciary items</b>		
Choice on transitional arrangements for the definition of the capital measure	FULL IMPACT	

**Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)**  
**USD 'millions**

	<b>2015</b>	<b>2014</b>
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	20,077	30,710
Trading book exposures	13,751	24,331
Banking book exposures, of which:	6,326	6,379
Exposures treated as sovereigns	1,898	2,112
Institutions	46	87
Corporate	4,304	3,772
Exposures in default	-	-
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	81	408

## 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 Pillar 3 asset encumbrance disclosure templates, show below, have been compiled in accordance with EBA's guidelines on disclosure of encumbered and unencumbered assets and the PRA's supervisory statement SS11/14 ("CRD IV: Compliance with the EBA's Guidelines on the disclosure of encumbered and unencumbered assets"). In accordance with the threshold criteria under SS11/14, the Company is not required to report Template B on the fair value of encumbered and unencumbered collateral received. Furthermore, the statement requires that the data is presented as a median calculation rather than point in time.

Table A and Table B below reflect the median of the last four quarters:

### Template A: Encumbered and unencumbered assets

		Carrying amount of encumbered assets	Fair Value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		USD '000s	USD '000s	USD '000s	USD '000s
		010	040	060	090
010	Assets of the reporting institution	5,660,876	-	17,839,772	-
030	Equity instruments	-	-	4,766	4,766
040	Debt securities	4,953,185	4,953,185	2,081,846	2,081,846
120	Other assets	707,691	-	15,753,160	-

### Template C: Encumbered Assets, Collateral Received and Associated Liabilities

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		USD '000s	USD '000s
		010	030
010	Carrying amount of selected financial liabilities	14,829,358	15,289,886

### Template D: Information on importance of encumbrance

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 secured financing transactions, including repos/reverse repos and securities lending. Other sources of encumbrance are collateral placed at CCPs and clearing banks (including default funds and initial margins) and the minimum reserves placed at Bank of England.

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

The majority of the unencumbered assets are reverse repurchase agreements and stock borrowing receivables and loans and advances. Other unencumbered assets include cash, derivative assets, property and equipment, deferred tax assets and other assets.

## **13 REMUNERATION**

All staff are employed by the Parent and those that provide services to the Company do so either under internal secondment arrangements or pursuant to intergroup service level agreements.

### **13.1 Qualitative Disclosure**

#### **13.1.1 Governance**

##### *Role of the Compensation Committee*

The Parent has an established Human Resources Committee (“HRC”), based in Toronto, which is responsible for setting global, bank-wide policies for Scotiabank on compensation, overseeing the compensation governance framework and ensuring that compensation arrangements are consistent with and promote effective risk management. In addition, the HRC approves the remuneration policy statement that applies to the Company, as well as individual awards to Material Risk Taker (“MRT”) who are subject to the UK’s Remuneration Code for Firms that are dual regulated by the FCA and the PRA.

The HRC also reviews the total compensation principles and major compensation programmes of Scotiabank and recommends to the Parent board the total compensation to be paid or awarded to executive officers of Scotiabank and other Parent board-appointed officers, agreements and employment contracts applicable to executive officers and other Parent board appointed officers, general criteria and design of Scotiabank’s major incentive plans, and the basis and allocation for distribution of awards relating to various other incentive plans.

##### *Decision-making process of the Compensation Committee*

The HRC assumes decision-making responsibilities relating to compensation and annual disclosure. It reviews and recommends the content and effectiveness of compensation policy, as informed by corporate human resources and independent advisors, and ensures that they align with Scotiabank’s strategic objectives.

To achieve this, the HRC is responsible for:

- Overseeing robust succession plans to provide effective leadership
- Reviewing compensation principles and alignment of these compensation principles with Scotiabank’s pay for performance strategy as well as our risk appetite
- Monitoring compensation and governance trends, staying abreast of regulatory requirements and monitoring compliance
- Reviewing major compensation programmes and making recommendations to the Parent board with respect to compensation plans
- Reviewing compensation disclosure and recommending approval to the Parent board prior to publication

The HRC held seven meetings in 2015 (2014: nine meetings).

More information on HRC compensation decision-making can be found in the Parent’s Management Proxy Circular at <http://www.scotiabank.com/ca/en/0,,917,00.html>.

##### *Composition of the Compensation Committee*

Current members of the HRC are: Aaron W. Regent (Chair), Ronald A. Brenneman, N. Ashleigh Everett, William R. Fatt, Thomas C. O’Neill, Indira V. Samarasekera, and Barbara S. Thomas. The members of the HRC are all non-executive directors of the Parent.

