

THE BANK OF NOVA SCOTIA
Unaudited Financial Information Disclosure Statement as at October 31, 2019

SECTION A - BRANCH INFORMATION (HONG KONG OFFICE ONLY)

I. <u>Profit and loss information</u>	12 mths ended Oct-31-19 HKD'000	12 mths ended Oct-31-18 HKD'000
Interest income	820,031	710,894
Interest expense	(662,064)	(625,745)
Net interest income	157,967	85,149
Gains less losses arising from trading in foreign currencies	82,016	262,587
Gains less losses from other trading activities	37	408
Fees and commission income	119,566	109,018
Others	(3,234)	61
Operating income	356,352	457,223
Staff expenses	(188,206)	(184,073)
Other expenses	(110,781)	(102,698)
Operating expenses	(298,987)	(286,771)
Profit before taxation	57,365	170,452
Taxation charge	(16,145)	(32,900)
Profit after taxation	41,220	137,552

II. <u>Balance Sheet</u>	Oct-31-19 HKD'000	Apr-30-19 HKD'000
Assets		
Cash and balances with banks	1,226,241	2,149,414
Placements with banks which have a residual contractual maturity of more than one month but not more than 12 months	5,413,709	3,625,452
Amount due from overseas offices of the institution	13,625,767	15,009,430
Trade bills	6,508,613	6,801,211
Loans and receivables		
Loans and advances to customers	12,766,402	9,225,420
Accrued interest and other accounts	324,246	348,281
Investment securities	4,338,011	3,482,898
Other investments	2,252,247	2,041,477
Total assets	46,455,236	42,683,583
Liabilities	Oct-31-19 HKD'000	Apr-30-19 HKD'000
Deposits and balances from banks	1,526,374	3,852,833
Deposits from Central Bank	5,176,671	6,455,942
Deposits from customers		
Demand deposits and current accounts	46,119	71,747
Savings deposits	7,101	18,677
Time, call and notice deposits	14,146,737	15,212,729
Amount due to overseas offices of the institution	23,103,796	15,856,951
Certificates of deposit issued	1,567,520	784,480
Other liabilities	880,918	430,224
Total liabilities	46,455,236	42,683,583

Impairment allowance for impaired assets

Collective impairment allowances for impaired assets are maintained at overseas Head Office (The Bank of Nova Scotia, "the Bank"), while individual impairment allowances are booked in the Hong Kong Office.

No individual impairment allowance was booked for exposures maintained in the Hong Kong Office as at October 31, 2019 (April 30, 2019: Nil).

The Bank applies a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9 effective November 1, 2017. The impairment allowances pertaining to the exposures classified in Stages 1 and 2 under IFRS 9 are treated as collective impairment allowances and those classified in Stage 3 under IFRS 9 are treated as individual impairment allowances.

The Bank's allowance for credit losses calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception. The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

This impairment model measures credit loss allowances using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – Where there has not been a significant increase in credit risk (SIR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.
- Stage 2 – When a financial instrument experiences a SIR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.
- Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

III. Impaired Assets

No advances to customers, banks and other financial institutions were impaired as at October 31, 2019 (April 30, 2019: Nil).

a. *Overdue advances*

No advances to customers, banks, other financial institutions and other assets were overdue as at October 31, 2019 (April 30, 2019: Nil)

b. *Rescheduled advances*

No advances to customers, banks and other financial institutions were rescheduled as at October 31, 2019 (April 30, 2019: Nil).

c. *Repossessed assets*

	Oct-31-19 HKD'000	Apr-30-19 HKD'000
Repossessed assets - held for use	39	39

Repossessed assets considered to be held for use is measured initially at fair value and accounted for in the same manner as a similar asset acquired in the normal course of business.

IV. Off-Balance Sheet Exposures

	Oct-31-19 HKD'000	Apr-30-19 HKD'000
a. <i>Contingent liabilities and commitments</i>		
- Direct credit substitutes	1,178,131	839,030
- Trade-related contingencies	774,656	938,795
- Other commitments	2,853,520	3,405,351
- Others	497,695	624,864
Total	<u>5,304,002</u>	<u>5,808,040</u>
b. <i>Derivatives</i>		
Notional Amounts:		
- Exchange rate contracts	80,355,168	73,583,432
- Interest rate contracts	1,382,686	2,163,203
- Others	4,625,856	4,726,441
Total	<u>86,363,710</u>	<u>80,473,076</u>
Fair value:		
- Exchange rate contracts	5,834,836	1,118,906
- Interest rate contracts	1,140	3,306
- Others	87,284	46,441
Total	<u>5,923,260</u>	<u>1,168,653</u>

No bilateral netting arrangements were made for the above derivative transactions.

