



Nizam Ali & Company

Chartered Accountants

**215 'C' Camp Street
North Cummingsburg
Georgetown**

Tel: (592)-227-8825
Tele/Fax: (592)-225-7085
E-mail: nizamali@gol.net.gy

AUDITORS' REPORT

To the Directors of The Bank of Nova Scotia - Guyana Branch

We have audited the accompanying financial statements of The Bank of Nova Scotia - Guyana Branch; which comprise of the statement of financial position as at October 31, 2015 and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

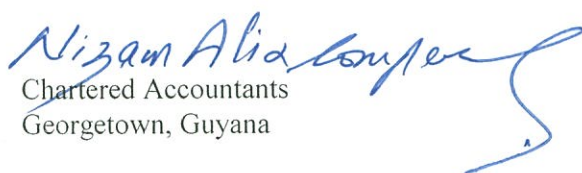
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

The financial statements comply with the requirements of the Financial Institutions Act 1995 and the Companies Act 1991.


Chartered Accountants
Georgetown, Guyana

January 29, 2016

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Statement of Financial Position

As at October 31, 2015

With comparative figures for October 31, 2014

(\$ thousands)

	Notes	<u>2015</u>	<u>2014</u>
ASSETS			
Cash on hand and in transit		721,946	616,785
Due from banks and related companies	4	11,640,872	11,659,453
Deposits with the Central Bank	5	6,266,205	6,301,787
Investment securities	6	6,646,534	6,212,722
Net loans to customers	7	41,716,973	40,252,058
Assets classified as held for sale	8	49,729	28,701
Property, plant and equipment	9	976,850	962,165
Deferred tax	13	115,483	161,239
Other assets	10	71,496	41,508
		<u>68,206,088</u>	<u>66,236,418</u>
LIABILITIES, ASSIGNED CAPITAL, RESERVES & HEAD OFFICE ACCOUNT			
LIABILITIES			
Deposits	11	53,773,010	53,786,910
Due to banks and related companies	12	333,008	407,554
Provision for taxation		365,341	275,305
Other liabilities		650,138	521,634
		<u>55,121,497</u>	<u>54,991,403</u>
ASSIGNED CAPITAL, RESERVES AND HEAD OFFICE ACCOUNT			
Assigned capital	14	251,327	251,327
Other capital	15	801,700	801,700
Statutory reserve	16	251,400	251,400
General banking risk reserve	2.7(iii)	-	29,748
Head office account		11,780,164	9,910,840
		<u>13,084,591</u>	<u>11,245,015</u>
		<u>68,206,088</u>	<u>66,236,418</u>

The accompanying notes form an integral part of these financial statements.

The financial statements have been approved for issue by the Country Manager on January 29, 2016 and signed accordingly:



RAYMOND SMITH

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Statement of Profit or Loss and Other Comprehensive Income

For the year ended October 31, 2015

With comparative figures for October 31, 2014

(\$ thousands)

	Notes	<u>2015</u>	<u>2014</u>
NET INTEREST AND OTHER INCOME			
Total interest income	17	4,598,092	4,614,622
Total interest expense	18	245,333	319,492
Net interest income		<u>4,352,759</u>	<u>4,295,130</u>
Other income	19	<u>2,377,860</u>	<u>1,910,447</u>
Net interest and other income		<u>6,730,619</u>	<u>6,205,577</u>
NON INTEREST EXPENSES			
Salaries and benefits		863,682	725,906
Premises and technology		657,501	651,442
Communication and marketing		241,965	245,350
Loan loss expense	7.4	446,934	275,644
Other	20	854,621	756,114
Total non-interest expense		<u>3,064,703</u>	<u>2,654,456</u>
INCOME BEFORE TAXATION		3,665,916	3,551,121
INCOME TAX EXPENSE	13	<u>(1,529,106)</u>	<u>(1,406,256)</u>
NET INCOME FOR THE YEAR		<u>2,136,810</u>	<u>2,144,865</u>
APPROPRIATIONS			
Head office		<u>2,136,810</u>	<u>2,144,865</u>

The accompanying notes form an integral part of these financial statements.

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Statement of Changes in Equity

For the year ended October 31, 2015

With comparative figures for October 31, 2014

(\$ thousands)

	Assigned Capital	Other Capital	Statutory Reserve	General Banking Risk Reserve	Head Office Account	Total Shareholders' Equity
Year ended October 31, 2015						
Balance as at October 31, 2014	251,327	801,700	251,400	29,748	9,910,840	11,245,015
Net income for the year	-	-	-	-	2,136,810	2,136,810
Withholding tax relating to prior year deemed profit transfer	-	-	-	-	(297,234)	(297,234)
Transfer to general banking risk reserve	-	-	-	(29,748)	29,748	-
Balance as at October 31, 2015	251,327	801,700	251,400	-	11,780,164	13,084,591
Year ended October 31, 2014						
Balance as at October 31, 2013	251,327	801,700	251,400	370,705	7,737,107	9,412,239
Net income for the year	-	-	-	-	2,144,865	2,144,865
Withholding tax relating to prior year deemed profit transfer	-	-	-	-	(312,089)	(312,089)
Transfer to general banking risk reserve	-	-	-	(340,957)	340,957	-
Balance as at October 31, 2014	251,327	801,700	251,400	29,748	9,910,840	11,245,015

The accompanying notes form an integral part of these financial statements.

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Statement of Cash Flows

For the year ended October 31, 2015

With comparative figures for October 31, 2014

(\$ thousands)

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before taxation	3,665,916	3,551,121
Adjustments to reconcile income before taxation to net cash from operating activities:-		
Interest income	(4,598,092)	(4,614,622)
Interest expense	245,333	319,492
Depreciation	137,169	134,356
Net gain on disposal of property, plant and equipment	(4,000)	-
Change in deposits with the Central Bank	35,582	(201,851)
Change in due to banks and related companies	(74,546)	(995,100)
Change in loans	(1,761,925)	(97,424)
Change in loan loss provision	307,897	6,573
Change in deposits	(14,827)	2,645,587
Change in other liabilities	128,504	106,039
Change in other assets	(51,016)	(22,929)
Interest received	4,556,626	4,642,375
Interest paid	(244,405)	(340,484)
Taxation paid	(1,393,315)	(1,892,155)
Net cash from operating activities	<u>934,901</u>	<u>3,240,978</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in investments	(403,233)	541,558
Proceeds from disposal of property, plant and equipment	4,000	-
Purchase of property, plant and equipment	(151,854)	(54,633)
Net cash used in investing activities	<u>(551,087)</u>	<u>486,925</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Remittances including withholding tax	(297,234)	(312,089)
Net cash used in financing activities	<u>(297,234)</u>	<u>(312,089)</u>
Increase in cash and cash equivalents	86,580	3,415,814
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>12,276,238</u>	<u>8,860,424</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>12,362,818</u>	<u>12,276,238</u>

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Statement of Cash Flows (continued)

For the year ended October 31, 2015

With comparative figures for October 31, 2014

(\$ thousands)

	<u>2015</u>	<u>2014</u>
CASH AND CASH EQUIVALENTS		
Represented by		
Cash on hand and in transit	721,946	616,785
Due from banks and related companies	<u>11,640,872</u>	<u>11,659,453</u>
Cash and cash equivalents	<u>12,362,818</u>	<u>12,276,238</u>

The accompanying notes form an integral part of these financial statements.