### *External Consultants*

The HRC retains an external, qualified third party to advise them on compensation matters. The Committee has policies which make sure the advisor is, and remains, independent. In 2015, Frederic W. Cook & Co. (“FWC”), working without direction from management, provided the HRC with a review of executive compensation practices and design, updates on ongoing and emerging trends in executive compensation and governance, perspective on total compensation mix and levels, a review of materials in advance of committee meetings, and the identification of discussion points and issues for the Committee’s consideration when evaluating compensation design proposals. FWC is an independent executive compensation consulting firm based in New York.

### *MRT Criteria*

Scotiabank follows EBA regulatory technical standards<sup>1</sup> and identifies the following groups of employees as MRT:

- (a) Executive level employees (UK resident Executive Directors of UK subsidiaries);
- (b) Employees leading business line functions with a significant proportion of revenues, numbers of front office staff and capital usage;
- (c) Employees leading stewardship functions including compliance, finance, legal, audit and HR;
- (d) Employees responsible for developing and implementing Scotiabank and business line strategy;
- (e) Senior management whose activities are deemed to have a material impact on the Scotiabank risk profile in the UK; and
- (f) Higher earners who have a material impact on the risk profile of UK subsidiaries.

#### Note:

EBA/RTS/2013/11: EBA FINAL draft regulatory technical standards on criteria to identify categories of staff whose professional activities have a material impact on the risk profile of firms under Article 94(2) of Directive 2013/36/EU

### **13.1.2 Link between pay and performance**

In addition to base salary and role-based allowance, Scotiabank’s executive compensation includes a mix of annual and deferred incentives – which are known as “pay-at-risk,” since they are not guaranteed. Executives are also eligible to participate in benefit, pension, and perquisite programmes.

In determining the appropriate mix, the HRC considers the executive’s ability to effect results over the longer term, the mix for similar positions in our comparator group, and market practice.

More information on pay and performance can be found in the Parent’s Management Proxy Circular.

### **13.1.3 Design and Structure of Remuneration**

#### *Salary*

Base salary compensates executives for performance of their day-to-day roles and responsibilities. Each year, the HRC reviews the salary for each senior executive relative to the average and median base salary for similar positions in our peer group. The HRC recommends appropriate adjustments, as needed, based on the executive’s experience, performance and leadership.

#### *Role-based Allowance (“RBA”)*

In fulfilment of the CRD IV regulatory requirements, the role-based allowance was implemented in 2015. The amount of the role-based allowance is determined by taking into account “market compensation” for a role. “Market compensation” includes other remuneration that an employee in that role may receive for performance year. An adjustment to RBA will normally only be made following a change in the role or function performed by the employee or to comply with or take account of any regulatory changes in any jurisdiction in which the RBA is paid. The RBA is not payable during unpaid

leaves of absence or during a period of suspension without pay. During the period of a garden leave, the allowance is only payable if the employee is continuing to fulfil the duties of their role.

#### *Benefit Pension Plan*

The Scotiabank Pension Scheme (UK & CI) a registered defined benefit pension plan was closed to new members in July 2005. The plan members have the option to be either a non-contributory member or to contribute 4% of their pensionable salary. If they wish to increase their personal pension contributions, they have the option to join The Scotiabank Group Personal Pension Plan ("GPPP"), an approved defined contribution plan. Staff, whose employment commenced after July 2005, have the option to participate in the GPPP as either contributory or non-contributory member.

#### **13.1.4 Annual Incentives**

##### *Rationale & Eligibility Criteria*

All MRTs are eligible to receive an annual incentive. Annual incentives are designed to reward employees for their contribution to the achievement of the objectives of Scotiabank's annual financial and non-financial goals.

Scotiabank currently has two annual incentive programmes for employees in the UK, designed to reward employees for their contribution to the achievement of our annual goals:

- Annual Incentive Plan ("AIP"), for all back and middle-office employees, including employees in control function roles;
- Global Banking and Markets Incentive Plan ("GBMIP"), for GBM front-office employees globally, in designated units and roles

##### *Performance Measurement/Assessment*

The AIP rewards employees based on Scotiabank's performance on financial and operational metrics for the fiscal year, as well as individual performance which has a significant impact on final awards. Line of business performance measures and country performance are also factored into awards for certain executives. The AIP also includes risk adjusted measures that reflect the full range of potential risks. The AIP pool is funded based on All-Bank measures: return on equity (ROE), diluted earnings per share ("EPS"), and the operating leverage.

The GBMIP is designed to reward eligible employees of GBM on the achievement of the objectives of both GBM and Scotiabank. Funding is determined based on GBM profits, sustainability of each business line's performance, competitive market practices, and the AIP All-Bank performance factor. Individual awards consider individual and business line performance, as well as market position, and the pool of funds available.

