Scotiabank & Trust (Cayman) Ltd
Basel Pillar 3 Disclosure
Q2 2024
For the period ended: April 30, 2024

Scotiabank®

Table of Contents

General Overview

This disclosure is a requirement of the Cayman Islands Monetary Authority's (CIMA) Pillar 3 Disclosure Requirements Rules and Guidelines (September 2021). The aim of the Pillar 3 Disclosures is to promote market discipline and increase transparency across the banking industry.

This publication presents our Q2/2024 disclosures based on our Consolidated Financial Statements and Basel Pillar II Regulatory Return for the same period. Our disclosures have been reviewed and approved by the Board of Directors of Scotiabank & Trust (Cayman) Ltd. This document is not audited.

Scotiabank & Trust (Cayman) Ltd ("STCL" or "the Bank") was incorporated under the Companies Act of the Cayman Islands on 26 August 1965, under the name of Bank of Nova Scotia Trust Company (Cayman) Limited ("Scotia Trust"). STCL was granted Unrestricted Category 'A' Banking and Trust Licenses on 11 November 1966 pursuant to the Cayman Islands' Banks and Trust Companies Act. The ultimate parent is The Group of Nova Scotia ("BNS"), a company incorporated in Canada. STCL registered office and principal place of business is 2nd Floor, 18 Forum Lane, Camana Bay, P.O. Box 501, Grand Cayman, KY1-1106, Cayman Islands. Our business activities consist of the provision of commercial and retail banking services, including the acceptance of deposits, granting of loans and the provision of foreign exchange services within the Cayman Islands, and private banking and trust, corporate, administrative, and financial services.

Part 1 – OV1 – Overview of Risk Weighted Assets

The primary goals of risk management are to ensure that the outcomes of risk-taking activities are consistent with the Bank's strategies and risk appetite, and that there is an appropriate balance between risk and reward to maximize shareholder value. As a credit providing institution, the bank ensures that it is adequately capitalised relative to exposure measured by its risk weighted assets (RWA). Scotiabank &Trust Cayman Limited has a target capital ratio of 15% which is three hundred (300) basis points more than regulatory capital requirements of 12%.

The following table analyses the minimum capital requirement as of 30 April 2024:

OV1: Overview of RWA

		a	b	c
		RWA		Minimum capital requirements [(1)]
	USD (in $000)	Q2 2024	Q1 2024	Q2 2024
1	Credit risk (excluding counterparty credit risk)	**1,322,451**	**1,383,683**	**158,694**
2	Securitisation exposures			
3	Counterparty credit risk (CCR)			
4	Of which: Current Exposure method	-	-	
5	Of which: Standardized method			
6	Market risk	218,741	136,864	26,249
7	Of which: Equity Risk			
8	Operational Risk	313,079	313,079	37,569
9	Of which: Basic Indicator Approach	313,079	313,079	31,950
10	Of which: Standardized Approach			
11	Of which: Alternative Standardized approach			
12	**Total (1 + 2+3+6+8)**	**1,854,271**	**1,833,625**	**222,512**

Total RWA increased by $20.6 million (1.1%) compared to the prior quarter, driven mainly by higher market risk, owing to an increase in foreign exchange positions; and offset with a decrease in credit risk of $61 million, owing to loan repayments.

Part 2 - CAP – Details on the bank's capital, including specific capital instruments

STCL is committed to maintaining a solid capital base to support the risks associated with its diversified businesses. A key strength of the Bank is its capital management practices which assures the safety of our customers particularly during times of stress, while allowing the Bank to take advantage of growth opportunities as they arise. We are committed to the prevention of any breach to its regulatory minimum capital requirements and to maintain a solid capital base to support the risks associated with its diverse business.

The Bank continues to have a robust total capital ratio of 51% at the close of the second quarter of fiscal 2024. Compared to the prior reporting period the ratio increased by 2% owing to the increase in available capital.

