Scotiabank Europe plc

Capital and Risk Management

Pillar 3 Disclosures

As at 31 October 2017

TABLE OF CONTENTS

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 2017. 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 PRA and 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 2017.

1.2 Scope

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

1.3 Principal activities

SBE is a wholly-owned subsidiary of The Bank of Nova Scotia (the Parent or BNS), a Canadian financial institution regulated by the Office of the Superintendent of Financial Institutions Canada (OSFI). The Parent is listed on the Toronto and New York stock exchanges and owns a number of domestic and international subsidiaries (collectively referred to as Scotiabank). SBE markets a range of banking products with its target market being large and mid-sized corporate clients, financial institutions, governments and asset managers.

The Company generates revenue through the extension of credit to corporate clients, market-making and distribution of Government bonds, equity financing, base metals and precious metals trading. Supporting this activity is the treasury department which prudently manages liquidity exposures and the asset and liability mismatches arising from the Company's activities.

SBE's main competitors are international banks and other financial institutions operating in European lending and capital markets.

1.4 Business strategy

The Parent has three business lines:

- Canadian Banking focuses on the Canadian market.
- International Banking provides products and services to retail and commercial clients in select regions.
- Global Banking and Markets (GBM) group is the wholesale banking and capital markets arm of BNS, which offers products and services to corporate, government and institutional investor clients globally.

SBE's strategy is aligned with that of Scotiabank's GBM Global Strategy outlined above, which is:

"GBM seeks to maintain a focused presence in Europe, by deepening and growing relationships with our cross-regional clients that support our strategic priorities."

The following local strategic priorities support the overall strategy:

- Enhance customer focus by building deeper, more profitable relationships. Focusing on higher value client relationships that have a need for multiple Scotiabank products and solutions.

- Prioritising Business Mix by increasing focus on return and fee-based activities.

- Become leaders in the European market by leveraging product strengths and UK as a financial hub. Service better our Canadian, Pacific Alliance, and European clients as an important bridge for trade and investment flows and market intelligence.

- Prioritising Digital Transformation by continuing to support GBM on digital initiatives. Rolling out Salesforce for client, pipeline planning and Know Your Customer (KYC) requirements. Continuing to invest in new IT systems that support core activities.

- Focusing on Balance Sheet Optimization by prudent balance sheet allocation and risk diversification. Aligning business mix and financial resource allocation. Integrating capital, funding and revenue to optimize capital and leverage ratios whilst optimizing Net Income after Tax (NIAT).

- Prioritising Governance around Regulatory Requirements.

- Focusing on Brexit, MiFID II and evolving regulatory requirements.

- Enhancing talent and leadership development to better serve our clients and employees.

Further information reflecting the linkage between the Company's overall risk profile and the business strategy can be found in the Strategic Report (pages 5-12) in the Company's Annual Report and Accounts 2017.

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
JG Kirwan	Chief Executive Officer / Executive	Holds one Scotiabank directorship and one external directorship	As Managing Director, Head of Global Banking and Markets Europe, John provides leadership and oversight for Scotiabank's European operations and is also the Chief Executive Officer of Scotiabank Europe plc. He is responsible for the overall strategic direction and execution of Scotiabank's businesses in Europe. John has over 25 years of experience within the financial services industry, having held various roles with significant responsibilities. He joined Scotiabank in 2010 to establish infrastructure as a global business for the Bank and has held successive additional roles during this time. John holds a Master's Degree in Business and Bachelor's Degree in Economics from University College Dublin, and has completed the Executive Management Program at Duke University.
PM Cutts	Independent Non-executive	Holds one executive directorship and one external non-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 more than 35 years' experience in the City of London. Her career has encompassed roles in trading, compliance and the management of both operational and finance functions. In her current role as Chief Operating Officer, GBM Europe, Jane is responsible for the oversight of a number of functions in London, including Operations, Technology, Client Onboarding, Operational Risk Oversight and the Regulatory Initiatives Group.

Name of Director	Executive / Non-executive	No. of additional directorships	Knowledge, skills and expertise
PSW Smith	Chair / Non-Executive	Holds one Scotiabank directorship	As Global Head of Debt and Equity Capital Markets, Philip supports Scotiabank clients in the issuance of debt and equity securities in the capital markets. Prior to his current role, Philip was Chief Operating Officer and, prior to that, Chief Financial Officer. Over more than 23 years with the Bank, Philip has held a variety of increasingly senior roles in Finance, Operations, Investment Banking, Wealth Management, and Equity Capital Markets at Scotiabank. Philip holds an MBA in Analytic Finance from the University of Chicago and a BA in International Relations from Johns Hopkins University.
KM Spooner	Independent 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 2015. During her tenure at Market Harborough Building Society Kerry served on the Audit, Risk, Nominations and Remuneration committees. Kerry served on the board of Leek United Building Society as a non-executive director before joining the board of The Nottingham Building Society in 2016. 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. Kerry has broad domestic and international experience and has lived and worked as a lawyer outside the UK.
FJR McDonald	Independent Non-executive	-	Fergus McDonald has many years of experience as a senior banker having been Head of UK, Europe and ME, Multinational Corporates at Barclays Bank where he spent 17 years. Mr McDonald is also a Chartered Financial Analyst.
J Lawrence	Non-executive	Holds one Scotiabank directorship.	Jake Lawrence is Head, Global Banking & Markets, USA. Jake joined The Bank of Nova Scotia in 2002 in the Finance department before moving to the Bank's Group Treasury function. Jake holds an Honors Bachelor of Arts from Lakehead University and an MBA from the Wilfred Laurier School of Business and Economics.

1.5.1.i Changes during the year

The following changes to the composition of the Board occurred after the year end:

On 13 December 2017 Philip Smith stepped down as Board Chair and Philip Cutts was appointed Board Chair; Philip Smith remains on 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. 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 Bank 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.*

The Board believes that its membership should be composed of highly qualified directors from diverse backgrounds, who reflect the qualities enumerated above. To support this composition as part of the Board's commitment to sound and effective corporate governance practices, the Board will, when identifying candidates for appointment or election to the Board, consider diversity criteria including gender, age, ethnicity and geographic background.

In view of the small size of the Board, the Board does not consider it appropriate to set diversity targets at present."

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 management committees in London, which include the Executive Committee ("EXCO"), the Asset and Liability Management Committee ("ALCO"), the Compliance and Risk Management Committee ("CRMC") and the Business Oversight Committee ("BOC").

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 four 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;
- reviewing the Company's Recovery plan and the arrangements in place to produce the Company's Resolution pack;
- 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 focuses on significant matters of strategy, operations, governance and control in order to provide a key forum for the effective, co-ordinated management and oversight of both the Company and The Bank of Nova Scotia London Branch. The EXCO is comprised of the Chief Executive Officer and senior managers from each business line and support function.

1.5.3.iv Asset and Liability Management Committee

The Asset & Liability Management Committee provides local strategic direction for Balance Sheet Management and risk oversight. Specifically this involves the oversight and management of structural interest rate risk, structural foreign exchange risk, liquidity and funding risk, trading and investment activities.

1.6 Policy

The disclosures in this document have been prepared in accordance with the requirements laid out in the CRR, Part Eight, and 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 2017. The disclosures are not subject to an external audit, but controls comparable to those for the Annual Report and Accounts 2017 have been applied. These disclosures are 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:

- Revised Pillar 3 framework ("RPF"): Following the release by the Basel Committee on Banking Supervision ("BCBS") of a revised version of the Pillar 3 framework in January 2015, the EBA published its initiative Guidelines to ensure the harmonised and timely implementation of the RPF in the EU. The Guidelines apply to Globally and Other Systemically Important Institutions ("G-SIIs and O-SIIs"), however the PRA may still require the Company to apply some or all the disclosure requirements as per the Guidelines. The Guidelines apply from 31st December 2017 and any disclosure requirements applicable to the Company would be reflected in the 2018 Pillar 3 document.

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 which 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.

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

London New Transaction Review Committee ("NTRC") evaluates and opines on all corporate banking credit facilities proposed for new borrowers/clients and those that require new commitments and/or an extension of maturity. Following the NTRC review London risk management will send to the Toronto team a local credit recommendation and support. 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;
- geopolitical risk; and
- evaluation of Brexit risks, where relevant.

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.

Exchange traded execution and clearing of base metals is generally transacted under a Base Metal Client Agreement ("BMCA"), 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. BMCAs can require one party to post initial margin at the onset of each transaction. BMCAs 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 BMCA 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 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 and performance 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 quality step 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.

2.2.3.iii Credit derivatives

The Company does not have any credit derivatives as at 31 December 2017 (2016: 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 Internal Liquidity Adequacy Assessment Process ("ILAAP") 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 the 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 the 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 Code of 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 Self-Assessment programme, which is managed by Operational Risk Oversight with assurance from Global Operational Risk Management, 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.
- The Company's 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.