More information on both the AIP and GBMIP can be found in the Parent's Management Proxy Circular.

##### *Risk Adjustment*

Prior to the awards being approved, Scotiabank's Chief Risk Officer assesses whether there are any other potential risks that should be reflected in the incentive pool funding, and recommends adjustments – if necessary – to the HRC. For further details please refer to section 13.1.6.

##### *Deferral and Vesting*

Participants of the AIP in the UK at the internal director level and above may be eligible to receive grants of deferred compensation in addition to an AIP payment.

- Non-exempt<sup>2</sup> MRTs receive 50% of the deferred award in Restricted Share Units ("RSUs") and 50% in Deferred Cash. All awards vest pro-rata over three years. The vested RSUs are subject to a further six month holding period



before being paid out in cash. The portion of total incentive deferred varies between 40% and 60% in accordance with the Remuneration Code.

- Exempt<sup>2</sup> MRTs and other employees depending on seniority receive deferred compensation on a discretionary basis based on individual performance, and awards typically range between 20% - 30% of total incentives received. Awards are made entirely in RSUs.

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

- Non-exempt<sup>2</sup> MRTs receive 50% of the award in GBM Deferred Performance Plan (“DPP”) units, and 50% in Deferred Cash. All awards vest pro-rata over three years and the vested DPP awards are subject to a further six month holding period before being paid out in cash. The portion of total incentive deferred varies between 40% and 60% in accordance with the Remuneration Code.
- Exempt<sup>2</sup> MRTs and other GBMIP participants receive the entire award in DPP units. The portion of total incentive deferred varies between 15% - 40% depending on employee seniority.

Note:

<sup>2</sup> Exempt per SYSC 19A.3.34G

### **13.1.5 Deferred Incentives**

#### *Rationale & Eligibility Criteria*

A portion of the incentive awards made to MRTs are deferred to reward them for sustained performance over a 3-year period. Deferred incentive awards include RSUs, the GBM DPP and the Deferred Cash Awards.

The RSU plan is intended for key individuals who have the ability to assist in creating future shareholder value. Back and middle-office employees at the internal director level and above may be eligible to receive grants of deferred compensation.

The DPP plan is an integral part of GBM’s overall compensation programme for front office employees. It is designed to align the interests of GBM employees with those of Scotiabank’s shareholders. All GBM front office employees in the UK are eligible to participate.

The Deferred Cash Awards plan is intended for non-exempt MRTs only. All non-exempt MRTs in the UK are eligible to participate, and awards can make up no more than 50% of the total incentive deferred.

#### *Performance Measurement/Assessment*

The RSU plan is designed to reward nominated employees below the executive level and certain executives outside of Canada for delivering sustained shareholder value. RSUs vest over a 3-year period and gain value with the appreciation of Scotiabank’s common share price.

The DPP plan allows GBM employees to receive a portion of their total incentive as DPP units. Units are tied to Scotiabank’s common share price. DPP grants include a performance multiplier based on GBM and overall Scotiabank results, ranging from 0.75 to 1.25, and is applied to the award at the time of vesting.

Deferred Cash Awards are also subject to a performance multiplier. The amount payable upon vesting is equal to the award amount vesting multiplied by a performance multiplier, ranging from 0.75 to 1.25, and determined using the All-Bank score from Scotiabank’s AIP.

#### *Deferral and Vesting*

RSUs and DPP units vest on a pro-rata basis over the term of the grant. One-third of the initial units granted – including dividend entitlements – vest on 30 November of each year. The final vesting date is the last day of the 35<sup>th</sup> month following

grant date. Units are subject to early expiry in certain circumstances. Vested RSUs and DPP units continue to be held for six months following the vesting date and paid out in cash.

Deferred cash awards vest and are redeemable one-third per year following the date of the award.

#### *Risk Adjustments*

Prior to the awards vesting, Scotiabank's Chief Risk Officer assesses whether there are any other potential risks that should be reflected in the amount vesting, and recommends adjustments – if necessary – to the HRC. For further details please refer to section 13.1.6.

#### **13.1.6 Risk Adjustment**

Scotiabank's approach to risk management and compensation is to ensure alignment of compensation with Scotiabank's risk profile and risk time horizon.