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to Financial Statements

October 31, 2015

(\$ thousands)

1. Incorporation and Business Activities

The Bank of Nova Scotia – Guyana Branch (The Bank) was registered on September 23, 1968 as a branch of The Bank of Nova Scotia (Scotiabank), which is incorporated in Canada. During 1997, the Bank of Nova Scotia – Guyana Branch obtained a Certificate of Continuance under the Companies Act of 1991.

The Bank offers a complete range of banking and financial services and operates under the provisions of the Financial Institutions Act 1995.

On September 14, 2005 the Bank was designated an approved mortgage finance company in accordance with Section 15 of the Income Tax Act.

2. Significant Accounting Policies

The significant accounting policies adopted in the preparation of these financial statements have been applied consistently to all periods presented in the financial statements and are set out below:

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and are presented in Guyana dollars, which is the functional currency, rounded to the nearest thousand.

The financial statements are prepared on the historical cost basis, modified for the inclusion of investments at fair value through profit or loss, available-for-sale investments at fair value and non-current assets classified as assets held for sale.

The preparation of these financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, contingent assets and contingent liabilities at the date of the financial statements and income and expenses during the year. Actual results could differ from estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to Financial Statements
October 31, 2015
(\$ thousands)

2. Significant Accounting Policies *(continued)*

2.2 Revenue recognition

2.2.1. Interest income

Interest income is accounted for on the accrual basis for investments and all loans other than non-accrual loans using the effective interest rate method. When a loan is classified as non-accrual, accrued but uncollected interest is reversed against income of the current period unless the loan, including accrued interest, is fully secured and in the process of collection. Thereafter, interest income is recognised only after the loan reverts to performing status. The Bank of Nova Scotia - Guyana Branch's calculation of the effective interest rate includes all material fees received, transaction costs, discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset.

2.2.2. Fees and commissions

Fees, commission income and expenses that are material to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commissions are recognised in income when a binding obligation has been established. Where such obligations are continuing, income is recognised over the duration of the facility.

2.3 Foreign currency translation

Transactions in foreign currencies are translated at the rate of exchange ruling at the transaction date. Foreign currency, monetary assets and liabilities are translated at the rate of exchange ruling at the statement of financial position date. Resulting translation differences and gains and losses from trading activities are included in the statement of profit or loss and other comprehensive income.

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to Financial Statements

October 31, 2015

(\$ thousands)

2. Significant Accounting Policies *(continued)*

2.4 Financial assets and liabilities

Financial instruments carried on the statement of financial position include cash resources, investment securities, net loans to customers, deposits, other liabilities and amounts due to banks and related companies. The standard treatment for recognition, derecognition, classification and measurement of The Bank of Nova Scotia - Guyana Branch's financial instruments are noted below in notes (i) – (iv).

(i) Recognition

The Bank of Nova Scotia – Guyana Branch initially recognises loans and advances and deposits on the date that they originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which The Bank of Nova Scotia - Guyana Branch becomes a party to the contractual provisions of the instrument.

(ii) Derecognition

The Bank of Nova Scotia- Guyana Branch derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by The Branch is recognised as a separate asset or liability.

The Bank of Nova Scotia- Guyana Branch derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to Financial Statements

October 31, 2015

(\$ thousands)

2. Significant Accounting Policies *(continued)*

2.4 Financial assets and liabilities *(continued)*

(iii) Classification

The Bank of Nova Scotia – Guyana Branch classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans and receivables, available-for-sale financial assets and held-to-maturity. Management determines the classification of its investments at initial recognition.

Financial assets at fair value through profit or loss

This category includes financial assets held-for-trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when The Bank of Nova Scotia – Guyana Branch provides money or services directly to a debtor with no intention of trading the receivable.

Available-for-sale financial asset

Available-for-sale investments are those intended to be held for an indefinite period of time, and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that The Bank of Nova Scotia – Guyana Branch's management has the positive intention and ability to hold to maturity. If the Bank was to sell other than an insignificant amount of held-to-maturity assets, the entire category would be compromised and reclassified as available-for-sale.

(iv) Measurement

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all financial assets at fair value through profit or loss and available-for-sale assets are measured at fair value, based on their quoted market price at the date of the statement of financial position without any deduction for transaction costs. Where the instrument is not actively traded or quoted on recognised exchanges, fair value is determined using discounted cash flow analysis.

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to Financial Statements
October 31, 2015
(*\$ thousands*)

2. Significant Accounting Policies (*continued*)

2.4 Financial assets and liabilities (*continued*)

(iv) Measurement (*continued*)

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the date of the statement of financial position for an instrument with similar terms and conditions.

Any available-for-sale asset that does not have a quoted market price in an active market and where fair value cannot be reliably measured, is stated at cost, including transaction costs, less impairment losses.

Gains and losses arising from the change in the fair value of available-for-sale investments subsequent to initial recognition are accounted for as changes in the investment revaluation reserve.

Gains and losses, both realised and unrealised, arising from the change in the financial assets at fair value through profit or loss are reported in other income.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised costs less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

2.5 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and in transit, deposits with banks and related companies and short-term highly liquid investments with maturities of three months or less when purchased. The carrying value approximates the fair value due to its highly liquid nature and the fact that it is readily converted to known amounts of cash at hand and is subject to insignificant risk of change in value.

2.6 Investment securities

Debt investments that The Bank of Nova Scotia - Guyana Branch has the intent and ability to hold to maturity are classified as held-to-maturity assets. All other investments are classified as available-for-sale.

On disposal or on maturity of an investment, the difference between the net proceeds and the carrying amount is included in the statement of profit or loss and other comprehensive income. When available-for-sale assets are sold, converted or otherwise disposed of, the cumulative gain or loss recognised in equity is transferred to the statement of profit or loss and other comprehensive income.

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to Financial Statements

October 31, 2015

(\$ thousands)

2. Significant Accounting Policies *(continued)*

2.7 Loans and advances

i) Classification

Loans and advances to customers comprise of loans and advances originated by the Bank and are classified as financial assets at amortised cost, net of allowances to reflect the estimated recoverable amounts.

A loan is classified as non-accrual when principal or interest is past due or when, in the opinion of management, there is reasonable doubt as to the ultimate collectibility of principal or interest. Non-accrual loans may revert to performing status when all payments become fully current or when management has determined there is no reasonable doubt of ultimate collectibility.

ii) Impairment assessment

The Bank considers a loan to be impaired when there is objective evidence of impairment as a result of one or more loss events that occurred after the date of initial recognition of the loan and the loss event has an impact on the estimated future cash flows of the loan that can be reliably estimated. Objective evidence is represented by observable data that comes to the attention of the Bank and includes events that indicate:

- Significant financial difficulty of the borrower;
- A default or delinquency in interest or principal payments;
- A high probability of the borrower entering a phase of bankruptcy or a financial reorganization;
- A measurable decrease in the estimated future cash flows from loan or the underlying assets that back the loan.

The Bank considers evidence of impairment for loans and advances at both an individual and collective level.

Individual impairment allowance

For all loans that are considered individually significant, the Bank assesses on a case-by-case basis at each reporting period whether an individual allowance for the loan is required.