V. **Segmental Information**

a. **Analysis of loans and advances to customers by sectors**

	Oct-31-19		Apr-30-19	
	HKD'000	% of loans and advances covered by collateral	HKD'000	% of loans and advances covered by collateral
Industrial, commercial & financial				
- Property investment	-	-	200,000	-
- Wholesale and retail trade	734,609	-	630,173	-
- Transport and Transport equipment	158,711	100.0%	186,314	100.0%
- Others	456,805	85.4%	66,748	-
Loans and advances for use in Hong Kong	1,350,125	40.6%	1,083,235	17.2%
Trade finance	1,289,764	-	-	-
Loans and advances for use outside Hong Kong	10,126,513	7.5%	8,142,185	13.9%
Total loans and advances to customers	12,766,402	10.2%	9,225,420	14.3%

b. **Non-bank Mainland exposures**

	Oct-31-19 HKD'000		
	On-Balance sheet exposure	Off-Balance sheet exposure	Total
- Central government, central government-owned entities and their subsidiaries and JV	608,142	-	608,142
- PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JV	428,375	5,503,344	5,931,719
- PRC nationals residing outside Mainland China or other entities incorporated outside Mainland China where the credit is granted or use in Mainland China	-	250,340	250,340
- Other entities of central government not reported above	-	-	-
Total	1,036,517	5,753,684	6,790,201
Total Asset after provision	46,455,236		
On-balance sheet exposures as % of total asset	2.23%		
	Apr-30-19 HKD'000		
	On-Balance sheet exposure	Off-Balance sheet exposure	Total
- Central government, central government-owned entities and their subsidiaries and JV	540,542	300,000	840,542
- PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JV	145,168	916,686	1,061,854
- PRC nationals residing outside Mainland China or other entities incorporated outside Mainland China where the credit is granted or use in Mainland China	-	250,655	250,655
- Other entities of central government not reported above	-	113	113
Total	685,710	1,467,454	2,153,164
Total assets after provision	42,683,583		
On-balance sheet exposures as % of total assets	1.61%		

c. **Analysis of advances to customers by geographic areas according to the location of counterparties after risk transfer :**

	Oct-31-19 (HKD millions)	Apr-30-19 (HKD millions)
Hong Kong	5,436	4,917
Rest of Asia Pacific	6,040	4,308
North America	1,290	-
	12,766	9,225

d. **International Claims**

The following table provides a breakdown of international claims by major countries and geographical segments. Only major countries or geographical locations with not less than 10% of the total international claims after taking into account any recognized risk transferred are disclosed.

	Oct-31-19 (HKD millions)				Total
	Banks	Official Sector	Non-bank private sector		
			Non-bank Financial Institutions	Non-financial Private Sector	
Developed Countries	13,941	2,856	-	1,971	18,768
<i>of which Canada</i>	13,916	-	-	-	13,916
Offshore Centres	968	-	-	7,519	8,487
<i>of which Hong Kong</i>	573	-	-	6,743	7,316
Developing Asia and Pacific	10,061	449	205	4,139	14,854
<i>of which China</i>	10,061	449	205	351	11,066

	Apr-30-19 (HKD millions)				Total
	Banks	Official Sector	Non-bank private sector		
			Non-bank Financial Institutions	Non-financial Private Sector	
Developed Countries	15,161	1,338	-	921	17,420
<i>of which Canada</i>	15,133	-	-	-	15,133
Offshore Centres	1,092	-	-	6,452	7,544
<i>of which Hong Kong</i>	699	-	-	5,266	5,965
Developing Asia and Pacific	10,659	354	162	3,013	14,188
<i>of which China</i>	10,659	354	162	323	11,498

VI. **Currency risk**

The following position constitutes more than 10% (either positive or negative) of the total net position in all foreign currencies.

	Oct-31-19 (HKD millions)			
	USD	CNY	GOLD	TOTAL
Spot assets	27,456	485	6,386	34,327
Spot liabilities	(30,026)	(447)	(4,401)	(34,874)
Forward purchases	17,982	22,746	33,217	73,945
Forward sales	(14,987)	(22,776)	(35,242)	(73,005)
Net long (short) position	425	8	(40)	393

	Apr-30-19 (HKD millions)			
	USD	CNY	GOLD	TOTAL
Spot assets	23,923	678	5,217	29,818
Spot liabilities	(24,228)	(662)	(6,243)	(31,133)
Forward purchases	16,286	21,747	29,354	67,387
Forward sales	(15,223)	(21,774)	(28,430)	(65,427)
Net long (short) position	758	(11)	(102)	645

There were no structural assets and liabilities as at October 31, 2019 (April 30, 2019: Nil).

VII. **Liquidity Risk Management**

Liquidity risk is defined as the risk of being unable to meet financial obligations in a timely manner at reasonable prices. Financial obligations include liabilities to counterparties, and lending and pledging commitments.

Effective liquidity risk management is essential to maintain the confidence of counterparties, manage the company's cost of funds and to support core business activities, even under adverse circumstances.

Liquidity risk is managed within the framework of policies and limits that are approved by senior management and Head Office. Senior management receives reports on risk exposures against approved limits. The Asset-Liability Committee (ALCO) provides senior management oversight of liquidity risk.

The key elements of the Bank's liquidity risk management framework are:

- Measurement and modeling – the Bank'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 – support the ALCO with analysis, risk measurement, stress testing, monitoring and reporting for their oversight of all significant liquidity risks.