In designing executive compensation programmes, Scotiabank strives 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.
  - Executives are discouraged from taking unreasonable and excessive risks by delivering incentive compensation through a combination of annual, mid-term and long-term incentives that reflect our risk profile and by deferring a substantial portion of the incentive compensation paid to senior executives and other employees whose actions have a material impact on Scotiabank's risk exposure. Caps are also placed on annual incentive funding in conjunction with stress-testing potential payouts and implementing share ownership and post-retirement share retention requirements to ensure alignment on a long-term basis.
  - The Chief Risk Officer and the Global Risk Management function review all material plans from a design perspective to ensure that they reflect the risk appetite framework of Scotiabank. The Chief Risk Officer assesses whether there are other potential risks that should be adjusted for in the incentive pool funding (such as concentration risk, off-balance-sheet risk and liquidity risk), or for individuals, monitors all incentive plans for adherence with Scotiabank's risk appetite, and recommends adjustments to the Parent's human resources and executive and risk committees, if warranted. The Chief Risk Officer reviews the amounts accrued for Scotiabank's material incentive programmes to ensure appropriate use of capital.
  - Scotiabank measures shareholder value creation using ROE. Scotiabank closely monitors ROE relative to a well-established target and relative to the cost of capital to ensure that it is comfortably creating shareholder value.
2. Measures for incentive programmes are thoroughly reviewed by the senior executive leadership team: A committee has been established of the President and CEO of the Parent and his direct reports, the Human Capital Committee ("HCC"), that provides senior leaders with the opportunity to review and evaluate the key measures of material incentive programmes from an overall policy and comprehensive risk basis.
3. The executive and risk committee reviews the design and results of incentive programmes: The executive risk committee members and the HRC members jointly review and approve the design, metrics, targets, and payouts of material incentive programmes.
4. Key stewardship and support functions are focused on overall corporate interests: This focus ensures that compensation for executives responsible for areas such as risk management, legal, compliance, finance, internal audit, and human resources is tied to overall Scotiabank performance rather than the performance of any one line of business they may support
5. Special reviews exist for key risk taking roles: The Compensation Review Committee (which includes the heads of finance, risk management, legal, compliance, internal audit, and human resources) conducts a review to ensure there was an appropriate link between the proposed incentive awards and compliance with our policies, guidelines and risk appetite for roles that can have a material risk impact.

6. At the U.K. level, the heads of risk and compliance prepare a report regarding the individual MRTs and their adherence to the code of conduct and Bank policy and assess these individuals for any risk or compliance issues. The head of risk prepares a risk assessment on the U.K. operations (SBE and Branch) on the unit's adherence to the risk appetite framework. Any individuals or issues identified through these reviews are reported to the Bank's Compensation Review Committee.
7. Clawback provisions: A clawback policy applies to MRTs. The employees forfeit outstanding awards or repay previous compensation if there is a) employee misconduct/misbehaviour or b) material risk management failure of the firm and/or business unit.
8. 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 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 Financial Stability Board ("FSB") principles and standards, and an assessment of appropriateness of payouts relative to performance and risk.

### 13.2 Quantitative Disclosure

The following table summarises those MRTs whose 2015 total remuneration exceeded EUR 1 million.

Total Remuneration Band (EUR)	2015 Number of MRTs	2014 Number of MRTs
3 million to 3.5 million	1	Nil
2.5 million to 3 million	Nil	Nil
2 million to 2.5 million	1	Nil
1.5 million to 2 million	1	3
1 million to 1.5 million	5	4
<b>Total</b>	<b>8</b>	<b>7</b>

The following pages show compensation awards and related data for 2015 MRTs in detail. The figures reflect the full value of the compensation awarded to MRTs and the cost of which is borne by both the Parent and the Company.

#### 13.2.1 Wholesale Banking

**Table 1.1: Fixed and Variable Compensation (USD millions)**

The following table summarises total remuneration earned during fiscal year 2015. This includes variable compensation awards made after the end of the fiscal year to reflect decisions made during the 2015 compensation planning cycle, rather than awards made at the outset of fiscal 2015 from the 2014 compensation planning cycle.

	31 October 2015			Ratios
	Senior Management	Non-Senior Management	Total	
Number of MRTs	6	16	22	
Fixed				
Cash	8.3	9.4	17.7	
<b>Total fixed</b>	<b>8.3</b>	<b>9.4</b>	<b>17.7</b>	<b>73%</b>
Variable				
Cash	0.9	1.4	2.3	
Non-deferred shares	0.9	0.6	1.5	
Deferred cash	0.8	0.5	1.3	
Deferred shares	0.8	0.8	1.6	
<b>Total variable pay</b>	<b>3.4</b>	<b>3.3</b>	<b>6.7</b>	<b>27%</b>