For those loans where objective evidence of impairment exists and the Bank has determined the loan to be impaired, impairment losses are determined based on the Bank's aggregate exposure to the customer considering the following factors:

- The customer's ability to generate sufficient cash flow to service debt obligations;
- The extent of the other creditors' commitments ranking ahead of or *pari passu* with, the Bank and the likelihood of other creditors continuing to support the customer;
- The complexity of determining the aggregate amount and ranking of all creditor's claims and the extent to which legal and insurance uncertainties are evident; and
- The realizable value of security (or other credit mitigants) and likelihood of successful repossession.

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to Financial Statements
October 31, 2015
(\$ thousands)

2. Significant Accounting Policies *(continued)*

2.7 Loans and advances *(continued)*

ii) Impairment assessment *(continued)*

Collective impairment allowance

For loans that have not been individually assessed as being impaired, the Bank pools them into groups to assess them on a collective basis.

Retail loans represented by residential mortgages, credit cards and other personal loans are considered by the Bank to be homogenous groups of loans that are not considered individually significant. All homogeneous groups of loans are assessed for impairment on a collective basis.

A roll rate methodology is used to determine impairment losses on a collective basis for these loans because individual loan assessment is impracticable. Under this methodology, loans with similar credit characteristics are grouped into ranges according to the number of days past due and statistical analysis is used to estimate the likelihood that loans in each range will progress through the various stages of delinquency and ultimately prove irrecoverable. This methodology employs statistical analysis of historical data and experience of delinquency and default to estimate the amount of loans that will eventually be written off as a result of the events not identifiable on an individual loan basis. When the portfolio size is small or when information is insufficient or not reliable enough to adopt a roll rate methodology, the Bank adopts a basic formulaic approach based on historical loss rate experience.

The provision for the year, less recoveries of amounts previously written off and the reversal of provision no longer required, is disclosed in the statement of profit or loss and other comprehensive income as a provision for loan losses net of recoveries.

Loans are written off after all the necessary legal procedures have been completed and the amount of the loss is finally determined.

iii) General banking risk reserve

The Bank also carries out a detailed review of its loan portfolio twice yearly in accordance with the requirements of the Financial Institutions Act (FIA) 1995. The General Banking Risk Reserve is created as an appropriation of retained earnings for the difference between the specific provision as required per Supervision Guideline # 5 and the accounting provision in line with IFRS requirements.

2.8 Assets held for sale

A non-current asset is classified as held for sale when: its carrying amount will be recovered principally through a sale transaction, the asset is available for immediate sale in its present condition and its sale is highly probable. Assets classified as held for sale are not depreciated or amortised and are carried at the lower of carrying amount and fair value less cost to sell.

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to Financial Statements

October 31, 2015

(\$ thousands)

2. Significant Accounting Policies (continued)

2.9 Property, plant and equipment

i) Recognition and measurement

Premises and equipment are carried at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other cost directly attributable to bringing the asset to a working condition for its intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. The Bank of Nova Scotia – Guyana Branch has not incurred any significant expenditure on software

ii) Subsequent cost

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The cost of the day-to-day servicing of property, plant and equipment are recognised in the statement of profit or loss and other comprehensive income as incurred.

iii) Depreciation

Depreciation of property, plant and equipment excluding land, is provided for, over the estimated useful lives of the respective assets using the straight-line method.

The following annual depreciation rates are applicable for the respective asset categories:-

• Building	2.5%
• Leasehold improvements	20%
• Equipment, furniture and fixtures and computer equipment	10% - 20%
• Motor vehicles	20%
• Work in progress	Nil

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to Financial Statements
October 31, 2015
(\$ thousands)

2. Significant Accounting Policies (*continued*)

2.10 Taxation

Income tax expense comprises current tax and the change in deferred tax. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rate enacted at the reporting date and any adjustment of tax payable for previous years.

Deferred tax is provided using the balance sheet method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities which affect neither accounting nor taxable income (loss). Net deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is calculated on the basis of the tax rate that is expected to apply to the period when the asset is realised or the liability is settled. The effect on deferred tax of any changes in the tax rate is charged to the statement of profit or loss and other comprehensive income, except to the extent that it relates to items previously charged or credited directly to equity.

2.11 Employee benefits

Employee benefits are all forms of consideration given by The Bank of Nova Scotia – Guyana Branch in exchange for service rendered by employees. These include current or short-term benefits such as salaries, bonuses, NIS contributions, annual leave, and non-monetary benefits such as medical care and loans, post-employment benefits such as pensions and other long-term employee benefits such as termination benefits.

Employee benefits that are earned as a result of past or current service are recognised in the following manner: short-term employee benefits are recognised as a liability, net of payments made and charged as an expense.

All regular full-time employees become members of the Scotiabank Pension Plan after twenty four (24) months of continuous service with the Bank. The plan is being administered by Head Office. Normal retirement age is sixty five (65) years and membership of the plan is non-contributory.

The Bank is not exposed to any obligation, since such obligation will be met by its Head Office.

2.12 Leases

Lease arrangements in which a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases are charged to the statement of profit or loss and other comprehensive income on a straight line basis over the period of the lease. All leasing arrangements to which the Bank is a party are considered as operating lease.

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to Financial Statements

October 31, 2015

(\$ thousands)

2. Significant Accounting Policies *(continued)*

2.13 Segment reporting

An operating segment is a distinguishable component of the Bank that is engaged in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components, whose results are reviewed regularly by management to make decisions about resource allocation to each segment and assess its performance, and for which discrete financial information is available.

2.14 Acceptances, guarantees and letters of credit

The Bank of Nova Scotia – Guyana Branch's commitments under acceptances, guarantees and letters of credit have been excluded from these financial statements because they do not meet the criteria for recognition. These commitments as at October 31, 2015 total \$2,139 million (2014 - \$1,212 million). In the event of a call on these commitments, the Bank has equal and offsetting claims against its customers.

2.15 Deposit liabilities

The estimated fair values of deposit liabilities are assumed to be equal to their carrying values, since the rates are not materially different from current market rates and discounting the contractual cash flows would approximate the carrying values.

2.16 Impairment

The carrying amounts of The Bank of Nova Scotia – Guyana Branch's assets are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of profit or loss and other comprehensive income.

The recoverable amount of all other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to Financial Statements

October 31, 2015

(\$ thousands)

2. Significant Accounting Policies *(continued)*

2.16 Impairment, continued

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.17 Comparative information

Where necessary, comparatives have been adjusted to conform with changes in presentation in the current year.

2.18 New standards, amendments and interpretations adopted

Annual improvements to the IFRS's 2010 - 2012 cycle and annual improvements to the IFRS's 2011- 2013 cycle in accordance with the International Financial Reporting Standards which were adopted in the current financial year are; IFRS 8 *Operating segments*, IFRS 13 *Fair Value Measurement*, IAS 16 & IAS 38 *Property, Plant and Equipment & Intangible assets* and IAS 24 *Related party disclosure*.

In addition, amendments to: IAS 19 *Defined benefit plan: Employee contributions*, IAS 32 *Offsetting Financial Assets and Financial Liabilities* and IAS 36 *Impairment of assets* were adopted in the current financial year.

The adoption of these amendments did not have any material effect on the Bank's financial statements.

2.19 New standards, amendments and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after October 1, 2014, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements.

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to Financial Statements

October 31, 2015

(\$ thousands)

3. Use of Accounting Estimates and Judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, contingent assets and contingent liabilities at the date of the financial statements and income and expenses during the reporting period. Actual results could differ from these estimates.

Judgments made by management in the application of IFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year are discussed below:

(a) Allowances for credit losses

Loans accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 2.7.