The following table defines the regulatory capital requirement as of 30 April 2024:

CAP: Details on the bank's capital, including specific capital instruments			
		a	b
	USD (in $'000)	Q2 2024	Q4 2023
Table 1: Scope			
(a)	**Scotiabank and Trust Cayman Limited**		
(b)	For accounting and regulatory purposes, the business units within the bank are consolidated at 100%. The group comprises of an unrestricted license for Banking, Trust Services and a financial instrument business license operating in Japan through our subsidiary Scotia Securities Asia Limited. Under the group banking license, we offer Mutual Fund Administration and Insurances Broker Services and our banking services have been extended to serve customers in Latin America through our Offshore Business Unit.		
(c)	The bank does not currently have any restrictions or impediments on transfer of funds within the group.		
(d)	The insurance agency business is not a subsidiary and as such no separately identifiable share capital.		
Table 2: Capital Structure			
(a)	**The capital structure comprise solely of ordinary shares with a par value of US$1.00 each and retained earnings.**		
	The amount of Tier 1 capital, with specific disclosure of:	850,631	852,123
	Paid-up Share Capital/Common Stock	203,640	203,640
	Reserves and Retained Earnings	646,991	648,483
	Minority interests in the equity of subsidiaries		
	Qualifying innovative instruments		
(b)	Other capital instruments		
	Surplus capital from insurance companies		
	Regulatory calculation differences deducted from Tier 1 capital		
	Other amounts deducted from Tier 1 capital, including goodwill		
	Investments		
(c)	The total amount of Tier 2 and Tier 3 capital	90,643	-
(d)	Other deductions from capital		
(e)	Total eligible capital	941,273	852,123
Table 3: Capital Adequacy			
(a)	The bank has implemented a comprehensive capital management framework which aims to ensure that the bank's capital is adequate to meet current and future risks and achieve its strategic objectives. The key components include sound corporate governance; creating a comprehensive risk appetite for the bank; managing and monitoring capital, both currently and prospectively.		
	Capital requirements for Credit Risk	158,694	167,062
	Portfolios subject to standardised or simplified standardised approach, disclosed separately for each portfolio; and	1,322,451	1,392,180
	Securitisation exposures.		
(b)	Capital requirements for Market Risk	26,249	10,980
	Standardised Approach	218,741	91,501
(c)	Capital requirements for Operational Risk	37,569	31,950
	Basic Indicator Approach	313,079	266,251
	Standardised Approach		
	Alternative Standardised Approach		
(d)	Total and Tier 1 capital ratio	45.87%	48.69%
	For the top Consolidated group	50.76%	48.69%
	For significant bank subsidiaries (stand alone or sub-consolidated).		

Part 3 – Leverage

The leverage ratio is a non-risk measure that supplements the STCL's risk based minimum capital requirement. This ratio measures the amount of core capital the Bank has, compared to its total assets and is used as an indicator of STCL's ability to effectively respond to economic stress. CIMA's Leverage Ratio, *Rules and Guidelines* (December 2019), provides that a bank must always maintain a minimum leverage ratio of 3%. The Pillar 3 Disclosures measure for leverage is comprised of the LR1 and LR2 schedules detailed below:

3.1 – LR1: Summary comparison of accounting assets vs leverage ratio exposure measure

The following table analyses the carrying values of regulatory and financial accounting disclosures as of 30 April 2024:

LR1: Summary comparison of accounting assets vs leverage ratio exposure measure		
	USD (in $'000)	Q2 2024
1	Total consolidated assets as per published financial statements	3,487,820
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	
3	Adjustment for securitized exposures that meet the operational requirements for the recognition of risk transference	
4	Adjustments for temporary exemption of central bank reserves (if applicable)	
5	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	
6	Adjustments for regular way purchases and sales of financial assets subject to trade date accounting	
7	Adjustments for eligible cash pooling transactions	
8	Adjustments for derivative financial instruments	
9	Adjustment for securities financing transactions (i.e. repurchase agreements and similar secured lending)	
10	Adjustment for off balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	56,119
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	
12	Other adjustments	
13	**Leverage ratio exposure measure**	**3,543,939**

3.2 – LR2: Leverage Ratio Common Disclosure

The Bank's leverage ratio for Q2 2024 was 24%, representing a 21% buffer above the regulator minimum requirement of 3%.