- Stress testing – the Bank performs liquidity stress testing on a monthly basis, to evaluate the effect of industry-wide, Bank-specific and the combined disruptions on the Bank's liquidity position. A separate Intraday liquidity stress test is also performed at each financial quarter to evaluate impact from counterparties payment and settlement under stress event. Liquidity stress testing has many purposes including:

- Helping the Bank to understand the potential behavior 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.

The Bank's liquidity stress tests consider the effect of changes in funding assumptions, depositor behavior and the market value of liquid assets. The Bank performs industry standard stress tests, the results of which are submitted to ALCO and reviewed by senior management in consideration of making liquidity management decisions.

The liquidity risk mitigation technique include the below tools:

- Contingency planning – the Bank maintains a liquidity contingency plan that specifies an approach for analyzing 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.

- Funding diversification – the Bank actively manages the diversification of its deposit liabilities by source, type of depositor, instrument, term and geography.

- Core liquidity – the Bank 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 Bank-specific events. The Bank also maintains liquid assets to support its intra-day settlement obligations in payment, depository and clearing systems.

a. Liquidity Ratios

The following analysis shows the liquidity position for the three months ended October 31, 2019 and its comparative year:

	3 mths ended Oct-31-19	3 mths ended Oct-31-18
Average liquidity maintenance ratio ("LMR") for the year	<u>43.0%</u>	<u>40.9%</u>

The average liquidity maintenance ratio is the simple average of each calendar month's average ratio and has been computed in accordance with the Banking (Liquidity) Rule.

b. Sources of funding

The sources of funding are mainly from the following:

	Oct-31-19 (HKD millions)	as % of total liabilities
Group Companies	24,215	52.1%
Non-bank customers	14,261	30.7%
Central banks	5,181	11.2%
Certificate of deposits issued	1,587	3.4%
Banks	529	1.1%

c. Liquidity Risk Mismatch

The following analysis shows the on and off-balance sheet items, broken down into maturity buckets:

	Oct-31-19 (HKD millions)				
	Total	Within 1 month	Over 1 month to 3 months	Over 3 months to 12 months	Over 1 year and balancing amount
Cash and balances with banks	20,386	9,382	3,929	7,075	-
Trade bills	6,509	625	2,761	3,123	-
Loans and advances to customers	12,799	4,134	4,588	4,077	-
Investment securities	4,341	4,341	-	-	-
Other assets	2,420	2,399	-	-	21
Total on-balance sheet assets	46,455	20,881	11,278	14,275	21
Total off-balance sheet assets	836	338	91	407	-
Deposits from banks	24,722	7,781	10,406	6,535	-
Deposits from central bank	5,181	3,646	391	1,144	-
Deposits from non-bank customers	14,283	9,525	1,204	3,554	-
Certificate of deposits issued	1,587	-	-	1,587	-
Other liabilities and reserves	682	682	-	-	-
Total on-balance sheet liabilities	46,455	21,634	12,001	12,820	-
Total off-balance sheet liabilities	5,643	4,653	99	469	422
Contractual maturity mismatch		(5,068)	(731)	1,393	(401)
Cumulative contractual maturity mismatch		(5,068)	(5,799)	(4,406)	(4,807)

This is the first annual disclosure made in accordance with Table LIQA on liquidity risk management, and provision of comparative figures on part (b) & (c) are not available.

SECTION B - BANK INFORMATION (CONSOLIDATED BASIS)

1. <u>Capital and capital adequacy</u>	Oct-31-19 CAD millions	Apr-30-19 CAD millions
Shareholders' equity:		
Capital stock		
- Preferred shares	3,884	3,884
- Common shares and other reserves	18,629	18,679
Retained earnings	44,439	43,056
Accumulated other comprehensive income	570	1,836
Non-controlling interest	2,670	2,792
	<u>70,192</u>	<u>70,247</u>
 Total capital ratio	 14.2%	 14.7%

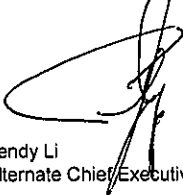
Capital adequacy ratio is calculated by dividing the components of capital by risk-weighted assets (includes assets which are subject to market risk). Capital adequacy is governed by the requirements of the Office of the Superintendent of Financial Institutions (OSFI) which are consistent with international standards set by the Bank for International Settlements (BIS).

2. <u>Other financial information</u>	Oct-31-19 CAD millions	Apr-30-19 CAD millions
Total assets	1,086,161	1,058,169
Total liabilities	1,015,969	987,922
Total advances	592,483	583,815
Total customer deposits	686,651	668,640
Total deposits from banks	46,739	43,642
	12 mths ended Oct-31-19 CAD millions	12 mths ended Oct-31-18 CAD millions
Pre-tax profit	11,270	11,106
After-tax profit	8,798	8,724

Disclosure Statement Available to The Public

To comply with the Banking (Disclosure) Rules, the disclosure statement is available under the "Regulatory Disclosures" Section on the Head Office's website www.scoliabank.com/global/en/country/hong-kong.html

The Bank of Nova Scotia, Hong Kong Branch



Tandy Li
Alternate Chief Executive

January 31, 2020

Note: In the event of any difference in interpretation or meaning between the Chinese and English version of this Statement, the English version shall prevail.