The specific counter-party component of total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. A component of collectively assessed allowances is for country risks. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modeled and to determine the required input parameters based on historical experience and current economic conditions. The accuracy of the allowances depends on how well these estimated future cash flows for specific counter-party allowances and the model assumptions and parameters are used in determining collective allowances.

(b) Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 2.4(iv). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

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3. Use of Accounting Estimates and Judgments *(continued)*

(c) Financial asset and liability classification

The Bank of Nova Scotia – Guyana Branch’s accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances.

In classifying financial assets or liabilities as “fair value through profit or loss”, The Bank of Nova Scotia - Guyana Branch has determined that it meets the description of trading assets and liabilities set out in accounting policy 2.4(iii).

In designating financial assets or liabilities as available-for-sale, The Bank of Nova Scotia - Guyana Branch has determined that it has met one of the criteria for this designation set out in accounting policy 2.4(iii).

In classifying financial assets as held-to-maturity, The Bank of Nova Scotia - Guyana Branch has determined that it has both the positive intention and ability to hold the assets until maturity date as required by accounting policy 2.4(iii).

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4. Due from banks and related companies

Due from banks and related companies in the statement of financial position comprise the following amounts:

	<u>2015</u>	<u>2014</u>
Deposits with Central Bank other than statutory deposits	4,087,415	3,111,537
Deposits with head office	8,011,636	8,855,993
Deposits with other banks	(458,179)	(308,077)
	<u>11,640,872</u>	<u>11,659,453</u>

5. Deposits with the Central Bank

In accordance with the Financial Institutions Act 1995, The Bank of Nova Scotia – Guyana Branch is required to hold and maintain, as a non-interest bearing deposit with the Central Bank of Guyana, a cash reserve balance equivalent to 12% (2014 -12%) of total prescribed liabilities.

	<u>2015</u>	<u>2014</u>
Primary	<u>6,266,205</u>	<u>6,301,787</u>
	<u>6,266,205</u>	<u>6,301,787</u>

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6. Investment securities

	<u>2015</u>	<u>2014</u>
Available for sale		
GOG Treasury bills	6,597,872	6,194,639
Accrued interest	48,662	18,083
	<u>6,646,534</u>	<u>6,212,722</u>

7. Net loans to customers

7.1 Loans and advances

	<u>2015</u>	<u>2014</u>
Principal neither past due nor impaired	32,376,689	31,880,190
Principal which is past due but not impaired	6,889,949	6,379,792
Principal which is impaired	3,810,908	3,055,639
	<u>43,077,546</u>	<u>41,315,621</u>
Gross loans	43,077,546	41,315,621
Loan loss provision	(1,582,029)	(1,274,132)
	<u>41,495,517</u>	<u>40,041,489</u>
Total net of provision	41,495,517	40,041,489
Interest receivable	221,456	210,569
	<u>41,716,973</u>	<u>40,252,058</u>

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7. Net loans to customers *(continued)*

7.2 Loans past due but not impaired

	2015			Total
	Less than 30 days	30 – 60 days	61 – 89 days	
Loans and advances to customers				
Commercial loans	159,636	56,084	42,278	257,998
Retail loans	5,681,124	771,572	179,255	6,631,951
	5,840,760	827,656	221,533	6,889,949
	2014			Total
	Less than 30 days	30 – 60 days	61 – 89 days	
Loans and advances to customers				
Commercial loans	234,933	138,251	399,063	772,247
Retail loans	3,847,794	934,616	825,135	5,607,545
	4,082,727	1,072,867	1,224,198	6,379,792

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Notes to Financial Statements
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7. Net loans to customers *(continued)*

7.3 Analysis of movement of loan loss provision

	<u>2015</u>	<u>2014</u>
Balance, beginning of year		
Specific provision	1,233,132	1,226,559
General provision	41,000	41,000
	<u>1,274,132</u>	<u>1,267,559</u>
Additions/(deductions)		
Specific provision	561,572	709,863
General provision	-	-
Provisions no longer required	-	(334,385)
	<u>561,572</u>	<u>375,478</u>
Write-offs		
Specific provision	(253,675)	(368,905)
Balance, end of year		
Specific provision	1,541,029	1,233,132
General provision	41,000	41,000
	<u>1,582,029</u>	<u>1,274,132</u>

7.4 Loan loss expense

	<u>2015</u>	<u>2014</u>
Loan loss charge for the year	561,572	375,478
Recoveries	(114,638)	(99,834)
	<u>446,934</u>	<u>275,644</u>

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8. Assets classified as held for sale

This amount represents assets foreclosed that were previously held as security for loans and advances to customers and purchased by the Bank through public auction. The Bank is actively pursuing the sale of these assets.

9. Property, plant and equipment

	Land & Building	Leasehold Imp.	Furniture, Fittings & Equipment	Motor Vehicles	Work in progress	2015 Total	2014 Total
Cost							
At beginning of the year	602,213	253,184	1,316,365	24,949	1,633	2,198,344	2,143,711
Additions	-	-	-	-	151,854	151,854	54,633
Transfers	22,350	20,490	46,638	28,834	(118,312)	-	-
Disposals	-	-	-	(24,126)	-	(24,126)	-
At end of year	624,563	273,674	1,363,003	29,657	35,175	2,326,072	2,198,344
Accumulated Depreciation							
At beginning of the year	174,594	130,415	906,354	24,816	-	1,236,179	1,101,823
Charge for the year	13,583	34,239	87,853	1,494	-	137,169	134,356
Disposals	-	-	-	(24,126)	-	(24,126)	-
At end of year	188,177	164,654	994,207	2,184	-	1,349,222	1,236,179
Net book value	436,386	109,020	386,796	27,473	35,175	976,850	962,165

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10. Other assets

	<u>2015</u>	<u>2014</u>
Interest accrued	1,974	1,964
Recoverable charges	-	3,471
Others	69,522	36,073
	<u>71,496</u>	<u>41,508</u>

11. Deposits

	<u>2015</u>	<u>2014</u>
Demand	14,963,658	13,959,883
Savings	35,009,317	36,443,067
Term	3,747,184	3,332,037
	<u>53,720,159</u>	<u>53,734,987</u>
Accrued interest	52,851	51,923
	<u>53,773,010</u>	<u>53,786,910</u>

Sector analysis

Financial	1,403,432	1,752,194
Consumers	31,225,144	31,463,865
Private	19,169,811	18,552,449
State	1,974,624	2,018,402
	<u>53,773,011</u>	<u>53,786,910</u>

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12. Due to banks and related companies

	<u>2015</u>	<u>2014</u>
Due to related companies	(864)	(846)
Due to banks	333,872	408,400
	<u>333,008</u>	<u>407,554</u>

13. Taxation

The net deferred tax is attributable to the following items:-

	<u>2015</u>	<u>2014</u>
Property, plant and equipment	55,216	122,045
Post retirement benefit	60,267	39,194
	<u>115,483</u>	<u>161,239</u>

The taxation charge is made up of the following:-

	<u>2015</u>	<u>2014</u>
Corporation tax		
- Current year	1,527,970	1,514,118
- Prior year	(44,622)	112,230
Deferred tax	45,758	(220,092)
	<u>1,529,106</u>	<u>1,406,256</u>

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13. Taxation (continued)

The tax on operating profit differs from theoretical amount that would arise using the basic tax rate as follows:-

	<u>2015</u>	<u>2014</u>
Net income before taxation	3,665,916	3,551,121
Tax calculated at a rate of 40%	1,466,366	1,420,448
Income exempt from tax	(20,011)	(21,449)
Expenses not deductible for tax purposes	107,240	119,899
Pension liability	21,071	19,878
Difference in accounting depreciation vs. tax depreciation	(46,694)	(24,658)
Corporation tax		
- Current	1,527,972	1,514,118
- Deferred	45,756	112,230
Total Corporation tax- current year	1,573,728	1,626,348
Corporation tax		
- Prior year	(44,622)	(220,092)
	<u>1,529,106</u>	<u>1,406,256</u>

14. Assigned capital

In accordance with the Financial Institutions Act 1995, Section 7(2), a provision has been maintained as assigned capital.