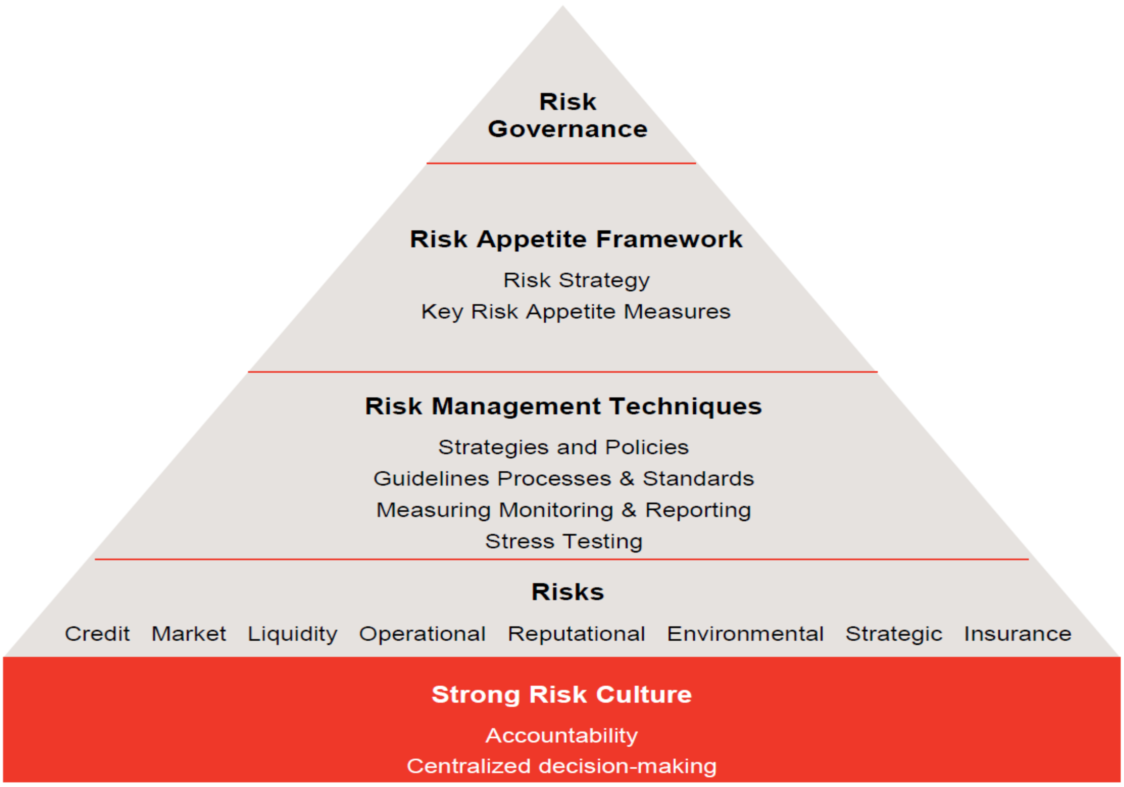
2.7 Board Approved Risk Statement

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:

	Dimensions	Measure	Frequency/ 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 (PR)– ratio of non-interest expenses to net revenue	Monthly
Maintaining Capital Adequacy	**Target Regulatory Capital Ratio**	SBE calculates its Internal Capital Ratio (internal capital for Pillar 1 risk plus add-on for Pillar 2 risks) within its ICAAP. After review of SBE's ICAAP, PRA sets Individual Capital Guidance (ICG).	Quarterly
	Common Equity Tier 1 (CET 1 Ratio)	SBE's Internal Common Equity Tier 1 Capital Ratio measures SBE's core equity capital	Monthly
Leverage-Capital Adequacy	**Leverage Ratio**	Minimum operating buffer of 75 bps over PRA's minimum requirement. PRA requirement: 3%	Monthly
Effective Liquidity and Funding Management	**Survival Horizon**	The amount of time SBE needs to have sufficient liquidity to meet its obligations during a liquidity crisis.	Weekly
	Liquidity Coverage Ratio (LCR)	LCR is intended to ensure that SBE maintains a minimum level of unencumbered, high quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day time horizon under an extreme liquidity stress scenario specified by regulatory supervisors	Monthly
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 SBE's annual income	Daily
		Economic Value (EV): maximum effect of a +/- 100bp parallel shift in yield curves on the net present value of SBE's assets and liabilities.	Daily
	Credit Risk	Credit Risk Strategy as set out in the relevant appendix in the Company's ICAAP. Limits on maximum authorised portfolio, any single credit exposure, total authorised loans below IG75, industry limits and maximum loan loss in any one year.	Ongoing Monthly
	Counterparty Credit Risk	Large Exposure Limit on any single counterparty credit risk exposure (Trading Book).	Daily

	Operational Risk	Total Operational Risk Losses as a percentage of pre-tax income	Monthly
	Reputational Risk	Damage to SBE's and/or Scotiabank's brand or franchise value	Ongoing
	Regulatory Compliance	Regulatory breaches with severe adverse consequences	Ongoing
	Strategic Risk	SBE's Strategic Plan	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:

	31 October 2017 **USD '000s**	31 October 2016 USD '000s (restated)
Common equity tier 1 capital	1,757,320	1,741,048
Tier 1 capital	1,757,320	1,741,048
Total regulatory capital	1,776,420	1,768,748
Common equity tier 1 capital ratio	20.22%	18.08%
Tier 1 capital ratio	20.22%	18.08%
Total capital ratio	20.45%	18.37%
Total risk weighted assets ("RWAs")	8,687,016	9,627,737

3.1 Internal capital adequacy assessment process

The Company carries out an annual internal capital adequacy assessment process ("ICAAP"), last performed as at 31 December 2016, 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. The ICAAP is available upon demand from the PRA.

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 2017	**Risk weighted exposure amounts USD '000s**	**Capital requirements USD '000s**
Credit risk	5,184,295	414,744
Counterparty risk	1,404,131	112,331
Market risk	1,538,855	123,108
Operational risk	436,799	34,944
Large Exposure	84,921	6,794
Settlement/Delivery risk	-	-
Credit valuation adjustment	38,015	3,041
Total capital requirements	**8,687,016**	**694,962**

31 October 2016	Risk weighted exposure amounts USD '000s	Capital requirements USD '000s
Credit risk	6,434,716	514,777
Counterparty risk	1,271,729	101,738
Market risk (restated)	1,447,261	115,781
Operational risk	449,920	35,994
Large Exposure	-	-
Settlement/Delivery risk	152	12
Credit valuation adjustments	23,959	1,917
Total capital requirements	**9,627,737**	**770,219**

4 CAPITAL RESOURCES

4.1 Regulatory capital

The table below summarises the composition of the Company's regulatory capital as at 31 October 2017:

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	783,505	26 (1) (c)	783,505
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	(212)	26 (1)	(212)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**1,769,088**		**1,769,088**
	Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(11,768)	34, 105	(11,768)
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)	-	36 (1) (c), 38, 472 (5)	-
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(11,768)**		**(11,768)**
29	**Common Equity Tier 1 (CET1) capital**	**1,757,320**		**1,757,320**
Tier 2 (T2) capital				
	Tier 2 (T2) capital: instruments and provisions			
50	Credit risk adjustments	19,100	62 (c) & (d)	19,100
58	**Tier 2 (T2) capital**	**19,100**		**19,100**
59	**Total capital (TC - T1 + T2)**	**1,776,420**		**1,776,420**

The table below summarises the composition of the Company's regulatory capital as at 31 October 2016:

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	764,452	26 (1) (c)	764,452
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	543	26 (1)	543
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**1,750,790**		**1,750,790**
	Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	(9,742)	34, 105	(9,742)
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)	-	36 (1) (c), 38, 472 (5)	-
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**(9,742)**		**(9,742)**
29	**Common Equity Tier 1 (CET1) capital**	**1,741,048**		**1,741,048**
Tier 2 (T2) capital				
	Tier 2 (T2) capital: instruments and provisions			
50	Credit risk adjustments	27,700	62 (c) & (d)	27,700
58	**Tier 2 (T2) capital**	**27,700**		**27,700**
59	**Total capital (TC - T1 + T2)**	**1,768,748**		**1,768,748**

Prudential filters

	31 October 2017 USD '000s	31 October 2016 USD '000s
Additional valuation adjustments ("AVAs")	(11,768)	(9,656)
Independent price verification ("IPVs") adjustments	-	(86)
Value adjustments due to the requirements of prudential valuation	**(11,768)**	**(9,742)**

Note: The Company is using the Simplified Approach to calculate AVAs.

Deductions from capital

	31 October 2017 USD '000s	31 October 2016 USD '000s
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	-	-

No exposure values have been deducted from own funds as at 31 October 2017 (2016: 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 (2016: Nil).