	31 October 2014			Ratios
	Senior Management	Non-Senior Management	Total	
Number of MRTs	7	9	16	
Fixed				
Cash	2.4	2.6	5.0	
Total fixed	2.4	2.6	5.0	25%
Variable				
Cash	1.8	1.4	3.2	
Non-deferred shares	1.8	1.4	3.2	
Deferred cash	2.6	1.6	4.2	
Deferred shares	2.6	1.6	4.2	
Total variable pay	8.8	6.0	14.8	75%

**Table 1.2: Deferred Compensation (USD millions)**

The following table summarises deferred compensation awarded or redeemed during the fiscal year, or outstanding at the end of the fiscal year. Outstanding deferred compensation is valued as of 31 October, and share-based remuneration is valued using the closing share price of the Parent's common shares on 31 October 2015 of C\$61.49 (2014: C\$69.02).

	31 October 2015		
	Senior Management	Non-Senior Management	Total
Outstanding and vested	6.9	5.9	12.8
Outstanding and unvested	0.2	0.0	0.2
Awarded during financial year	5.4	5.1	10.5
Paid out	4.3	3.9	8.2
Reduced through performance adjustments	0.0	0.0	0.0

  

	31 October 2014		
	Senior Management	Non-Senior Management	Total
Outstanding and vested	0.2	0.0	0.2
Outstanding and unvested	12.5	4.3	16.8
Awarded during financial year	5.3	2.1	7.4
Paid out	9.9	4.3	14.2
Reduced through performance adjustments	0.2	0.2	0.4

**Table 1.3: Sign-on and Severance Compensation (USD millions)**

In fiscal 2015, no sign-on awards were paid to MRTs (2014: Nil). There were two severances paid to MRTs during the fiscal year (2014: Nil). To preserve confidentiality of the individuals, the values of these will be disclosed confidentially to the regulatory authority, upon request.

**13.2.2 Control and Other Functions**

**Table 2.1: Fixed and Variable Compensation (USD millions)**

The following table summarises total remuneration earned during fiscal year 2015. This includes variable compensation awards made after the end of the fiscal year to reflect decisions made during the 2015 compensation planning cycle, rather than awards made at the outset of fiscal 2015 from the 2014 compensation planning cycle.

	31 October 2015			Ratios
	Senior Management	Non-Senior Management	Total	
Number of MRTs	6	3	9	
Fixed				
Cash	2.5	1.1	3.6	
<b>Total fixed</b>	<b>2.5</b>	<b>1.1</b>	<b>3.6</b>	<b>69%</b>
Variable				
Cash	0.5	0.2	0.7	
Non-deferred shares	0.0	0.0	0.0	
Deferred cash	0.2	0.0	0.2	
Deferred shares	0.5	0.2	0.7	
<b>Total variable pay</b>	<b>1.2</b>	<b>0.4</b>	<b>1.6</b>	<b>31%</b>

	31 October 2014			Ratios
	Senior Management	Non-Senior Management	Total	
Number of Code Staff	6	2	8	
Fixed				
Cash	1.6	0.5	2.1	
<b>Total fixed</b>	<b>1.6</b>	<b>0.5</b>	<b>2.1</b>	<b>51%</b>
Variable				
Cash	0.5	0.2	0.7	
Non-deferred shares	0.3	0.2	0.5	
Deferred cash	0.3	0.0	0.3	
Deferred shares	0.3	0.2	0.5	
<b>Total variable pay</b>	<b>1.4</b>	<b>0.6</b>	<b>2.0</b>	<b>49%</b>

**Table 2.2: Deferred Compensation (USD millions)**

The following table summarises deferred compensation awarded or redeemed during the fiscal year, or outstanding at the end of the fiscal year. Outstanding deferred compensation is valued as of 31 October, and share-based remuneration is valued using the closing share price of the Parent's common shares on 31 October 2015 of C\$61.49 (2014: C\$69.02).

	31 October 2015		
	Senior Management	Non-Senior Management	Total
Outstanding and vested	1.1	0.6	1.7
Outstanding and unvested	0.0	0.0	0.0
Awarded during financial year	0.9	0.5	1.4
Paid out	0.6	0.5	1.1
Reduced through performance adjustments	0.0	0.0	0.0
	31 October 2014		
	Senior Management	Non-Senior Management	Total
Outstanding and vested	0.0	0.0	0.0
Outstanding and unvested	1.0	0.5	1.5
Awarded during financial year	0.5	0.2	0.7
Paid out	0.6	0.3	0.9
Reduced through performance adjustments	0.0	0.0	0.0

**Table 2.3: Sign-on and Severance Compensation (USD millions)**

In fiscal 2015, there were no sign-on or severance payments made to MRTs (2014: Nil).