15. Other capital

The account relates to capital fund provided by Head Office in addition to assigned capital.

16. Statutory reserve

This account represents amounts transferred from net profit after taxation in accordance with the provisions of the Financial Institutions Act 1995, Section 20(1).

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17. Total interest income

	<u>2015</u>	<u>2014</u>
Loans and receivables	4,429,491	4,492,659
Investment securities – available-for-sale	143,889	103,265
Others	24,712	18,698
	<u>4,598,092</u>	<u>4,614,622</u>

18. Total interest expense

	<u>2015</u>	<u>2014</u>
Savings deposits	201,671	268,671
Term deposits	43,662	50,821
	<u>245,333</u>	<u>319,492</u>

19. Other income

	<u>2015</u>	<u>2014</u>
Foreign exchange gains	1,200,426	942,202
Commissions	1,162,869	952,628
Others	14,565	15,617
	<u>2,377,860</u>	<u>1,910,447</u>

20. Other expenses

	<u>2015</u>	<u>2014</u>
Property taxes	116,893	119,243
Professional fees	41,970	25,133
Stationery	68,696	49,583
Outsourced services	430,198	373,359
Others	196,864	188,796
	<u>854,621</u>	<u>756,114</u>

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21. Commitments and contingent liabilities

In the normal course of business, various commitments and contingent liabilities are outstanding (see Note 2.14) which are not reflected in the financial statements. These include commitments to extend credit, which, in the opinion of management, do not represent unusual risk, and no material losses are anticipated as a result of these transactions.

As at October 31, 2015, there were certain legal proceedings against The Bank of Nova Scotia - Guyana Branch. Management does not believe that liabilities, if any, arising from pending litigation will have an adverse effect on the Bank's financial position.

The Bank's minimum commitment under the terms of various leases used primarily for banking purposes is:

	<u>2015</u>	<u>2014</u>
Rental due within one year	68,703	68,703
Rental due between one and five years	137,326	206,029
Rental due after five years	-	-
	<hr/>	<hr/>
	206,029	274,732

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22. Financial risk

The Bank of Nova Scotia – Guyana Branch has exposure to the following risks from its use of financial instruments:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk

This note presents information about the Bank's exposure to each of the above risk, objectives, policies and processes for measuring and managing risks, and the Bank of Nova Scotia- Guyana Branch's management of capital.

Risk management framework

Management has overall responsibility for the establishment and oversight of the Bank of Nova Scotia- Guyana Branch Risk Management Framework.

The Bank of Nova Scotia – Guyana Branch's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank of Nova Scotia- Guyana Branch through its training and management standards and procedures, aim to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

Monitoring and controlling risks are primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept.

22.1 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 Bank. Credit risk is created in The Bank of Nova Scotia - Guyana Branch's direct lending operations, and in its funding, investment and trading activities where counterparties have repayment, or other obligations to the Bank.

Credit risk is managed through strategies, policies and limits that are approved by management, which routinely reviews the quality of the major portfolios and all the larger credits.

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22. Financial risk *(continued)*

22.1 Credit risk *(continued)*

The Bank's credit policies and limits are structured to ensure broad diversification across various types of credits. Limits are set for individual borrowers, particular industries and certain types of lending. These various limits are determined by taking into account the relative risk of the borrower or industry.

The Bank of Nova Scotia – Guyana Branch's credit processes include:

- A centralised credit review system that is independent of the customer relationship function;
- Senior management which considers all major risk exposures; and
- An independent review by the Internal Audit Department.

Relationship managers develop and structure individual proposals at branches and commercial centres. Furthermore, they conduct a full financial review for each customer at least annually, so that the Bank remains fully aware of customers' risk profiles. The Credit Risk Management department analyses and adjudicates on commercial and corporate credits over a certain size and exceptions to established credit policies. In assessing credit proposals, the Bank of Nova Scotia – Guyana Branch is particularly sensitive to the risks posed to credit quality by environmental exposures.

Retail credits are normally authorised in branches within established criteria using a credit scoring system. The Credit Risk Management department adjudicates on those retail credits that do not conform to the established criteria. The retail portfolios are reviewed regularly for early signs of possible difficulties.

These credit scoring models are subject to ongoing review to assess their key parameters and to ensure that they are creating the desired business and risk results. Proposed changes to these models or their parameters require analysis and recommendation by the credit risk unit independent of the business line, and approval by the appropriate management credit committee.

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22. Financial risk (continued)

22.1 Credit risk (continued)

A centralised collection unit utilises an automated system for the follow-up and collection of delinquent accounts. All delinquent accounts are aggressively managed with greater emphasis being placed on the larger dollar accounts given that they represent a potential larger loss exposure to the Bank. The centralised collections unit is also responsible for the monitoring and trending of delinquency by branch, business lines and any other parameters deemed appropriate. Adverse trends, when identified, are analysed and the appropriate corrective action implemented. Maximum delinquency targets are set for each major product line and the collections unit works towards ensuring delinquency levels are below these targets.

The Bank's maximum exposure to credit risk before collateral held or credit enhancements is detailed below:-

	<u>2015</u>	<u>2014</u>
<u>Credit risk recognized on the statement of financial position</u>		
Due from banks and related companies	11,640,872	11,659,453
Deposits with Central Bank	6,266,205	6,301,787
Investment securities (excluding equities)		
- available-for-sale	6,646,534	6,212,722
Net loans to customers	41,716,973	40,252,058
	<u>66,270,584</u>	<u>64,426,020</u>
<u>Credit risk not recognized on the statement of financial position</u>		
Acceptances, guarantees and letters of credit	2,139,290	1,211,767
	<u>68,409,874</u>	<u>65,637,787</u>

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Notes to Financial Statements
 October 31, 2015
 (\$ thousands)

22. Financial risk (continued)

22.1 Credit risk (continued)

Credit quality by class of financial asset

	2015			Total
	Not Impaired	Impaired	Impairment provision	
As at October 31, 2015				
Due from banks and related companies	11,640,872	-	-	11,640,872
Deposits with Central Bank	6,266,205	-	-	6,266,205
	17,907,077	-	-	17,907,077
Investment securities				
<i>Classified as available for sale</i>				
Treasury bills	6,646,534	-	-	6,646,534
	6,646,534	-	-	6,646,534
Loans and advances				
Commercial	10,850,027	1,518,029	(354,402)	12,013,654
Mortgages	21,281,144	2,052,050	(1,050,645)	22,282,549
Others	7,356,923	240,829	(176,982)	7,420,770
	39,488,094	3,810,908	(1,582,029)	41,716,973
Total	64,041,705	3,810,908	(1,582,029)	66,270,584

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22. Financial risk (continued)

22.1 Credit risk (continued)

Credit quality by class of financial asset

	2014			Total
	Not Impaired	Impaired	Impairment provision	
As at October 31, 2014				
Due from banks and related companies	11,659,453	-	-	11,659,453
Deposits with Central Bank	6,301,787	-	-	6,301,787
	17,961,240	-	-	17,961,240
Investment securities				
<i>Classified as available for sale</i>				
Treasury bills	6,212,722	-	-	6,212,722
	6,212,722	-	-	6,212,722
Loans and advances				
Commercial	11,344,262	1,100,643	(198,108)	12,246,797
Mortgages	20,731,375	1,897,700	(922,178)	21,706,897
Others	6,279,632	172,577	(153,846)	6,298,363
	38,470,551	3,055,639	(1,274,132)	40,252,058
Total	62,644,513	3,055,639	(1,274,132)	64,426,020

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22. Financial risk (*continued*)

22.2 Market risk

Market risk refers to the risk of loss resulting from changes in market prices such as interest rates, foreign exchange market prices and other price risks.