4.2 Reconciliation

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

	31 October 2017 USD '000s	31 October 2016 USD '000s
Called up share capital	985,795	985,795
Retained earnings	830,155	836,442
Accumulated other comprehensive income	(212)	543
Total equity from statutory accounts	**1,815,738**	**1,822,780**
Regulatory deductions from equity;		
Proposed dividend	(46,650)	(71,990)
Deferred tax deduction	-	-
Value adjustments due to the requirements of prudential valuation	(11,768)	(9,742)
Common equity tier 1 capital	**1,757,320**	**1,741,048**
Tier 2 capital		
General credit risk adjustments	19,100	27,700
Tier 2 capital	**19,100**	**27,700**
Total regulatory capital	**1,776,420**	**1,768,748**

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
	Regulatory treatment	
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
	Coupons / Dividends	
17	Fixed or floating dividend / coupon	See Dividends programme 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
	(1) Insert 'N/A' if the question is not applicable	

Dividends programme

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 ECAIsto 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 2017

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	4,503,512	2,361,902	52,402	4,192
2	7,892,945	938,030	322,750	25,820
3	450,235	440,517	440,212	35,217
4	298,829	298,829	298,829	23,906
5	32,386	32,386	48,580	3,886
Unrated	45,434,067	6,944,262	5,425,653	434,052
	58,611,974	11,015,926	6,588,426	527,073

31 October 2016

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	6,063,334	3,099,261	154,461	12,357
2	1,446,441	508,262	175,348	14,028
3	788,521	581,144	581,144	46,492
4	246,431	246,166	246,166	19,693
5	72,680	72,680	109,019	8,722
Unrated	38,590,969	7,600,562	6,440,307	515,224
	47,208,376	**12,108,075**	**7,706,445**	**616,516**

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 2017	**Exposure value**	**Average exposure value**	**RWAs**	**Capital requirements**
	USD '000s	**USD '000s**	**USD '000s**	**USD '000s**
Credit risk				
Standardised approach (SA) exposure classes				
Central governments and central banks	1,884,633	2,039,295	1,162	93
Regional governments or local authorities	808	999	2,021	162
Institutions	167,274	229,947	33,455	2,676
Corporates	5,079,792	5,804,488	4,968,530	397,482
Exposures in default	75,801	41,889	104,545	8,364
Items associated with particular high risk	0	0	0	0
Equity	2,092	2,007	2,092	167
Securitisation positions	74,825	72,281	37,412	2,993
Other items	35,078	36,974	35,078	2,806
Total	7,320,303	8,227,880	5,184,295	414,743

31 October 2016	Exposure value	Average exposure value	RWAs	Capital requirements
	USD '000s	USD '000s	USD '000s	USD '000s
Credit risk				
Standardised approach (SA) exposure classes				
Central governments and central banks	2,193,955	2,049,316	8,642	691
Regional governments or local authorities	1,191	1,251	2,976	238
Institutions	292,619	179,301	58,524	4,682
Corporates	6,529,184	6,318,621	6,276,947	502,156
Exposures in default	7,978	11,019	11,967	957
Items associated with particular high risk	-	2,624	-	-
Equity	1,923	2,150	1,923	154
Securitisation positions	69,736	68,572	34,868	2,789
Other items	38,869	38,639	38,869	3,110
Total	**9,135,455**	**8,671,493**	**6,434,716**	**514,777**

Geographic distribution of regulatory exposure asset classes as at:

31 October 2017	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**
Credit risk								
Standardised approach (SA) exposure classes								
Central governments and central banks	623,268	0	612,599	0	648,766	1,162	1,884,633	1,162
Regional governments or local authorities	808	2,021	0	0	0	0	808	2,021
Institutions	155,626	31,125	1,795	359	9,853	1,971	167,274	33,455
Corporates	1,374,605	1,390,798	1,472,097	1,351,711	2,233,090	2,226,021	5,079,792	4,968,530
Exposures in default	18,231	27,347	0	0	57,570	77,197	75,801	104,545
Items associated with particular high risk	0	0	0	0	0	0	0	0
Equity	2,092	2,092	0	0	0	0	2,092	2,092
Securitisation positions	0	0	74,825	37,412	0	0	74,825	37,412
Other items	35,078	35,078	0	0	0	0	35,078	35,078
Total	2,209,708	1,488,461	2,161,316	1,389,482	2,949,279	2,306,351	7,320,303	5,184,295

31 October 2016	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**
Credit risk								
Standardised approach (SA) exposure classes								
Central governments and central banks	554,998	-	734,066	-	904,891	8,642	2,193,955	8,642
Regional governments or local authorities	1,191	2,976	-	-	-	-	1,191	2,976
Institutions	109,077	21,815	174,625	34,925	8,916	1,783	292,619	58,524
Corporates	1,381,849	1,396,876	1,700,193	1,594,492	3,447,143	3,285,580	6,529,184	6,276,947
Exposures in default	-	-	-	-	7,978	11,967	7,978	11,967
Items associated with particular high risk	-	-	-	-	-	-	-	-
Equity	1,923	1,923	-	-	-	-	1,923	1,923
Securitisation positions	-	-	69,736	34,868	-	-	69,736	34,868
Other items	38,869	38,869	-	-	-	-	38,869	38,869
Total	**2,087,907**	**1,462,459**	**2,678,620**	**1,664,285**	**4,368,928**	**3,307,972**	**9,135,455**	**6,434,716**

Industry sector classification of regulatory exposure asset classes as at:

31 October 2017	**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**
Credit risk							
Standardised approach (SA) exposure classes							
Central governments and central banks	0	1,883,471	1,162	0	0	0	1,884,633
Regional governments or local authorities	0	808	0	0	0	0	808
Institutions	167,274	0	0	0	0	0	167,274
Corporates	1,026,184	0	1,382,974	483,033	438,570	1,749,031	5,079,792
Exposures in default	0	0	36,899	0	0	38,903	75,801
Items associated with particular high risk	0	0	0	0	0	0	0
Equity	2,092	0	0	0	0	0	2,092
Securitisation positions	74,825	0	0	0	0	0	74,825
Other items	0	0	0	0	0	35,078	35,078
Total	1,270,375	1,884,279	1,421,035	483,033	438,570	1,823,012	7,320,303

31 October 2016	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
Credit risk							
Standardised approach (SA) exposure classes							
Central governments and central banks	-	2,188,194	5,761	-	-	-	2,193,955
Regional governments or local authorities	-	1,191	-	-	-	-	1,191
Institutions	292,619	-	-	-	-	-	292,619
Corporates	1,298,484	-	1,674,590	449,514	543,810	2,562,786	6,529,184
Exposures in default	-	-	7,978	-	-	-	7,978
Items associated with particular high risk	-	-	-	-	-	-	-
Equity	1,923	-	-	-	-	-	1,923
Securitisation positions	69,736	-	-	-	-	-	69,736
Other items	-	-	-	-	-	38,869	38,869
Total	**1,662,762**	**2,189,385**	**1,688,329**	**449,514**	**543,810**	**2,601,655**	**9,135,455**

`

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

31 October 2017	**Less than 1 year**	**Between 1 and 5 years**	**More than 5 years**	**Undated**	**Total**	**Risk weighted assets**
	USD '000s	**USD '000s**	**USD '000s**	**USD '000s**	**USD '000s**	**USD '000s**
Credit risk						
Standardised approach (SA) exposure classes						
Central governments and central banks	1,868,375	0	0	16,258	1,884,633	1,162
Regional governments or local authorities	0	0	0	808	808	2,021
Institutions	167,274	0	0	0	167,274	33,455
Corporates	1,098,527	3,857,810	123,456	0	5,079,792	4,968,530
Exposures in default	20,588	26,978	28,236	0	75,801	104,545
Items associated with particular high risk	0	0	0	0	0	0
Equity	0	0	2,092	0	2,092	2,092
Securitisation positions	0	74,825	0	0	74,825	37,412
Other items	0	0	0	35,078	35,078	35,078
Total	3,154,764	3,959,613	153,784	52,144	7,320,303	5,184,295

31 October 2016	Less than 1 year	Between 1 and 5 years	More than 5 years	Undated	Total	Risk weighted assets
	USD '000s	USD '000s	USD '000s	USD '000s	USD '000s	USD '000s
Credit risk						
Standardised approach (SA) exposure classes						
Central governments and central banks	2,176,045	5,761	-	12,149	2,193,955	8,642
Regional governments or local authorities	-	-	-	1,191	1,191	2,976
Institutions	79,620	-	-	212,998	292,619	58,524
Corporates	1,062,610	4,932,717	533,520	338	6,529,184	6,276,947
Exposures in default	-	7,978	-	-	7,978	11,967
Items associated with particular high risk	-	-	-	-	-	-
Equity	-	-	-	1,923	1,923	1,923
Securitisation positions	-	69,736	-	-	69,736	34,868
Other items	-	-	-	38,869	38,869	38,869
Total	**3,318,275**	**5,016,192**	**533,520**	**267,468**	**9,135,455**	**6,434,716**

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 Securities Financing Transactions (SFTs) and is calculated in both the 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 collateral comprehensive method when calculating the risk-weighted assets for SFTs.

