



Scotiabank & Trust (Cayman) Ltd
Basel Pillar 3 Disclosure
Q2 2023
For the period ended: April 30, 2023

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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 Q2/2023 disclosures based on Scotiabank & Trust (Cayman) Ltd's. (STCL or the "Bank") Consolidated Financial Statements and Basel Pillar II Regulatory Return for the same period. The 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. The Bank's 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 2023:

OV1: Overview of RWA				
USD (in \$'000)		a	b	c
		RWA		Minimum capital requirements ⁽¹⁾
		Q2 2023	Q1 2023	Q2 2023
1	Credit risk (excluding counterparty credit risk)	1,328,372	1,311,470	159,405
2	Securitisation exposures			
3	Counterparty credit risk (CCR)			
4	Of which: Current Exposure method	-	-	
5	Of which: Standardized method			
6	Market risk	207,541	150,453	24,905
7	Of which: Equity Risk			
8	Operational Risk	266,251	266,251	31,950
9	Of which: Basic Indicator Approach	266,251	266,251	
10	Of which: Standardized Approach			
11	Of which: Alternative Standardized approach			
12	Total (1 + 2+3+6+8)	1,802,164	1,728,174	216,260

(1) Minimum capital requirement: Pillar 1 capital requirements are RWA * 12%.

Total RWA increased by \$73.9 million (4%) compared to the prior quarter, driven mainly by higher market risk, owing to an increase in foreign exchange positions; credit risk also increased by \$16.9 million and was directly related to new loan originations.

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. STCL is 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 strong total capital ratio of 42% at the close of the second quarter of fiscal 2023. Compared to prior quarter the ratio remained flat owing to second quarter earnings being offset with increased market risk capital requirements.

The following table defines the regulatory capital requirement as of 30 April 2023:


CAP: Details on the bank's capital, including specific capital instruments			
USD (in \$'000)		a	a
		Q2 2023	Q1 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:	677,642	676,711
	Paid-up Share Capital/Common Stock	203,640	203,640
	Reserves	474,002	473,071
	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	87,218	46,707
(d)	Other deductions from capital		
(e)	Total eligible capital	764,860	723,418
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	159,405	157,376
	Portfolios subject to standardised or simplified standardised approach, disclosed separately for each portfolio and Securitisation exposures.	1,328,372	1,311,470
(b)	Capital requirements for Market Risk	24,905	18,054
	Standardised Approach	207,540	150,453
(c)	Capital requirements for Operational Risk	31,950	31,950
	Basic Indicator Approach	266,251	266,251
	Standardised Approach		
	Alternative Standardised Approach		
(d)	Total and Tier 1 capital ratio	42%	42%
	For the top Consolidated group	42%	42%
	For significant bank subsidiaries (stand alone or sub-consolidated).		

Part 3 – Leverage

The leverage ratio is a non-risk measure that supplements STCL’s risk based minimum capital requirement. This ratio measures the amount of core capital the Bank has compared to its total assets, which 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 2023:

LR1: Summary comparison of accounting assets vs leverage ratio exposure measure			
USD (in \$'000)		Q2 2023	Q1 2023
1	Total consolidated assets as per published financial statements	3,534,146	3,564,172
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)	18,473	23,063
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-	-
12	Other adjustments	2,038	842
13	Leverage ratio exposure measure	3,554,657	3,588,077

The movement in the leverage ratio exposure measure is mainly due to lower off-balance sheet adjustments. Other adjustments mainly comprise cash fluctuations.

3.2 – LR2: Leverage Ratio Common Disclosure

The Bank's leverage ratio for Q2 2023 was 19%, representing a 16% buffer above the regulator minimum requirement of 3%. Comparatively, the leverage ratio decreased marginally by (-1%) relative to the prior quarter.

LR2: Leverage ratio common disclosure			
USD (in \$000)		a	a
		Q2 2023	Q1 2023
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	3,536,184	3,565,014
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		
5	(Specific and general provisions associated with on balance sheet exposures that are deducted from Basel		
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)	3,536,184	3,565,014
Derivative exposures			
8	Replacement cost associated with <i>all</i> derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)		
9	Add-on amounts for PFE associated with <i>all</i> 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	92,366	115,317
20	(Adjustments for conversion to credit equivalent amounts)	(73,893)	(92,254)
21	(Specific and general provisions associated with off balance sheet exposures deducted in determining Tier		
22	Off-balance sheet items (sum of rows 19 to 21)	18,473	23,063
Capital and total exposures			
23	Tier 1 capital	677,642	676,711
24	Total exposures (sum of rows 7,13,18 and 22)	3,554,657	3,588,077
Leverage ratio		19%	20%
25	Basel III leverage ratio (including the impact of any applicable temporary exemption of central bank	19%	20%
25a	Basel III leverage ratio (excluding the impact of any applicable temporary exemption of central bank		
26	National minimum leverage ratio requirement	3%	3%
27	Applicable leverage buffers	16%	17%

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 its liquidity. The Bank's HQLA comprises mainly of marketable securities issued by highly rated sovereign.