The Bank of Nova Scotia – Guyana Branch measures and controls market risk primarily through the use of risk sensitivity analyses. This method of stress testing provides an indication of the potential size of losses that could arise in extreme conditions. These tests are conducted by the market risk function, the results of which are reviewed by senior management.

All market risk limits are reviewed at least annually. The key sources of the Bank's market risk are as follows:

22.2.1 Currency risk

The Bank of Nova Scotia – Guyana Branch has no significant foreign exchange exposure since assets are funded by liabilities in the same currency. Foreign currency transactions have not required the use of interest rate swaps and foreign currency options and other derivative instruments which all carry inherent risks. Currency exposure resides mainly in trading activities where the Bank buys and sells currencies in the spot and forward markets to assist customers in meeting their business needs. Trading portfolios are managed with the intent to buy and sell over short periods of time, rather than to hold positions for investment. Explicit limits are established by currency, position and term. Daily reports are independently reviewed for compliance.

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22. Financial risk (continued)

22.2 Market risk (continued)

22.2.1 Currency risk (continued)

The Bank of Nova Scotia – Guyana Branch has the following significant currency positions:-

	2015			
	GY	US	Others	Total
Assets				
Cash on hand and in transit	652,916	63,107	5,923	721,946
Due from banks and related companies	4,326,529	7,212,439	101,904	11,640,872
Deposits with Central Bank	6,266,205	-	-	6,266,205
Net loans to customers	41,702,989	13,984	-	41,716,973
Investment securities	6,646,534	-	-	6,646,534
Assets classified as held for sale	49,729	-	-	49,729
Property, plant and equipment	976,850	-	-	976,850
Deferred tax asset	115,483	-	-	115,483
Other assets	68,141	3,355	-	71,496
Total assets	60,805,376	7,292,885	107,827	68,206,088
Liabilities				
Deposits	48,771,171	4,973,339	28,500	53,773,010
Due to banks and related companies	269,479	(22)	63,551	333,008
Provision for taxation	365,341	-	-	365,341
Other liabilities	608,973	40,807	358	650,138
Total liabilities	50,014,964	5,014,124	92,409	55,121,497
Net financial position	10,790,412	2,278,761	15,418	13,084,591

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Notes to Financial Statements
 October 31, 2015
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22. Financial risk (continued)

22.2 Market risk (continued)

22.2.1 Currency risk (continued)

	2014			
	GY	US	Other	Total
Assets				
Cash on hand and in transit	547,701	63,463	5,621	616,785
Due from banks and related companies	3,239,373	8,243,813	176,267	11,659,453
Deposits with Central Bank	6,301,787	-	-	6,301,787
Net loans to customers	40,222,880	29,178	-	40,252,058
Investment securities	6,212,722	-	-	6,212,722
Assets classified as held for sale	28,701	-	-	28,701
Property, plant and equipment	962,165	-	-	962,165
Deferred tax assets	161,239	-	-	161,239
Other assets	36,109	5,399	-	41,508
Total assets	57,712,677	8,341,853	181,888	66,236,418
Liabilities				
Deposits				
Due to banks and related companies	46,713,587	7,008,039	65,284	53,786,910
Provision for taxation	330,212	936	76,406	407,554
Deferred tax liability	275,305	-	-	275,305
Other liabilities	518,040	3,275	319	521,634
Total liabilities	47,837,144	7,012,250	142,009	54,991,403
Net financial position	9,875,533	1,329,603	39,879	11,245,015

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22. Financial risk (continued)

22.2 Market risk (continued)

22.2.2 Equity price risk

Equity price risk is the risk that the fair value of equities decreases as a result of equity indices and/or the value of individual equities.

The effect on equity will arise from changes in stock prices from those stocks that are categorised as available-for-sale, whereas the impact on income will arise from those categorised as held for trading.

The Bank of Nova Scotia – Guyana Branch is exposed to an insignificant amount of equity price risk.

22.2.3 Interest rate risk

Interest rate risk arises when there is a mismatch between positions, which are subject to interest rate adjustment within a specific period. In the Bank's funding, lending and investment activities, fluctuations in interest rates are reflected in interest rate margins and consequently its earnings. A negative gap, which is not unusual, occurs when more liabilities than assets are subject to rate changes during a prescribed period of time. Interest rate risk is managed through the matching of funding products with financing services, regular review of structural gaps which may exist and monitoring market conditions through a centralised treasury operation.

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Notes to Financial Statements
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22. Financial risk (continued)

22.2 Market risk (continued)

22.2.3 Interest rate risk (continued)

Interest sensitivity of assets and liabilities

The following table summarises carrying amounts of assets, liabilities and equity on the statement of financial position, in order to arrive at the Bank of Nova Scotia – Guyana Branch's interest rate gap on the earlier of contractual repricing or maturity dates.

	2015					Total
	Due on demand	Due in one year	Due in two to five years	Over five years	Non -interest bearing	
Assets						
Cash on hand and in transit	-	-	-	-	721,946	721,946
Due from banks and related companies	7,553,457	-	-	-	4,087,415	11,640,872
Deposits with Central Bank	-	-	-	-	6,266,205	6,266,205
Net loans to Customers	6,319,602	11,527,032	8,552,209	13,054,044	2,264,086	41,716,973
Investment securities	-	6,646,534	-	-	-	6,646,534
Assets classified as held for sale	-	-	-	-	49,729	49,729
Property, plant and equipment	-	-	-	-	976,850	976,850
Deferred tax assets	-	-	-	-	115,483	115,483
Other assets	-	-	-	-	71,496	71,496
Total assets	13,873,059	18,173,566	8,552,209	13,054,044	14,553,210	68,206,088
Liabilities						
Deposits	35,044,232	2,555,712	1,209,408	-	14,963,658	53,773,010
Due to banks and related companies	-	-	-	-	333,008	333,008
Provision for taxation	-	-	-	-	365,341	365,341
Other liabilities	-	-	-	-	650,138	650,138
Assigned capital, reserves and head office account	-	-	-	-	13,084,591	13,084,591
Total liabilities	35,044,232	2,555,712	1,209,408	-	29,396,736	68,206,088
Net gap	(21,171,173)	15,617,854	7,342,801	13,054,044	(14,843,526)	-
Cumulative gap	(21,171,173)	(5,553,319)	1,789,482	14,843,526	-	-

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22. Financial risk (continued)