The table below reflects the counterparty credit risk exposure (including settlement/delivery risk) by exposure class and product as at:

31 October 2017	**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 '000s	**USD '000s**	**USD '000s**	**USD '000s**	**USD '000s**	**USD '000s**	**USD '000s**	**USD '000s**	**USD '000s**	**USD '000s**
By exposure class;										
Central governments and central banks	47,103	153	169,470	-	-	-	-	-	216,573	153
Institutions	371,833	78,018	389,584	167,971	2,592	518	-	-	764,010	246,508
Corporates	478,428	468,761	328,806	328,806	41,223	41,223	-	-	848,456	838,789
Central clearing counterparties	805,162	16,103	607,809	12,156	453,612	290,422	-	-	1,866,584	318,681
	1,702,526	563,035	1,495,669	508,933	497,428	332,163	-	-	3,695,622	1,404,131

31 October 2016	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 '000s	USD '000s	USD '000s	USD '000s	USD '000s	USD '000s	USD '000s	USD '000s	USD '000s	USD '000s
By exposure class;										
Central governments and central banks	23,479	-	115,280	-	-	-	-	-	138,759	-
Institutions	471,469	94,294	202,700	40,540	1,201	240	-	-	675,370	135,074
Corporates	614,723	614,722	280,892	280,892	19,650	19,650	50	152	915,315	915,416
Central clearing counterparties	516,196	10,324	558,127	11,163	168,903	199,904	-	-	1,243,226	221,391
	1,625,867	**719,340**	**1,156,999**	**332,595**	**189,754**	**219,794**	**50**	**152**	**2,972,670**	**1,271,881**

The table below reflects the counterparty credit risk exposure (including settlement/delivery risk) by geographical region as at:

31 October 2017	**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**
By exposure class;								
Central governments and central banks	46,949	-	169,623	153	-	-	216,573	153
suppo Institutions	340,575	70,027	27,588	5,518	395,846	170,964	764,010	246,508
Corporates	407,984	398,317	81,122	81,122	359,350	359,350	848,456	838,789
Central clearing counterparties	1,547,680	251,745	318,904	66,936	-	-	1,866,584	318,681
	2,343,188	720,089	597,238	153,729	755,197	530,314	3,695,622	1,404,131

31 October 2016	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
By exposure class;								
Central governments and central banks	23,479	-	115,280	-	-	-	138,759	-
Institutions	192,054	38,410	258,818	51,764	224,498	44,900	675,370	135,074
Corporates	496,892	496,891	65,652	65,652	352,771	352,873	915,315	915,416
Central clearing counterparties	1,084,060	187,153	159,166	34,238	-	-	1,243,226	221,391
	1,796,485	**722,454**	**598,916**	**151,654**	**577,269**	**397,773**	**2,972,670**	**1,271,881**

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 are as follows:

	Gross Value 31 October 2017 USD '000s	**Impairment 31 October 2017 USD '000s**	Gross Value 31 October 2016 USD '000s	Impairment 31 October 2016 USD '000s
Not past due	**23,529,923**	**15,200**	**23,856,794**	**-**
More than 120 days past due	**12,948**	**7,964**	**37,476**	**7,946**
Of which:				
Shipping – Marshall Islands	*12,948*	*7,964*	*12,948*	*7,946*
Construction – Mexico	-	-	*24,528*	-
Total	**23,542,871**	**23,164**	23,894,270	7,946

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 23.2 million as at 31 October 2017 (2016: USD 7.9 million).

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:

31 October 2017	**Specific USD '000s**	**Collective USD '000s**	**Total USD '000s**
Balance as at 1 November 2016	**7,946**	**27,700**	**35,646**
Amounts written off	-	-	-
Recoveries of advances written off in previous year	-	-	-
Charge to the Statement of Comprehensive Income	15,387	(8,600)	6,787
Time value accretion	(169)	-	(169)
Balance as at 31 October 2017	**23,164**	**19,100**	**42,264**

31 October 2016	Specific USD '000s	Collective USD '000s	Total USD '000s
Balance as at 1 November 2015	**3,871**	**20,471**	**24,342**
Amounts written off	-	-	-
Recoveries of advances written off in previous year	9	-	9
Charge to the Statement of Comprehensive Income	4,066	7,229	11,295
Time value accretion	-	-	-
Balance as at 31 October 2016	**7,946**	**27,700**	**35,646**

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 2017	**United Kingdom USD '000s**	**European Union USD '000s**	**Rest of world USD '000s**	**Total USD '000s**
By exposure class;				
Central governments and central banks	1,319,811	41,914	-	**1,361,725**
Corporates	11,518,261	70,115	2,038,352	**13,626,729**
Institutions	21,759,650	8,925,719	1,922,226	**32,607,596**
Total	**34,597,722**	**9,037,748**	**3,960,578**	**47,596,050**

31 October 2016	United Kingdom USD '000s	European Union USD '000s	Rest of world USD '000s	Total USD '000s
By exposure class;				
Central governments and central banks	617,975	-	-	**617,975**
Corporates	11,970,629	28,164	1,705,284	**13,704,078**
Institutions	13,461,639	7,182,045	134,565	**20,778,248**
Total	**26,050,243**	**7,210,209**	**1,839,849**	**35,100,301**

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

31 October 2017	***Exposure (pre-collateral)***	***Collateral***	***Exposure (post-collateral)***
	USD '000s	***USD '000s***	***USD '000s***
By exposure class;			
Central governments or central banks	3,462,930	1,361,725	**2,101,206**
Regional governments or local authorities	808	-	**808**
Corporates	19,555,195	13,626,946	**5,928,248**
Exposures in default	75,801	-	**75,801**
Institutions	35,405,246	32,607,378	**2,797,868**
Items associated with particular high risk	-	-	**-**
Equity	2,092	-	**2,092**
Other items	35,078	-	**35,078**
Securitisation positions	74,825	-	**74,825**
Total	**58,611,975**	**47,596,049**	**11,015,926**

31 October 2016	*Exposure (pre-collateral)*	*Collateral*	*Exposure (post-collateral)*
	USD '000s	*USD '000s*	*USD '000s*
By exposure class;			
Central governments or central banks	2,950,691	617,975	2,332,716
Regional governments or local authorities	1,191	-	1,191
Corporates	21,148,526	13,704,078	7,444,448
Exposures in default	7,978	-	7,978
Institutions	22,989,462	20,778,248	2,211,214
Items associated with particular high risk	-	-	-
Equity	1,923	-	1,923
Other items	38,869	-	38,869
Securitisation positions	69,736	-	69,736
Total	**47,208,376**	**35,100,301**	**12,108,075**

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 2017, there were no guarantees in place.

6 CREDIT VALUATION ADJUSTMENT

The Company's regulatory capital charge for credit valuation was USD 3.0 million as at 31 October 2017 (2016: USD 1.9 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:

31 October 2017	**Accounting**	**Regulatory**
As	**USD '000s**	**USD '000s**
Gross positive fair value of contracts	1,176,183	1,176,183
Netting benefits	(716,655)	(861,131)
Derivatives: Add-on Mark-to-Market Method		1,197,650
Netted current credit exposure	459,528	1,512,702
Collateral held	-	(17,033)
Net derivatives credit exposure	**459,528**	**1,495,669**

31 October 2016	Accounting	Regulatory
	USD '000s	USD '000s
Gross positive fair value of contracts	946,378	946,378
Netting benefits	(502,493)	(750,081)
Derivatives: Add-on Mark-to-Market Method		965,783
Netted current credit exposure	443,885	1,162,080
Collateral held	-	(5,080)
Net derivatives credit exposure	443,885	1,157,000

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 simultaneously.

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

	31 October 2017	31 October 2016
	USD '000s	USD '000s
Reverse repurchase agreements and other similar secured lending (gross)	18,262,721	15.060,920
Netting arrangements	(4,342,734)	(2,084,018)
Reverse repurchase agreements and other similar secured lending (net)	**13,919,987**	**12,976,902**

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 2017	**On Balance Sheet**	**Off Balance Sheet**	**Total**	**Risk weighed assets**	**Fair value hierarchy**
	USD '000s	**USD '000s**	**USD '000s**	**USD '000s**	
Loans and receivables	62,248	12,576	74,824	37,412	Level 3
	62,248	**12,576**	**74,824**	**37,412**	

31 October 2016	On Balance Sheet	Off Balance Sheet	Total	Risk weighed assets	Fair value hierarchy
	USD '000s	USD '000s	USD '000s	USD '000s	
Loans and receivables	57,228	12,508	69,736	34,868	Level 3
	57,228	12,508	69,736	34,868	

Accounting treatment

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 3.0 million as at 31 October 2017 (2016: USD 2.8 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. The Company is not subject to these other risks therefore no additional regulatory capital has been provided.

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:

31 October 2017	**Risk weighted exposure USD '000s**	**Capital requirements USD '000s**
Market risk		
Traded debt instruments	713,450	57,076
Foreign exchange	5,638	451
Commodities	819,767	65,581
Underwriting	-	-
Total	**1,538,855**	**123,108**

31 October 2016	Risk weighted exposure USD '000s	Capital requirements USD '000s
Market risk		
Traded debt instruments	526,132	42,091
Foreign exchange	2,154	172
Commodities	918,975	73,518
Underwriting	-	-
Total	1,447,261	115,781

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 2017	**Risk weighted exposure USD '000s**	**Capital requirements USD '000s**
Operational risk		
Operational Risk (BIA)	436,799	34,944
Total	**436,799**	**34,944**

31 October 2016	Risk weighted exposure USD '000s	Capital requirements USD '000s
Operational risk		
Operational Risk (BIA)	449,920	35,994
Total	449,920	35,994

10 COUNTERCYCLICAL CAPITAL BUFFER

Since 1 January 2016 the Company is required to maintain an institution-specific Countercyclical Buffer ("CCyB"). This requirement follows closely the international approach of Basel III, with the primary objective to achieve the broader macro-prudential goal of protecting the banking sector from periods of excess aggregate credit growth that have often been associated with the build-up of system-wide risk.

The CCyB is calculated as the weighted average of the buffers in effect in the jurisdictions to which the Company has a credit exposure, and must be set between 0% and 2.5%. It consists entirely of Common Equity Tier 1 capital and, if the minimum buffer requirements are breached, capital distribution constraints will be imposed on the Company.

The CCyB implementation includes a transitional period, with the CCyB rate capped at 1.25% from 1 January 2017 until 31 December 2017, and 1.875% from 1 January 2018 until 31 December 2018. The CCyB rate will be capped at 2.5% from 1 January 2019.