LR2: Leverage ratio common disclosure		
	USD (in $'000)	a Q2 2024
On-balance sheet exposures		
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	3,487,820
2	Gross up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	
5	(Specific and general provisions associated with on balance sheet exposures that are deducted from Basel III Tier 1 capital)	
6	(Asset amounts deducted in determining Basel III Tier 1 capital and regulatory adjustments)	
7	**Total on balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)**	**3,487,820**
Derivative exposures		
8	Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	
9	Add-on amounts for PFE associated with *all* derivatives transactions	
10	(Exempted CCP leg of client-cleared trade exposures)	
11	Adjusted effective notional amount of written credit derivatives	
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	
13	**Total derivative exposures (sum of rows 8 to 12)**	
Securities financing transaction exposures		
14	Gross SFT assets (with no recognition of netting), after adjustment for sale accounting transactions	
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	
16	Counterparty credit risk exposure for SFT assets	
17	Agent transaction exposures	
18	**Total securities financing transaction exposures (sum of rows 14 to 17)**	
Other off-balance sheet exposures		
19	Off-balance balance sheet exposure at gross notional amount	163,804
20	(Adjustments for conversion to credit equivalent amounts)	(107,685)
21	(Specific and general provisions associated with off balance sheet exposures deducted in determining Tier 1 capital)	
22	**Off-balance sheet items (sum of rows 19 to 21)**	**56,119**
Capital and total exposures		
23	**Tier 1 capital**	**850,631**
24	**Total exposures (sum of rows 7,13,18 and 22)**	**3,543,939**
Leverage ratio		24.00%
25	**Basel III leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	24.00%
25a	Basel III leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	
26	**National minimum leverage ratio requirement**	3.00%
27	**Applicable leverage buffers**	**21.00%**

Part 4 – Liquidity

4.1 – LIQ1: Liquidity Coverage Ratio (LCR)

The liquidity coverage ratio aims to ensure that a bank has an adequate stock of unencumbered high quality liquid assets (HQLA) that can be converted into cash at little or no loss of value, to meet its liquidity needs for a 30-calendar day liquidity stress scenario. The Liquidity Risk Management Rules and Guidelines (February 2022) provides that the Bank should not have a ratio that is less than 100%. STCL ensures that there is adequate monitoring of our HQLA to maintain our liquidity. The Bank's HQLA comprises largely of marketable securities issued by highly rated sovereign.

The following table analyses the LCR as of 30 April 2024, using monthly averages:

LIQ1: Liquidity Coverage Ratio (LCR)					
USD (in $'000)		Q2 2024		Q1 2024	
		Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets					
1	Total HQLA		173,496		154,980
Cash Outflows					
2	**Retail deposits and deposits from small business customers, of which:**	2,624,466	27,495	2,410,595	28,238
3	- of which stable deposits	-	-	-	-
4	- of which less stable deposits	2,624,466	27,495	2,410,595	28,238
5	**Unsecured wholesale funding:**	2,326,489	430,738	2,109,602	463,307
6	- of which operational deposits (all counterparties) and deposits in networks of cooperative banks	2,274,722	378,971	2,055,221	408,926
7	- of which non-operational deposits (all counterparties)	51,767	73,005	54,381	54,381
8	- of which unsecured debt	-	-	-	-
9	Secured wholesale funding	-	-	-	-
10	**Additional requirements:**	60,797	6,080	117,933	11,793
11	- of which outflows related to derivative exposures and other collateral requirements	-	-	-	-
12	- of which outflows related to loss of funding on debt products	-	-	-	-
13	- of which credit and liquidity facilities	60,797	6,080	117,933	11,793
14	Other contractual funding obligations	6,917	-	8,094	-
15	Other contingent funding obligations	194,604	38,489	197,393	42,608
16	**TOTAL CASH OUTFLOWS**		502,763		545,947
Cash Inflows					
17	Secured lending (e.g. reverse repos)				
18	Inflows from fully performing exposures	2,327,229	1,459,430	2,378,399	1,452,894
19	Other cash flows				
20	**TOTAL CASH INFLOWS**	**2,327,229**	**1,459,430**	**2,378,399**	**1,452,894**
			Total adjusted value		**Total adjusted value**
21	**TOTAL HQLA**		**173,496**		**154,980**
22	**Total net cash outflows**		**125,691**		**136,487**
23	**Liquidity Coverage Ratio (%)**		138%		114%

The LCR increased due to an increase in HQLA compared to last quarter, owing to the delay in the timing of renewals of investments last quarter, as well as a decrease in weighted value of outflows.