22.2 Market risk (continued)

22.2.3 Interest rate risk (continued)

	2014					Total
	Due on demand	Due in one year	Due in two to five years	Over five years	Non -interest bearing	
Assets						
Cash on hand and in transit	-	-	-	-	616,785	616,785
Due from banks and related companies	8,547,916	-	-	-	3,111,537	11,659,453
Deposits with Central Bank	-	-	-	-	6,301,787	6,301,787
Net loans to customers	5,831,482	10,344,860	8,207,247	13,876,390	1,992,079	40,252,058
Investment securities	-	6,212,722	-	-	-	6,212,722
Assets classified as held for sale	-	-	-	-	28,701	28,701
Property, plant and equipment	-	-	-	-	962,165	962,165
Deferred tax assets	-	-	-	-	161,239	161,239
Other assets	-	-	-	-	41,508	41,508
Total assets	14,379,398	16,557,582	8,207,247	13,876,390	13,215,801	66,236,418
Liabilities						
Deposits	38,778,445	2,215,181	1,135,768	-	11,657,516	53,786,910
Due to banks and related companies	-	-	-	-	407,554	407,554
Provision for taxation	-	-	-	-	275,305	275,305
Deferred tax liability	-	-	-	-	-	-
Other liabilities	-	-	-	-	521,634	521,634
Assigned capital, reserves and head office account	-	-	-	-	11,245,015	11,245,015
Total liabilities	38,778,445	2,215,181	1,135,768	-	24,107,024	66,236,418
Net gap	(24,399,047)	14,342,401	7,071,479	13,876,390	(10,891,223)	-
Cumulative gap	(24,399,047)	(10,056,646)	(2,985,167)	10,891,223	-	-

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22. Financial risk (*continued*)

22.2.4 Liquidity risk

Liquidity risk is the risk that the Bank of Nova Scotia – Guyana Branch is unable to meet its financial obligations in a timely manner at reasonable prices. Financial obligations include liabilities to depositors, payments due under contractual arrangements, settlement of securities, borrowing and repurchase transactions and lending and investing commitments.

Liquidity risk arises from fluctuations in cash flows. The objective of the liquidity management process is to ensure that the Bank of Nova Scotia – Guyana Branch honours all of its financial commitments as they fall due. The Bank, through its Treasury function, measures and forecasts its cash flow commitments and ensures that sufficient liquidity is available to meet its needs. The Assets/Liabilities Committee monitors the Bank's liquidity management process, policies and strategies.

To fulfill this objective, the Bank of Nova Scotia – Guyana Branch maintains diversified sources of funding, sets prudent limits and ensures immediate access to liquid assets. The Bank relies on a broad range of funding sources and applies prudent limits to avoid undue concentration. The principal sources of funding are capital, core deposits from retail and commercial customers and wholesale deposits raised in the interbank and commercial markets. The group's extensive branch network provides a strong foundation for diversifying its funding and raising the level of core deposits. Fallback techniques include access to local interbank and institutional markets and stand-by lines of credit with external parties.

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22. Financial risk (continued)

22.2.4 Liquidity risk (continued)

	2015				Total
	Due on demand	Up to one year	Two to five years	Over five years	
Assets					
Cash on hand and in transit	721,946	-	-	-	721,946
Due from banks and related companies	11,640,872	-	-	-	11,640,872
Deposits with Central Bank	6,266,205	-	-	-	6,266,205
Net loans to customers	8,583,688	11,527,032	8,552,209	13,054,044	41,716,973
Investment securities	-	6,646,534	-	-	6,646,534
	27,212,711	18,173,566	8,552,209	13,054,044	66,992,530
Liabilities					
Deposits	50,007,890	2,555,712	1,209,408	-	53,773,010
Due to banks and related companies	333,008	-	-	-	333,008
	50,340,898	2,555,712	1,209,408	-	54,106,018
Net gap	(23,128,187)	15,617,854	7,342,801	13,054,044	(12,886,512)
Cumulative gap	(23,128,187)	(7,510,333)	(167,532)	12,886,512	-

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22. Financial risk (continued)

22.2.4 Liquidity risk (continued)

	2014				Total
	Due on demand	Up to one year	Two to five years	Over five years	
Assets					
Cash on hand and in transit	616,785	-	-	-	616,785
Due from banks and related companies	11,659,453	-	-	-	11,659,453
Deposits with Central Bank	6,301,787	-	-	-	6,301,787
Net loans to customers	7,823,561	10,344,860	8,207,247	13,876,390	40,252,058
Investment securities	-	6,212,722	-	-	6,212,722
	26,401,586	16,557,582	8,207,247	13,876,390	65,042,805
Liabilities					
Deposits	50,435,961	2,215,181	1,135,768	-	53,786,910
Due to banks and related companies	407,554	-	-	-	407,554
	50,843,515	2,215,181	1,135,768	-	54,194,464
Net gap	(24,441,929)	14,342,401	7,071,479	13,876,390	10,848,341
Cumulative gap	(24,441,929)	(10,099,528)	(3,028,049)	10,848,341	-

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Notes to Financial Statements
October 31, 2015
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22. Financial risk (continued)

22.2.5 Capital management

The Bank's capital management policies seek to achieve several objectives:

- i) Compliance with capital requirements as set by the Central Bank of Guyana.
- ii) Ensure the Bank of Nova Scotia – Guyana Branch's ability to continue as a going concern.
- iii) To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management. The Bank of Nova Scotia – Guyana Branch employs techniques derived from the guidelines developed by the Basel Committee on Banking Supervision - Basel I 1998 Capital Accord as implemented by the Central Bank of Guyana. The required information is filed with the regulatory authority on a monthly basis.

The following table summarises the composition of regulatory capital and the ratios for the Bank of Nova Scotia - Guyana Branch as at October 31. The Bank complied with all the externally imposed capital requirements to which it is subject.

	<u>2015</u>	<u>2014</u>
Tier I capital		
Assigned capital	251,327	251,327
Statutory reserve	251,400	251,400
Other capital	12,581,864	10,712,540
	<u>13,084,591</u>	<u>11,215,267</u>
Tier II capital		
General provision and Banking risk reserve	41,000	70,748
	<u>41,000</u>	<u>70,748</u>
Risk weighted assets		
On-balance sheet	32,771,851	30,415,587
Off balance sheet	2,026,395	1,030,689
	<u>34,798,246</u>	<u>31,446,276</u>
Total risk weighted assets		
	<u>34,798,246</u>	<u>31,446,276</u>
Total regulatory capital to risk weighted assets %	<u>37.60%</u>	<u>35.66%</u>

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22. Financial risk (continued)

22.2.6 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with The Bank of Nova Scotia - Guyana Branch's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risk arises from all of the Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to The Bank of Nova Scotia - Guyana Branch's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

This objective is supported by the development of the overall standards for the management of operational risk in the following areas:-

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions
- Reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Periodic assessment of operational risks, the adequacy of controls and procedures to address the risks identified
- Reporting of operational losses and proposed remedial action
- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance where this is effective

Compliance with the Bank's standards is supported by a programme of periodic review undertaken by Internal Audit. The results of Internal Audit reviews are discussed with management of the business unit to which they relate, with summaries submitted to senior management of the Bank.

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23. Fair value of financial assets and liabilities

The fair value of on and off balance sheet financial instruments is based on the valuation methods and assumptions set out in note 3(b).