The table below provides the geographical distribution of its credit exposures relevant for the calculation of its countercyclical capital buffer:

		General credit exposures	Trading Book exposures	Securitisation exposures	Own funds requirements					
Row		Exposure value for SA	Sum of long and short positions of trading book exposures for SA	Exposure value for SA	of which: General Credit exposures	of which: Trading Book exposures	of which: Securitisation exposures	Total	Own Funds requirements weights	Countercyclical capital buffer rate
		USD '000s	USD '000s	USD '000s	USD '000s	USD '000s	USD '000s	USD '000s	USD '000s	%
		010	030	050	070	080	090	100	110	120
010	Breakdown by country:									
	Australia	179,140	-	-	14,331	-	-	14,331	0.0299	
	Belgium	149,755	-	-	11,980	-	-	11,980	0.0250	
	Bermuda	239,431	-	-	19,154	-	-	19,154	0.0400	
	British Virgin Islands	124,978	-	-	9,998	-	-	9,998	0.0209	
	Canada	29,660	-	-	2,373	-	-	2,373	0.0050	
	Cayman Islands	76,700	-	-	6,136	-	-	6,136	0.0128	
	Chile	24,976	-	-	1,998	-	-	1,998	0.0042	
	China, People's Republic	1,413	-	-	113	-	-	113	0.0002	
	France	268,799	-	-	13,504	-	-	13,504	0.0282	
	Germany	115,858	-	-	7,638	-	-	7,638	0.0159	
	Guernsey	63,646	-	-	5,092	-	-	5,092	0.0106	
	Hong Kong	7,012	-	-	561	-	-	561	0.0012	1.25
	India	73,898	-	-	5,912	-	-	5,912	0.0123	
	Ireland	20,000	-	74,825	1,600	-	2,993	4,593	0.0096	
	Israel	96,444	-	-	7,716	-	-	7,716	0.0161	
	Italy	29,496	-	-	2,360	-	-	2,360	0.0049	
	Japan	9,540	-	-	763	-	-	763	0.0016	
	Jersey	107,740	-	-	8,619	-	-	8,619	0.0180	
	Korea, Republic of	4,615	-	-	369	-	-	369	0.0008	
	Kuwait	92,585	-	-	7,407	-	-	7,407	0.0155	
	Liberia	58,295	-	-	4,664	-	-	4,664	0.0097	
	Luxembourg	261,505	-	-	20,920	-	-	20,920	0.0437	
	Malta	30,570	-	-	2,446	-	-	2,446	0.0051	
	Marshall Islands	235,122	-	-	19,156	-	-	19,156	0.0400	
	Mauritius	118,823	-	-	9,506	-	-	9,506	0.0198	
	Mexico	72,441	-	-	6,619	-	-	6,619	0.0138	
	Monaco	15,757	-	-	1,261	-	-	1,261	0.0026	
	Netherlands	577,180	-	-	47,304	-	-	47,304	0.0988	
	Norway	379,840	-	-					0.0625	1.5

					29,933	-	-	29,933		
	United Arab Emirates	4,141	-	-	331	-	-	331	0.0007	
	Panama	8,713	-	-	697	-	-	697	0.0015	
	Peru	2,786	-	-	111	-	-	111	0.0002	
	Singapore	46,701	-	-	3,736	-	-	3,736	0.0078	
	South Africa	77,076	-	-	6,166	-	-	6,166	0.0129	
	Spain	79,664	-	-	6,373	-	-	6,373	0.0133	
	Sweden	64,002	-	-	5,120	-	-	5,120	0.0107	2
	Switzerland	236,086	-	-	18,887	-	-	18,887	0.0394	
	United Kingdom	1,673,253	-	-	134,382	-	-	134,382	0.2806	
	United States	383,579	-	-	30,686	-	-	30,686	0.0641	
020	**Total**	**6,041,220**	**-**	**74,825**	**475,923**	**-**	**2,993**	**479,780**	**1**	

As at the 31st October 2017 the Company's CCyB requirement amounted to USD 10.1 million.

Row		**USD '000s**
		010
010	Total Risk exposure amount	8,687,016
020	Institution specific countercyclical capital buffer	0.1166%
030	Institution specific countercyclical capital buffer requirement	10,129

The table below provides the in-scope amounts per country relevant to the company's institution specific countercyclical capital buffer:

Country Name	**CCyB Rate**	**Sum of in-scope CR, MR, Sec Own Funds Requirement**	**Requirement Amount**
Czech Republic	0.50%	0.00	0.00
Hong Kong	1.25%	560,958.23	7,011.98
Iceland	1.00%	0.00	0.00
Norway	1.50%	29,933,175.13	448,997.63
Sweden	2.00%	5,120,168.25	102,403.36
Slovakia	0.50%	0.00	0.00
		35,614,301.61	**558,412.97**

Total in-scope Capital Requirement: COREP	**478,915,692.93**

SBE specific ratio $\dfrac{\mathbf{558{,}412.97}}{\mathbf{478{,}915{,}692.98}}$ = **0.1166%**

Details of the total in-scope Capital Requirement for the calculation of the countercyclical capital buffer rate is provided below:

	Final Exposure	RWA	Own Funds
C 07.00 Credit Risk	10,878,849,078.45	6,268,419,879.90	501,473,590.39
Less			
Institutions (Banks)	2,735,615,340.95	316,049,624.36	25,283,969.95
Governments (CG)	2,101,205,695.64	1,315,626.95	105,250.16
Regional (RG)	808,292.83	2,020,732.08	161,658.57
Public Sector Entities (PSE)			-
Multilateral Development Banks (MDB)			-
International Organisations (IO)			-

In-scope Credit Risk	6,041,219,749.03	5,949,033,896.50	475,922,711.72

C 12.00 Securitisation	74,824,530.32	37,412,265.16	2,992,981.21

C 18.00 Specific Risk	19,185,454.80	1,534,836.38
Less		
Sov/RG/PSE/MDB/Bank issuers		1,534,836.38

In-scope Market Risk		-

Total in-scope:	478,915,692.93

11 OTHER RISKS

11.1 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.

11.1.1 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 2017				**USD '000s**		
	USD	**EUR**	**GBP**	**Total (Gross)**	**Impact of Tax**	**Total (Net)**
Profit or loss (net of tax)						
Increase by 1%	1,804	185	13	2,002	(549)	1,453
Decrease by 1%	(1,804)	(185)	(13)	(2,002)	549	(1,453)

31 October 2016				USD '000s		
	USD	EUR	GBP	Total (Gross)	Impact of Tax	Total (Net)
Profit or loss (net of tax)						
Increase by 1%	1,249	1,846	182	3,277	(867)	2,410
Decrease by 1%	(1,249)	(1,846)	(182)	(3,277)	867	(2,410)

11.2 Equities not included in the trading book

The Company had unlisted equity investments in the non-trading book of USD 2.1 million as at 31 October 2017 (2016: USD 1.9 million) which are non-core assets and classified as available-for-sale items.

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:

	31 October 2017 USD '000s	31 October 2016 USD '000s
Equities (unlisted)	2,092	1,923
Total drawn amount	**2,092**	**1,923**

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 nil for the financial year ended 31 October 2017 (2016: USD 0.3 million). There are no unrealised gains recorded through the Other Comprehensive Income as at 31 October 2017 (2016: USD nil).

Valuation

The LME shares have no dividend participation and are valued at historical purchase price.

Credit risk

The capital requirements for Equities amounted to USD 0.2 million (2016: USD 0.2 million).

12 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).

At 31 October 2017 the leverage ratio was 6.13% (6.07% 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 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 decreased by 1.29% during the year. Total exposure value has increased by USD 0.63 billion mainly due to increased derivative exposure and increased on-balance sheet exposures.

Summary reconciliation of accounting assets and leverage ratio exposures	**31 October 2017 USD 'millions**	31 October 2016 USD 'millions
Total assets as per published financial statements	25,384	24,970
Adjustments for derivative financial instruments	1,036	713
Adjustments for Securities Financing Transactions (SFTs)	495	489
Adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	1,756	1,863
Other adjustments	14	17
Total leverage ratio exposure	**28,685**	28,052

Leverage ratio common disclosure
USD 'millions

	2017	2016
On-balance sheet exposures (excluding derivatives and SFTs)		
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	11,027	11,578
(Asset amounts deducted in determining Tier 1 capital)	-12	-10
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	11,015	11,568
Derivative exposures		
Replacement cost associated with *all* derivatives transactions (i.e net of eligible cash variation margin)	298	191
Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	1,198	966
Exposure determined under Original Exposure method	-	-
Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-
(Exempted central clearing counterparty ("CCP") leg of client-cleared trade exposures)	-	-
Adjusted effective notional amount of written credit derivatives	-	-
(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
Total derivative exposures	1,496	1,157
Securities financing transaction exposures		
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	18,266	15,061
(Netted amounts of cash payables and cash receivables of gross SFT assets)	-4,343	-2,084
Counterparty credit risk exposure for SFT assets	495	489
Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	-	-
Agent transaction exposures	-	-
(Exempted CCP leg of client-based SFT exposure)	-	-
Total securities financing transaction exposures	14,418	13,466
Other off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	3,868	4,095
(Adjustments for conversion to credit equivalent amounts)	-2,112	-2,233
Other off-balance sheet exposures	1,756	1,862
Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)		
(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet)	-	-
(Exposures exempted in accordance with Article 429(14) of Regulation (EU) No 575/2013 (on an off balance sheet)	-	-
Capital and total exposures		
Tier 1 capital	1,757	1,741
Leverage ratio total exposure measure	28,685	28,052
Leverage ratio		
Leverage ratio	6.13%	6.21%
Choice on transitional arrangements and amount of derecognised fiduciary items		
Choice on transitional arrangements for the definition of the capital measure	FULL IMPACT	FULL IMPACT
Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) N 575/2013	-	-

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

	2017	2016
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	11,015	11,568
Trading book exposures	5,476	4,305
Banking book exposures, of which:	5,539	7,263
Exposures treated as sovereigns	1,885	2,195
Institutions	167	293
Corporate	3,319	4,679
Exposures in default	79	8
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	89	88

13 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, shown 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 C below reflect the median of the last four quarters as at 31 October 2017:

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	4,781,770	-	22,563,234	-
030	Equity instruments	-	-	2,008	2,008
040	Debt securities	4,078,429	4,078,429	2,389,787	2,389,787
120	Other assets	945,377	-	14,891,460	-

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	15,921,459	15,555,502

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, ISDA, 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.