4.2 – LIQ2: Net Stable Funding Ratios (NSFR)

The following tables analyses the NSFR as of 30 April 2024:

LIQ2: Net Stable Funding Ratio ("NSFR")						
		Q2 2024				
		a	b	c	d	e
		Unweighted value by residual maturity				
USD (in $'000)		No maturity	< 6 months	6 months to <1 year	1 year	Weighted value
Available Stable Funding (ASF) item						
1	**Capital:**				**941,273**	**941,273**
2	Regulatory capital				941,273	941,273
3	Other capital instruments					
4	**Retail deposits and deposits from small business customers:**		**289,280**	**6,182**	**4,901**	**270,817**
5	Stable deposits					
6	Less stable deposits		289,280	6,182	4,901	270,817
7	**Wholesale funding:**		**1,519,996**	**152,675**	**533,738**	**1,370,074**
8	Operational deposits		1,519,996	152,675	533,738	1,370,074
9	Other wholesale funding					
10	Liabilities with matching interdependent asstes					
11	**Other Liabilities:**					
12	NSFR derivative liabilities					
13	All other liabilities and equity not included in the above categories					
14	**Total ASF**		1,809,276	158,857	1,479,912	2,582,164
Required Stable Funding (RSF) item						
15	**Total NSFR high-quality liquid assets (HQLA)**		**153,403**	**13,853**	**14,873**	**8,593**
16	Deposits held at other financial institutions for operational purposes					
17	**Performing loans and securities:**		**1,911,671**	**240,809**	**583,263**	**868,830**
18	Performing loans to financial institutions secured by Level 1 HQLA		1,791,811	146,390	56,127	398,093
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions					
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:		112,990	86,057	104,798	188,601
21	With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk		66,274	86,057		76,165
22	Performing residential mortgages, of which:		6,870	8,362	422,338	282,136
23	*With a risk weight of less than or equal to 35% under the Basel II standardised*		*6,870*	*8,362*	*422,338*	*282,136*
24	*Securities that are not in default and do not qualify as HQLA, including exchange-*					
25	Assets with matching interdependent liabilities					
26	**Other Assets:**					
27	Physical traded commodities, including gold					
28	Assets posted as initial margin for derivative contracts and contributions to default					
29	NSFR derivative assets					
30	NSFR derivative liabilities before deduction of variation margin posted					
31	All other assets not included in the above categories					
32	**Off-balance sheet items**		**282,988**			**169,762**
33	**Total RSF**		2,348,062	254,662	598,136	1,047,187
34	**Net Stable Funding Ratio (%)**					247%

STCL continues to maintain a solid NSFR ratio of over +200%, well above the regulatory requirement of 100%.

Part 5 – Credit Risk

Credit Risk is the risk of financial loss resulting from the failure of a borrower or counterparty, for any reason, to fully honour its financial or contractual obligations to STCL. Credit risk arises in the Bank's direct lending operations, and in its funding, investment, and trading activities where counterparties have repayment or other obligations to the Bank. The extension of credit is a significant contributor to revenue generation. Extending credit creates credit risk that must be effectively managed to preserve value creation. Effective credit risk management must not only consider whether the return is commensurate with the risk but must also consider the STCL's tolerance for risk, and its ability to absorb losses in terms of both earnings and capital.

The Bank's risk management framework includes the Bank's risk policies, guidelines and processes that articulate the Bank's governance, risk management and control structure. This framework ensures that the Bank's risk exposures are adequately assessed, properly approved, and actively managed in a consistent manner across all business lines. The Credit Risk Policy ("the Policy") documented herein is aligned with BNS Canada's - BNS Enterprise-Wide Risk Management Framework and outlines to the Board of Directors (the "Board") the policies and procedures that are to be utilized by STCL to manage credit risk in a sound and prudent manner.

5.1 – CR1: Credit Quality of Asset

The following table analyses the credit quality of exposures as of 30 April 2024:

CR1: Credit quality of assets

USD (in $000)		a	b	c	d
		Gross carrying values of		Allowances/ impairments	Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		
Q2 2024					
1	Loans	9,301	740,315	7,102	742,514
2	Sovereigns Debt (T-Bill)		171,861		171,861
3	Debt Securities		692,566		692,566
4	Off-balance sheet exposures		163,804	-	163,804
5	**Total**	**9,301**	**1,768,545**	**7,102**	**1,770,744**

The Bank continues to remain prudent with its credit risk practices resulting in a relatively low delinquency. At the end of the second quarter, our default exposure accounted for les than 1% of total gross exposure.