Fair value represents the amount at which a financial instrument could be exchanged in an arm's length transaction between willing parties under no compulsion to act and is best evidenced by a quoted market price. If no quoted market prices are available, the fair values presented are estimates derived using present value or other valuation techniques and may not be indicative of net realisable value.

The Bank of Nova Scotia - Guyana Branch measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:-

- Level 1- Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2- Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3- Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique included inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Due to the judgment used in applying a wide range of acceptable valuation techniques and estimations in the calculation of fair value amounts, fair values are not necessarily comparable among financial institutions. The calculation of estimated fair values is based upon market conditions at a specific point in time and may not be reflective of future fair values.

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(\$ thousands)

23. Fair value of financial assets and liabilities (continued)

The table below is an analysis of financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorised.

	2015			Total
	Level 1	Level 2	Level 3	
Assets				
Investment securities	-	6,646,534	-	6,646,534
	-	6,646,534	-	6,646,534
		2014		
	Level 1	Level 2	Level 3	Total
Assets				
Investment securities	-	6,212,722	-	6,212,722
	-	6,212,722	-	6,212,722

Cash on hand and in transit

These amounts are short term in nature and are taken to be equivalent to fair value.

Due from banks and related companies

Amounts due from banks and related companies are negotiated at market rates for relatively short tenors and are assumed to have discounted cash flow values that approximate the carrying values.

Deposits with Central Bank

The fair value of deposits with Central Bank are determined to approximate to their carrying value using discounted cash flow analysis. A significant portion of the deposits are receivable on demand.

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Notes to Financial Statements
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 (\$ thousands)

23. Fair value of financial assets and liabilities (continued)

Net loans to customers

Loans and advances to customers are granted at market rates and their values are not adversely affected by unusual terms. The estimated future cash flows are discounted using a discount rate based on market rates for similar type facilities.

Deposits and due to banks and related companies

Customer deposits and amounts due to banks and related companies are negotiated at market rates. Deposits that are fixed rate facilities are at rates that approximate market rates and are assumed to have discounted cash flow values that approximate the carrying values.

The table below summarises the carrying amounts and fair values of those financial assets and liabilities that are not presented on The Bank of Nova Scotia - Guyana Branch's statement of financial position at fair value.

	<u>Carrying value</u>		<u>Fair Value</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Financial assets				
Cash on hand and in transit	721,946	616,785	721,946	616,785
Due from banks and related companies	11,640,872	11,659,453	11,640,872	11,659,453
Deposits with Central Bank	6,266,205	6,301,787	6,266,205	6,301,787
Net loans to customers	41,716,973	40,252,058	41,716,973	40,252,058
	<u>60,345,996</u>	<u>58,830,083</u>	<u>60,345,996</u>	<u>58,830,083</u>
Financial liabilities				
Deposits	53,773,010	53,786,910	53,773,010	53,786,910
Due to banks and related companies	333,008	407,554	333,008	407,554
	<u>54,106,018</u>	<u>54,194,464</u>	<u>54,106,018</u>	<u>54,194,464</u>

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24. Related party balances and transactions

A party is related to the Bank of Nova Scotia - Guyana Branch if:

- i. Directly or indirectly the party
 - controls, is controlled by, or is under common control with the Bank ;
 - has an interest in the Bank that gives it significant influence over the Bank ; or
 - has joint control over the Bank.
- ii. The party is a member of the key management personnel of the Bank of Nova Scotia - Guyana Branch.
- iii. The party is a close member of the family of any individual referred to in (i) or (ii) above.
- iv. The party is a post-employment benefit plan for the benefit of employees of the Bank of Nova Scotia - Guyana Branch, or any company that is a related party of the Bank.

A number of banking transactions have been entered into with related parties in the normal course of business. These transactions were conducted at market rates, on commercial terms and conditions, except for certain loans made available to officers.

Related party transactions include but are not limited to the following:

- i. Data processing and information technology support
- ii. Technical and management services
- iii. Operations support
- iv. Transaction processing support.

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Notes to Financial Statements
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24. Related party balances and transactions (continued)

Outstanding balances

	<u>2015</u>	<u>2014</u>
Loans, investments and other assets		
Directors and key management personnel	207,444	234,938
Bank of Nova Scotia and other related entities	8,009,977	8,855,993
	<u>8,217,421</u>	<u>9,090,931</u>
Deposits and other liabilities		
Directors and key management personnel	29,890	61,509
Bank of Nova Scotia and other related entities	100,864	76,591
	<u>130,754</u>	<u>138,100</u>
Interest and other income		
Directors and key management personnel	6,070	9,069
Bank of Nova Scotia and other related entities	20,075	14,540
	<u>26,145</u>	<u>23,609</u>
Interest and expenses		
Directors and key management personnel	360	572
	<u>360</u>	<u>572</u>

Key management comprises individuals responsible for planning, directing and controlling the activities of the Bank of Nova Scotia – Guyana Branch

	<u>2015</u>	<u>2014</u>
Key management compensation		
Short term benefits	171,082	122,455

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25. Operating segments

The operations of the Bank of Nova Scotia - Guyana Branch are concentrated within the Co-operative Republic of Guyana. The Bank's operations are managed by strategic business units which offer different financial products and services to various market segments. The management function of the various business units review internal reports at least monthly, whilst The Bank of Nova Scotia - Guyana Branch's management do so at least quarterly.

The following summary describes the operations of each of the Bank's reportable segments:

- Corporate, Commercial and Small Business Banking – Includes the provision of loans, deposits, trade financing and other financial services to businesses.
- Retail Banking – Includes the provision of loans, deposits and other financial services to individuals.
- Treasury – Includes the functions of a centralised treasury unit and other centralised services.

The results of the various operating segments are set out below. Performance is measured based on segment profits before tax as included in the internal management reports reviewed by senior management. Segment profitability is used by management to assess product pricing, productivity and hence, the allocation of resources to the various operating segments.

	<u>2015</u>					
	Corporate, Commercial & Small Business Banking	Retail Banking	Treasury	Total Segment	Unallocated / Eliminations	Total Bank
Net interest income	1,287,915	2,896,237	168,666	4,352,818	(59)	4,352,759
Non-interest revenue	522,906	645,041	942,202	2,110,149	267,712	2,377,860
Net segment interest and other income	1,810,821	3,541,278	1,110,868	6,462,967	267,653	6,730,619
Net segment profit before taxes	651,413	1,580,161	1,110,868	3,342,442	323,474	3,665,916
Segment assets	12,119,840	29,399,642	27,838,644	69,358,126	(1,152,038)	68,206,088
Segment liabilities	24,203,069	29,509,752	-	53,712,821	1,408,676	55,121,497

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25. Operating segments (continued)

	<u>2014</u>					Total Bank
	Corporate, Commercial & Small Business Banking	Retail Banking	Treasury	Total Segment	Unallocated / Eliminations	
Net interest income	1,250,384	2,580,354	122,011	3,952,749	342,381	4,295,130
Non-interest revenue	645,998	454,684	942,202	2,042,884	(132,437)	1,910,447
Net segment interest and other income	1,896,382	3,035,038	1,064,213	5,995,633	209,944	6,205,577
Net segment profit before taxes	671,548	1,435,998	1,064,213	3,171,759	379,362	3,551,121
Segment assets	12,659,182	27,069,608	24,157,043	63,885,833	2,350,585	66,236,418
Segment liabilities	24,824,234	30,013,405	10,555	54,848,194	143,209	54,991,403