Table A and Table C below reflect the median of the last four quarters as at 31 October 2016:

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	5,032,890	-	20,017,532	-
030	Equity instruments	-	-	2,185	2,185
040	Debt securities	4,125,277	4,125,277	2,675,210	2,675,210
120	Other assets	988,765	-	17,465,875	-

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	15,205,210	14,969,776

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, ISDA, 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.

14 LIQUIDITY COVERAGE RATIO

The disclosure of key ratios and figures is required under Article 435(1)(f) of the CRR. Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 (LCR Delegated Act),1 applicable from 1 October 2015, specifies the liquidity coverage ratio (LCR). This ratio aims to ensure that credit institutions maintain an adequate liquidity buffer to cover the net liquidity outflows under gravely stressed conditions over a period of 30 days. The LCR is an important regulatory ratio covering liquidity, as it provides essential information for the assessment of liquidity risk management and for the decision-making processes of market participants.

The EBA has developed these guidelines (GL) to harmonise and specify the disclosures required under the general principles on liquidity and, in particular, on the LCR in the CRR. These GL apply to those institutions that are within the scope of the EBA Guidelines on disclosure requirements under Part Eight of Regulation (EU) 575/2013 (EBA/GL/2016/11), version 2 on harmonised disclosure formats. Although SBE are not within this scope as they are neither a O-SII or G-SII identified by the PRA, the Bank has chosen to disclose on a voluntary basis as allowed by the GL.

14.1 QUALITATIVE INFORMATION ON LCR - ANNEX 1 TABLE EU LIQA ON LIQUIDITY RISK MANAGEMENT

Annex I	**EBA Disclosure Guidance**
Strategies and processes in the management of the liquidity risk	There are three key components of SBE's Liquidity Risk Management: - Understanding the liquidity risk profile: identifying, defining, and evaluating the key sources of funding and liquidity risk. - Conducting risk analysis: stress testing is one of the key tools for the assessment of liquidity risk. Stress scenarios and assumptions should adequately address the impact of key risks in order to evaluate and identify vulnerabilities and quantify the Bank's risk capacity. This will form a critical component of the Bank's liquidity risk tolerance. - Management Actions: developing strategies to prevent, control and/or mitigate liquidity risk arising from the Bank's operations, businesses, and products. This includes establishing the suite of limits and metrics designed to control key risks in order to maintain SBE's funding and liquidity risk within an operating range consistent with Board risk tolerance. These 3 components are described in detail in the SBE ILAAP, including liquidity metrics, stress testing, risk limits, liquidity related policies, and the SBE governance structure.
Structure and organisation of the liquidity risk management function (authority, statute, other arrangements)	The committee structure governing the operations of SBE is headed by the SBE Board of Directors, with a Risk Committee, Executive Committee and Audit Committee reporting into the Board. In addition there is an Assets and Liabilities Committee (ALCO) chaired by the SBE CEO that reports into the Risk Committee.
Scope and nature of liquidity risk reporting and measurement systems	The reporting systems used by SBE are based on external vendor platforms which are adequate for the size and scope of the bank. Regular and periodic reconciliations are performed to the general ledger to ensure alignment of liquidity measures.
Policies for hedging and mitigating the liquidity risk and strategies and processes for monitoring the continuing effectiveness of hedges and mitigants	The SBE ILAAP provides a framework which SBE Treasury uses to manage the liquidity risk within SBE. Within this framework limits surrounding HQLA, DV01, AI/EV; policies on Contingency funding and Early Warning indicators are all used to mitigate and monitor any potential liquidity risks.
A declaration approved by the management body on the adequacy of liquidity risk management arrangements of the institution providing assurance	The SBE ILAAP, approved by ALCO and the Risk Committee of the Board states that SBE's holding of HQLA, its internal policies related to the management of liquidity risks (aligned to SBE's

that the liquidity risk management systems put in place are adequate with regard to the institution's profile and strategy	Risk Appetite Framework), together with its liquidity risk management processes and governance structure are satisfactory to adequately manage liquidity risks within SBE's business.
A concise liquidity risk statement approved by the management body succinctly describing the institution's overall liquidity risk profile associated with the business strategy. This statement shall include key ratios and figures (other than those already covered in Annex II of these guidelines) providing external stakeholders with a comprehensive view of the institution's management of liquidity risk, including how the liquidity risk profile of the institution interacts with the risk tolerance set by the management body	The details provided in the SBE Board approved ILAAP document demonstrate that SBE meets the PRA's Overall Liquidity Adequacy Rule. Specifically, it demonstrates that SBE holds sufficient High Quality Liquid Assets (HQLA) along with a prudent funding profile to meet the SBE Board defined limits for liquidity stress testing and LCR reporting. The liquidity stress tests calculate a survival horizon and are used to quantify the impact of potential liquidity strains under different scenarios. Survival horizon measures are particularly insightful as they incorporate multiple forms of liquidity risk into one measure. The survival horizon limit is expressed as the minimum amount of time, expressed in days, in which SBE can continue to operate without materially adjusting its business model by covering stressed net cash outflows from liquidity reserves. For internal stress testing six scenarios are considered: Idiosyncratic (SBE specific stress), Systemic (market wide) and Combination (combination of SBE and market wide), each with a stress level of 'Severe' and 'Extreme'. For the purposes of the ILAAP and limit monitoring, SBE management made the decision to continue to focus on three scenarios (Idiosyncratic Extreme, Systemic Severe and Combined Severe). The SBE Risk Appetite Framework defines an all currency 60 day survival horizon, and 14 day survival horizons in the 3 main currencies (GBP, EUR and USD).

14.2.1 ANNEX 2 TEMPLATE EU LIQ1: LCR DISCLOSURE TEMPLATE AND THE TEMPLATE ON QUALITATIVE INFORMATION ON LCR

		TOTAL ADJUSTED VALUE			
		Q1	Q2	Q3	Q4
21	**LIQUIDITY BUFFER**	**2,319,298,789**	**2,392,835,960**	**2,880,386,782**	**2,876,770,754**
22	**TOTAL NET CASH OUTFLOWS**	**785,586,164**	**865,854,307**	**1,125,140,484**	**1,164,030,843**
23	**LIQUIDITY COVERAGE RATIO (%)**	**317%**	**305%**	**264%**	**254%**

14.2.2 ANNEX 2 TEMPLATE EU LIQ1: LCR DISCLOSURE TEMPLATE AND THE TEMPLATE ON QUALITATIVE INFORMATION ON LCR

Annex II qualitative requirements	**EBA disclosure Guidelines**
Concentration of funding and liquidity sources	Due to the nature of SBE, being a UK subsidiary of a Canadian Bank, the funding of SBE comes from intergroup sources with an immaterial proportion from external counterparties (<1%). BNS London branch is the largest source of funding and liquidity principally through a series of 90 day evergreen deposits providing a core bloc of funding in the 3 principal trading currencies of SBE (USD, GBP and EUR). The balance of funding is made up of adhoc deposits as per requirements at the particular time. Additional intergroup deposits are provided from BNS Caribbean offices SBE Treasury also holds a standalone HQLA portfolio which is split into the 3 major currencies as per the SBE funding currency profile of SBE. SBE Treasury manage the funding to a series of internal limits including a DV01, All currency Stress test, Single currency stress test, HQLA policy, Aggregate FX forwards, HQLA policy and AI/EV limits.
Derivative exposures and potential collateral calls	For agreements where the posting of margin or collateral is specified, a margin call will be generated due to a collateral event. For example, for a new agreement, initial margin may be required. Variation margin may be required due to changes in exposure values, changes in collateral values or counterparty ratings changes. Through a series of feeds from the upstream source systems, Lombard Colline aggregates the exposures by counterparty and compares these against agreed upon terms and conditions of each CSA. In doing so, it facilitates netting of exposures on a bilateral basis and generates margin calls against specified thresholds.
Currency mismatch in the LCR	SBE looks to borrow funds in the underlying currency and match the deposit portfolio to the breakdown of the asset currencies. For minor currencies or illiquid currency funding, SBE will use FX cross currency arbitrage to provide funding. There are no rating based ATE for SBE clients. The cross currency risk is managed through limits set against the aggregate FX forward contracts and also an internal 14 day stress test for USD EUR and GBP.
A description of the degree of centralisation of liquidity management and interaction between the group's units	SBE Treasury is responsible for the adherence to SBE's Liquidity requirements. The actual reporting is delegated to Finance and TFRM provide oversight and monitoring of Treasuries management of the process. Liquidity is a key subject discussed at the Monthly ALCO meeting where business lines provide input as to future requirements and Treasury discuss key issues regarding liquidity within SBE. The full costs of holding the HQLA portfolio are allocated to the business lines as appropriate and therefore this drives their behaviour in ensuring that the business lines operate

	within an effective liquidity regime.
Other items in the LCR calculation that are not captured in the LCR disclosure template but that the institution considers relevant for its liquidity profile	Key items are captured in other sections of the disclosure template

15 IFRS9

EBA has published guidelines on uniform disclosures under Article 473(a) of Regulation EU No 575/2013 as regards the transitional period of mitigating the impact of the introduction of IFRS9 on own funds. Although these guidelines apply from 20 March 2018, SBE has chosen to adopt them early from 1 November 2017. SBE is not applying transitional arrangements and therefore is not required to complete the quantitative template.