5.2 – CR2: Changes in Stock of Defaulted Loans and Debt Securities

The following table analyses the movement in impaired exposures on a semi-annual basis:

CR2: Changes in stock of defaulted loans and debt securities			
		Q2 2024	Q4 2023
1	**Defaulted loans and debt securities at end of the previous reporting period [(1)]**	**9,622**	**9,470**
2	Loans and debt securities that have defaulted since the last reporting period	1,960	2,725
3	Returned to non-defaulted status	1,151	1,525
4	Amounts written off	717	90
5	Other changes	413	958
6	**Defaulted loans and debt securities at the end of the reporting period (1+2-3-4+/-5)**	**9,301**	**9,622**

The reduction in defaulted of -3% compared to the end of fiscal 2023, is largely due to improvements in credit quality of the portfolio.

5.3 – CR3: Credit Risk Mitigation Techniques

The following table analyses exposure by collateral as of 30 April 2024:

CR3: Credit risk mitigation techniques – overview								
		a	b	c	d	e	f	g
USD (in $000)		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral, of which : secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees; of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
Q2 2024								
1	Loans	70,008	672,506	672,506				
2	Sovereigns Debt (T-Bill)	-	171,861	171,861	171,861	171,861		
3	Debt Securities	692,566	-	-				
4	**Total**	**762,574**	**844,367**	**844,367**	**171,861**	**171,861**	**-**	**-**
5	Of which defaulted	52	7,168					

5.4 – CR4: Standardized Approach – Credit Risk Exposure and Credit Risk Mitigation (CRM) Effects

The following tables analyse the RWA by density and asset class as of 30 April 2024:

CR4: Standardized approach – credit risk exposures and Credit Risk Mitigation (CRM) effects

		a	b	c	d	e	f
USD (in $000)		Exposures before CCF and CRM		Exposures post-CCF and CRM [1]		RWA and RWA density	
Asset classes		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
Q2 2024							
1	Sovereigns and their central banks	171,861				-	
2	Non-central government public sector entities					-	
3	Multilateral development banks						
4	Banks	2,494,536		2,494,474		706,831	28%
5	Securities firms						
6	Corporates	245,392	163,804	243,975	56,119	266,878	89%
7	Regulatory retail portfolios	56,808		54,825		54,825	100%
8	Secured by residential property	437,571		437,571		218,785	50%
9	Secured by commercial real estate						
10	Past-due exposures	9,291		5,588		5,876	105%
11	Higher-risk categories						
12	Other Assets	69,255		69,255		69,255	100%
13	**Total**	**3,484,714**	**163,804**	**3,305,689**	**56,119**	**1,322,451**	

5.5 – CR5: Standardized Approach – Exposure by Asset Class and Risk Weight

The following tables analyse the asset exposure by class and risk weighting as of 30 April 2024:

CR5: Standardized approach – exposures by asset classes and risk weights

		a	b	c	d	e	f	g	h	i	j
USD (in $000)	Risk weight / Asset classes	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post-CCF and post-CRM) [1]
Q2 2024											
1	Sovereigns and their central banks	171,861									171,861
2	Non-central government public sector entities										
3	Multilateral development banks										
4	Banks			1,930,968		563,568					2,494,536
5	Securities firms										-
6	Corporates							245,392			245,392
7	Regulatory retail portfolios							56,808			56,808
8	Secured by residential property					437,571					437,571
9	Secured by commercial real estate										-
10	Past-due exposures								9,291		9,291
11	Higher-risk categories										-
12	Other Assets							69,255			69,255
13	**Total**	**171,861**	**-**	**1,930,968**	**-**	**1,001,139**	**-**	**371,455**	**9,291**	**-**	**3,484,714**

Part 6 – MR1: Market Risk Under the Standardized Approach

Market risk is the risk of loss arising from movements in market prices. For STCL, the key components of this type of risk include foreign exchange risk and interest rate risk.

The following table analyses Market Risk as of 30 April 2024:

MR1: Market risk under the standardised approach

	USD (in $'000)	Q2 2024 RWA	Q4 2023 RWA	Q2 2023 RWA
	Outright Products			
1	Interest Rate Risk (General and Specific)			
2	Equity Rate Risk (General and Specific)			
3	Foreign Exchange Risk	218,740	91,501	207,540
4	Commodity Risk			
	Options			
5	Simplified Approach			
6	Delta-Plus Method			
7	Scenario Approach			
8	Securitisation			
9	**Total**	**218,740**	**91,501**	**207,540**