The following table analyses the LCR as of 30 April 2023, using monthly averages:

LIQ1: Liquidity Coverage Ratio (LCR)				
USD (in \$'000)	Q2 2023		Q1 2023	
	Total unweighted value	Total weighted value	Total unweighted value	Total weighted value
High-quality liquid assets				
1 Total HQLA	183,200	183,200	181,076	181,076
Cash Outflows				
2 Retail deposits and deposits from small business customers, of which:				
3 Stable deposits				
4 Less stable deposits	313,319	29,654	317,954	29,909
5 Unsecured wholesale funding, of which:				
6 Operational deposits (all counterparties) and deposits in networks of cooperative banks	1,846,591	389,562	1,694,059	387,892
7 Non-operational deposits (all counterparties)	102,075	102,075	108,972	108,972
8 Unsecured debt				
9 Secured wholesale funding				
10 Additional requirements, of which:				
11 Outflows related to derivative exposures and other collateral requirements	109,386	10,939	119,525	11,953
12 Outflows related to loss of funding on debt products				
13 Credit and liquidity facilities				
14 Other contractual funding obligations	47,284	41,657	44,043	41,345
15 Other contingent funding obligations	99,711	-	102,921	-
16 TOTAL CASH OUTFLOWS	2,416,291	573,886	2,387,474	580,071
Cash Inflows				
17 Secured lending (e.g. reverse repos)				
18 Inflows from fully performing exposures	2,115,603	1,374,156	2,115,603	1,293,242
19 Other cash flows				
20 TOTAL CASH INFLOWS	2,115,603	1,374,156	2,115,603	1,293,242
		Total adjusted value		Total adjusted value
21 TOTAL HQLA		183,200		181,076
22 Total net cash outflows		143,472		145,018
23 Liquidity Coverage Ratio (%)		128%		125%

The LCR increased by +3% due to a reduction of (-6%) in non-operational deposits offset with a marginal increase in HQLA of 1%.

4.2 – LIQ2: Net Stable Funding Ratios (NSFR)

The following tables analyses the NSFR as of 30 April 2023:

LIQ2: Net Stable Funding Ratio ("NSFR")					
USD (in \$'000)	Q2 2023				
	a	b	c	d	e
	Unweighted value by residual maturity				
	No maturity	< 6 months	6 months to <1 year	1 year	Weighted value
Available Stable Funding (ASF) item					
1 Capital:					
2 Regulatory capital				764,860	764,860
3 Other capital instruments					
4 Retail deposits and deposits from small business customers:					
5 Stable deposits					
6 Less stable deposits		294,855	3,737	63	268,795
7 Wholesale funding:					
8 Operational deposits		1,765,016	24,769	1,089	863,416
9 Other wholesale funding					
10 Liabilities with matching interdependent assets					
11 Other Liabilities:					
12 NSFR derivative liabilities					
13 All other liabilities and equity not included in the above categories					
14 Total ASF		2,059,871	28,506	766,012	1,897,071
Required Stable Funding (RSF) item					
15 Total NSFR high-quality liquid assets (HQLA)					
16 Deposits held at other financial institutions for operational purposes		1,861,332	-	-	278,600
17 Performing loans and securities:		-	-	-	-
18 Performing loans to financial institutions secured by Level 1 HQLA		58,618	84,564	28,727	8,595
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:		117,610	62,753	421,103	363,898
21 With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk		-	-	-	-
22 Performing residential mortgages, of which:		-	-	-	-
23 With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk		35,838	-	102,229	104,814
24 Securities that are not in default and do not qualify as HQLA, including exchange-traded equities		-	-	-	-
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 funds of CCPs		-	-	-	-
29 NSFR derivative assets		-	-	-	-
30 NSFR derivative liabilities before deduction of variation margin posted		-	-	-	-
31 All other assets not included in the above categories		136,865	-	-	6,843
32 Off-balance sheet items		92,267	-	-	92,267
33 Total RSF		2,302,530	147,317	552,059	855,017
34 Net Stable Funding Ratio (%)					222%