Detailed information on the impact of IFRS9 on the Company is available in the Financial Statements for FY 2017.

16 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.

16.1 Qualitative Disclosure

16.1.1 Governance

Role of the Parent's Human Resources Committee

The Parent has an established Human Resources Committee ("HRC") of its Board of Directors, 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 annually approves the remuneration policy statement that applies to the Company, as well as individual awards to Material Risk Takers ("MRTs") 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 Human Resources 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:

- *Leadership and succession planning* – oversees management succession plans to ensure effective leadership
- *Compensation philosophy and human resources policies and practices* – oversees alignment with Scotiabank's pay for performance strategy and risk appetite
- *Compensation Programmes* – oversees material compensation programmes and incentive plans and makes recommendations to the Parent board with respect to these programmes. Reviews compensation disclosure and recommends approval to the Parent board prior to publication
- *Compensation governance* – reviews evolving governance practices and the alignment of compensation policies with best practices and requirements of the FSB, EBA, FCA, PRA, and shareholder advisory firms such as ISS and Glass Lewis, and monitors compliance
- *Managing compensation risk* – meets with the Parent Board's Risk Committee to jointly review and recommend all key elements of incentive plans, including plan design, targets, metrics and potential payouts. Seeks independent advice and input from a third party advisor.

The HRC held six meetings in 2017 (2016: seven meetings), including two joint sessions with the Parent Board's Risk Committee.

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 Human Resources Committee

Current members of the HRC are: Aaron Regent (Chair), Nora Aufreiter, Guillermo Babatz, Thomas O'Neill, Indira Samarasekera, Una Power and Barbara Thomas. The members of the HRC are all non-executive directors of the Parent Board.

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 2017, Frederic W. Cook & Co. ("FWC"), working without direction from management, provided the HRC with updates on ongoing and emerging trends in executive compensation and governance, competitive analysis of the Parent's President and CEO compensation, review of materials in advance of HRC meetings, and the identification of discussion points and issues for the HRC's consideration when evaluating compensation design proposals. FWC is an independent executive compensation consulting firm based in New York.

Role of SBE Board and Senior Manager Function 12

While the HRC acts as the Company's remuneration committee, the Company Board is kept informed of UK remuneration adequacy, effectiveness and related governance. The Company Board has appointed an independent Non-Executive Director ("iNED") to ensure remuneration programmes are in line with UK regulatory requirements. The iNED and Company Board are responsible for being aware of any matters to be discussed or decisions made by the HRC which are relevant to the Company and provide local oversight, review and input on remuneration matters, where appropriate. From a regulatory perspective, the iNED fulfils PRA's role of chairman of remuneration committee function (i.e., senior management function 12 or "SMF 12") for the Company.

On 13 December 2017 SBE constituted its own Remuneration Committee.

MRT Criteria

MRTs broadly comprise senior management, risk takers and employees in control functions, and employees whose total remuneration falls within the PRA and FCA quantitative criteria. Scotiabank follows EBA regulatory technical standards[1] and identifies the following groups of employees as MRTs based on qualitative criteria (related to the role and decision-making authority of employees) and quantitative criteria (related to the level of total gross remuneration in absolute or relative terms):

(a) 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 and employees involved in trading activities who have a material impact on the risk profile of UK subsidiaries.

Scotiabank also followed guidance from a Bank of England letter to proportionality level two firms and have considered individuals who expose the firm to a *material level of harm, including reputational harm* when identifying MRTs.

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

16.1.2 Link between pay and performance

In addition to base salary and fixed pay allowance (i.e., role-based allowance), Scotiabank's compensation includes a mix of annual and deferred incentives – which are known as "pay-at-risk" since they are not guaranteed. Employees are also eligible to participate in benefit, pension, and perquisite programmes.

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

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

16.1.3 Design and Structure of Remuneration

Salary

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

Fixed Pay Allowance ("FPA")

In fulfilment of the CRD IV regulatory requirements, fixed pay allowances were first implemented in 2015 as a potential element of an eligible employee's fixed annual pay. The amount of the fixed pay allowance is determined by taking into account internal and external "market compensation" for a role. "Market compensation" includes other remuneration that an employee in that role may receive. FPAs are pre-determined, non-discretionary, not dependent on performance, not an incentive for risk-taking by the employee, non-revocable and cannot be cancelled, reduced or suspended except in limited circumstances. An adjustment to FPA will normally only be made following a change in the role or function performed by the eligible employee or a change in the market value of or market compensation for the role, or to comply with or take account of any regulatory changes in any jurisdiction in which the FPA is paid.

Benefit Pension Plan

The Scotiabank Pension Scheme (UK & CI), a registered defined benefit pension plan was closed to new members in July 2005 and was closed to future accruals effective 31 October 2016. Starting 1 November 2016, all employees are eligible to participate in the Scotiabank Group Personal Pension Plan ("GPPP"), an approved defined contribution plan. Participants in the GPPP have the option to be either contributory or non-contributory members.

16.1.4 Annual Incentives

Rationale & Eligibility Criteria

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

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

- Annual Incentive Plan ("AIP"), for all back- and middle-office employees, including employees in control function roles and supporting personnel who are not client-facing;

- Global Banking and Markets Incentive Plan ("GBMIP"), for GBM front-office employees globally, in designated units and roles that support revenue generation.

Performance Measurement/Assessment

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

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

Risk Adjustment

Prior to the awards being approved, the Parent's Chief Risk Officer assesses whether there are any other potential risks that should be reflected in the incentive pool funding, and recommends adjustments – if necessary – to the HRC. For further details please refer to section 14.1.6.

Additionally, UK Finance carries out a Prudent Valuation Adjustment ("PVA") calculation that looks at the year-to-year movement of the Company's prudent valuation return. Any required adjustments are reflected in employee's individual AIP or GBMIP awards to reflect the PVA-adjusted profit.

Deferral and Vesting

For participants in the AIP programme:

- Non-exempt[2] MRTs receive 50% of their AIP payment in upfront Restricted Share Units ("RSUs") pursuant to The Bank of Nova Scotia Restricted Share Unit Plan for Participants in the European Economic Area (the "EEA RSU Plan") and the remainder is paid in cash.
- Exempt[2] MRTs and other AIP employees receive their full AIP payment in cash.

For participants in the GBMIP programme:

- A portion of the GBMIP award is paid in cash and the remainder is deferred (see section 14.1.5). The percentage of the award comprising the cash portion varies between 50% - 85% depending on GBM job level.
- Non-exempt[2] MRTs receive 50% of their GBMIP cash portion in upfront Restricted Share Units ("RSUs") pursuant to the EEA RSU Plan and the remainder is paid in cash.
- Exempt[2] MRTs and other GBMIP employees receive their full GBMIP cash portion in cash.

Upfront RSUs awarded to both AIP and GBMIP participants vest immediately and are subject to a six-month holding period before being paid out in cash.

Note:
[2] Exempt per SYSC 19D.3.3

16.1.5 Deferred Incentives

Rationale & Eligibility Criteria

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

For AIP participants, the EEA RSU Plan is intended for key individuals who have the ability to assist in creating future shareholder value. Back and middle-office employees, including employees in control function roles and supporting personnel who are not client-facing at the internal director level and above may be eligible to receive grants of deferred compensation.

For GBMIP participants, the EEA RSU Plan is an integral part of GBM's overall compensation programme designed to align the interests of GBM employees with those of Scotiabank's shareholders. All GBM front-office employees in client-facing roles and roles that support revenue generation in the UK are eligible to participate.

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

Performance Measurement/Assessment

For AIP participants, the EEA RSU Plan is designed to reward nominated employees below the executive level and certain executives outside of Canada for delivering sustained shareholder value. RSUs gain value with the appreciation of the Parent's common share price and the reinvestment of 'dividend equivalents' aligned with actual dividends paid on the common shares.

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

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

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[2] MRTs receive 50% of their deferred award in RSUs and 50% as Deferred Cash Awards. Both RSUs and Deferred Cash Awards vest pro-rata over a three, five or seven-year deferral period depending on the MRT's role[3]. 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 for Dual-Regulated Firms.
- Exempt[2] MRTs and other AIP employees depending on seniority may receive deferred compensation on a discretionary basis based on individual performance, and awards typically range between 0% - 30% of total incentives received. Awards are made entirely in RSUs that vest 100% at the end of three years.

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

- Non-exempt[2] MRTs who are GBMIP participants have the same vesting and deferral criteria as those that are participants of the AIP program (see above).
- Exempt[2] MRTs and other GBMIP participants receive the entire award in RSUs that vest in equal instalments over three years. The portion of total incentive deferred varies between 15% - 40% depending on GBM job level.

Note:

[2] Exempt per SYSC 19D.3.3

[3] 7 years vesting for PRA Senior Managers vesting on a pro-rata basis between years 3 to 7
5 years vesting for FCA Senior Managers and Risk Managers vesting annually on a pro-rata basis
3 years vesting for all other MRTs vesting on a pro-rata basis

Risk Adjustments

Prior to the awards vesting, the Parent's Chief Risk Officer assesses whether there are any other potential risks that should be reflected in the amount vesting, and recommends adjustments – if necessary – to the HRC. For further details please refer to section 14.1.6.

16.1.6 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. Scotiabank's compensation programme takes into account the risks that employees take on behalf of Scotiabank, and ensures compensation takes into consideration prospective risks and outcomes.

In designing employee 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.
    - Employees are discouraged from taking unreasonable and excessive risks through a strong internal risk culture that is reinforced by compensation programmes. By delivering incentive compensation through a combination of annual, mid-term and long-term incentives that reflect Scotiabank's 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 risk, employees are discouraged from taking unreasonable and excessive risk. 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 Parent's Chief Risk Officer and Global Risk Management function review all material plans from a design perspective to ensure that they reflect the risk appetite framework of Scotiabank. The Parent's 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 Board's Human Resources and Risk Committees, if warranted.
    - As part of the Parent's Chief Risk Officer's risk assessment, prudent valuations for capital adequacy are conducted to ensure Scotiabank is appropriately managing its capital to produce shareholder returns. As each business line is allocated equity which reflects their respective economic capital, the capital adequacy assessment ensures that capital is adequate to meet current and future risk, and achieve strategic objectives. These prudent valuations ensure business lines are being charged adequately for the risk inherent in their respective business, and feed into the determination of incentive pools.

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 aspects of material incentive programmes from an overall policy and comprehensive risk basis.

3. Scotiabank Board's Risk Committee participates in reviews of the design and results of incentive programmes: The Risk Committee members and the HRC members jointly review and approve the design, metrics, targets, and payouts of material incentive programmes.

4. Key stewardship and control functions are focused on overall corporate interests: This focus ensures that compensation for employees responsible for areas such as risk management, legal, compliance, finance, internal audit, anti-money laundering and human resources is tied to overall Scotiabank performance rather than the performance of any one line of business they may support. Key stewardship and control function management have day-to-day responsibility and ultimate accountability for key stewardship and control function employees including hiring decisions, performance appraisals, and compensation.

5. Adherence to business values, codes of conduct, risk and compliance-related policies are key considerations when determining individual compensation awards. For material risk impact employees Bank-wide and MRTs in the UK,

Scotiabank's Compensation Review Committee (includes the Parent's heads of finance, risk management, legal, compliance, internal audit, and human resources) reviews possible breaches in conduct to ensure appropriate linkage between incentive compensation and risk.

6. At the local level, the UK Remuneration Oversight Committee ("ROC"), and associated sub-committees, is responsible for ensuring compliance with key UK remuneration regulatory requirements and overseeing the implementation of new policies and procedures to support the requirements, including those of the PRA, FCA, and EBA. Core members of the UK ROC are the UK Heads of Human Resources, Compliance, Finance and Risk Management (or their delegates), the VP Compensation – Executive and Global Banking and Markets, as well as the Head of Global Banking and Markets ("GBM") Europe who shall act as the Chair of the Committee. The UK Head of Legal is an optional attendee.

7. Clawback provisions: The Bank of Nova Scotia Clawback Policy applies to covered individuals and employee groups, including MRTs. Employees may forfeit outstanding awards, be required to repay previous compensation or have future grants reduced if there is: a) employee misconduct, misbehaviour, fraud or gross negligence; b) material risk management failure of the firm and/or business unit; c) material misstatement of the Bank's or a business of the Bank's financial results; or d) material downturn in financial performance.

8. Anti-hedging and non-assignability provisions prohibit employees from utilizing hedging strategies or derivatives to circumvent the risk alignment effects of Scotiabank's compensation programmes.

9. 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.

16.2 Quantitative Disclosure

The following table summarises MRTs whose total remuneration exceeded EUR 1 million for fiscal years 2017 and 2016.

Total Remuneration Band (EUR)	2017 Number of MRTs	2016 Number of MRTs
3 million to 3.5 million	Nil	Nil
2.5 million to 3 million	Nil	Nil
2 million to 2.5 million	Nil	1
1.5 million to 2 million	3	Nil
1 million to 1.5 million	3	5
Total	**6**	**6**

The following pages show compensation awards and related data for 2017 and 2016 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.

16.2.1 Wholesale Banking

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

The tables below summarise total remuneration earned during the last two fiscal years. This includes variable compensation awards made after the end of the fiscal year to reflect decisions made during the 2017 and 2016 compensation planning cycles.

	31 October 2017			
	Senior Management	Non-Senior Management	Total	Ratios
Number of MRTs	5	22	27	
Fixed				

Cash	3.3	11.6	14.9	
Total fixed	**3.3**	**11.6**	**14.9**	**69%**
Variable				
Cash	0.5	1.4	1.9	
Non-deferred shares	0.5	1.4	1.9	
Deferred cash	0.4	0.9	1.4	
Deferred shares	0.4	1.0	1.5	
Total variable pay	**1.9**	**4.8**	**6.7**	**31%**

	31 October 2016			
	Senior Management	Non-Senior Management	Total	Ratios
Number of MRTs	10	10	20	
Fixed				
Cash	6.7	5.7	12.5	
Total fixed	**6.7**	**5.7**	**12.5**	**73%**
Variable				
Cash	0.7	0.7	1.4	
Non-deferred shares	0.6	0.6	1.2	
Deferred cash	0.5	0.4	0.9	
Deferred shares	0.6	0.5	1.1	
Total variable pay	**2.4**	**2.2**	**4.6**	**27%**

Table 1.2: *Deferred Compensation (USD millions)*

The tables below summarise 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 2017 of C$83.28 (2016: C$72.08).

	31 October 2017		
	Senior Management	Non-Senior Management	Total
Outstanding and vested	0.0	0.0	0.0
Outstanding and unvested	2.8	5.8	8.6
Awarded during financial year	1.3	2.8	4.2
Paid out	2.2	3.5	5.7
Reduced through performance adjustments	0.0	0.0	0.0

	31 October 2016		
	Senior Management	Non-Senior Management	Total
Outstanding and vested	0.0	0.0	0.0
Outstanding and unvested	3.2	5.1	8.3
Awarded during financial year	2.8	1.5	4.3
Paid out	2.8	2.7	5.5
Reduced through performance adjustments	0.0	0.0	0.0

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

In fiscal 2017, one sign-on award was paid to a Wholesale Banking MRT (2016: Nil). Two MRTs received severance awards during fiscal 2017 (2016: 2 severances were paid to MRTs). To preserve confidentiality of the individuals, the values of these will be disclosed confidentially to the regulatory authority, upon request.

16.2.2 Control and Other Functions

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

The tables below summarise total remuneration earned during the last two fiscal years. This includes variable compensation awards made after the end of the fiscal year to reflect decisions made during the 2017 and 2016 compensation planning cycles.

	31 October 2017			
	Senior Management	Non-Senior Management	Total	Ratios
Number of MRTs	8	1	9	
Fixed				
Cash	2.1	0.3	2.4	
Total fixed	**2.1**	**0.3**	**2.4**	**85%**
Variable				
Cash	0.0	0.0	0.0	
Non-deferred shares	0.0	0.0	0.0	
Deferred cash	0.0	0.0	0.0	
Deferred shares	0.3	0.0	0.3	
Total variable pay	**0.4**	**0.0**	**0.4**	**15%**

	31 October 2016			
	Senior Management	Non-Senior Management	Total	Ratios
Number of Code Staff	10	0	10	
Fixed				
Cash	2.8	0.0	2.8	
Total fixed	**2.8**	**0.0**	**2.8**	**72%**
Variable				
Cash	0.5	0.0	0.5	
Non-deferred shares	0.1	0.0	0.1	
Deferred cash	0.1	0.0	0.1	
Deferred shares	0.4	0.0	0.4	
Total variable pay	**1.1**	**0.0**	**1.1**	**28%**

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 2017 of C$83.28 (2016: C$72.08).

	31 October 2017		
	Senior Management	Non-Senior Management	Total
Outstanding and vested	0.1	0.0	0.1
Outstanding and unvested	0.8	0.0	0.8
Awarded during financial year	0.2	0.0	0.2
Paid out	0.2	0.1	0.3
Reduced through performance adjustments	0.0	0.0	0.0

	31 October 2016		
	Senior Management	Non-Senior Management	Total
Outstanding and vested	0.1	0.0	0.1
Outstanding and unvested	2.6	0.0	2.6
Awarded during financial year	0.5	0.0	0.5
Paid out	0.4	0.0	0.4
Reduced through performance adjustments	0.0	0.0	0.0

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

In fiscal 2017, there were no sign-on made to Control and Other Functions MRTs (2016: Nil). One MRT received a severance award in fiscal 2017 (2016: one MRT received a severance award). To preserve confidentiality of the individuals, the value of this award will be disclosed confidentially to the regulatory authority, upon request.