STCL continues to maintain a solid NSFR ratio of over +200%, well in excess of 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 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 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 2023:

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 2023					
1	Loans	9,470	739,647	6,915	742,202
2	Sovereigns Debt (T-Bill)		171,911	-	171,911
3	Debt Securities		685,394	66	685,328
4	Off-balance sheet exposures		92,366	-	92,366
5	Total	9,470	1,689,318	6,981	1,691,807

The Bank continues to remain prudent with its credit risk practices resulting in a relatively low delinquency. At the end of Q2/2023, our default exposure accounted for approximately 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			
USD (in \$000)		Q2 2023	Q4 2022
1	Defaulted loans and debt securities at end of the previous reporting period ⁽¹⁾	10,149	11,783
2	Loans and debt securities that have defaulted since the last reporting	2,715	1,358
3	Returned to non-defaulted status	572	1,199
4	Amounts written off	197	293
5	Other changes	2,625	1,500
6	Defaulted loans and debt securities at the end of the reporting period (1+2-3-4+/-5)	9,470	10,149

The reduction in defaulted of -7% compared to the end of fiscal 2022, 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 2023:

CR3: Credit risk mitigation techniques – Overview								
USD (in \$000)		a	b	c	d	e	f	g
		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 2023								
1	Loans	118,649	623,553	623,553				
2	Sovereigns Debt (T-Bill)			-	171,911	171,934		
3	Debt Securities		685,328	647,008				
4	Total	118,649	1,308,882	1,270,561	171,911	171,934	-	-
5	Of which defaulted	51	8,264					

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 2023:

CR4: Standardized Approach – credit risk exposures and credit risk mitigation (CRM) effects												
USD (in \$000)												
Asset classes	a		b		c		d		e		f	
	Exposures before CCF and CRM		Exposures post-CCF and CRM ⁽¹⁾		RWA and RWA density							
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density						
Q2 2023												
1	Sovereigns and their central banks	171,911		171,911		-	0%					
2	Non-central government public sector entities											
3	Multilateral development banks											
4	Banks	2,547,717		2,547,508		713,872	28%					
5	Securities firms											
6	Corporates	259,003	18,473	257,863	18,473	265,239	96%					
7	Regulatory retail portfolios	59,443		56,521		56,521	100%					
8	Secured by residential property	421,201		419,836		209,918	50%					
9	Secured by commercial real estate											
10	Past-due exposures	9,470		7,982		8,260	103%					
11	Higher-risk categories											
12	Other Assets	74,563		74,563		74,563	100%					
13	Total	3,543,308	18,473	3,536,184	18,473	1,328,373						

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 2023:

CR5: Standardized Approach – exposures by asset classes and risk weights											
USD (in \$000)											
Asset classes	Risk weight	a	b	c	d	e	f	g	h	i	j
		0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post-CCF and post-CRM)
Q2 2023											
1	Sovereigns and their central banks	171,911.00									171,911
2	Non-central government public sector entities										
3	Multilateral development banks										
4	Banks	6,242.00	1,855,872.00			685,394.00					2,547,508
5	Securities firms										-
6	Corporates			6,203.00	12,270.00			257,863.00			276,336
7	Regulatory retail portfolios							56,521.00			56,521
8	Secured by residential property					419,836.00					419,836
9	Secured by commercial real estate										-
10	Past-due exposures								7,982.00		7,982
11	Higher-risk categories										-
12	Other Assets							74,563.00			74,563
13	Total	178,153	-	1,862,075	12,270	1,105,230	-	388,947	7,982	-	3,554,657

Part 6 – MR1: Market Risk Under the Standardized Approach

Market risk is the risk of loss from changes in market prices and rates, the correlations among them, and their levels of volatility. 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 2023:

MR1: Market Risk Under the Standardized Approach 		
	Q2 2023	Q1 2023
USD (in \$'000)	RWA	RWA
Outright Products		
1 Interest Rate Risk (General	-	
2 Equity Rate Risk (General		
3 Foreign Exchange Risk	207,541	150,453
4 Commodity Risk		
Options		
5 Simplified Approach		
6 Delta-Plus Method		
7 Scenario Approach		
8 Securitisation		
9 Total	207,541	150,453