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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, 2013 and the statements of 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 statement. The procedures selected depend on the auditors' judgement, 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 estimate 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, 2013 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

Nizam Ali & Company

Chartered Accounts
Georgetown, Guyana

December 31,2013

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Statement of Financial Position

October 31, 2013
($ thousands)

	Notes	2013	2012
ASSETS			
Cash on hand and in transit		862,804	878,567
Due from banks and related companies	4	7,997,620	7,834,674
Deposits with the Central Bank	5	6,099,936	6,031,028
Investment securities	6	6,759,875	6,768,756
Net loans to customers	7	40,183,365	36,885,252
Assets classified as held for sale	8	14,383	14,383
Property, plant and equipment	9	1,041,888	973,626
Deferred tax	13	-	87,788
Other assets	10	32,897	52,984
		62,992,768	**59,527,058**
LIABILITIES, ASSIGNED CAPITAL, RESERVES & HEAD OFFICE ACCOUNT			
LIABILITIES			
Deposits	11	51,162,315	49,757,989
Due to banks and related companies	12	1,402,654	1,601,892
Deferred tax	13	58,852	-
Provision for taxation		541,113	341,576
Other liabilities		415,595	280,522
		53,580,529	**51,981,979**
ASSIGNED CAPITAL, RESERVES AND HEAD OFFICE ACCOUNT			
Assigned capital	14	251,327	251,327
Other capital	15	801,700	801,700
Statutory reserve fund	16	251,400	251,400
General banking risk reserve	2.7(iii)	370,705	-
Head office account		7,737,107	6,240,652
		9,412,239	**7,545,079**
		62,992,768	**59,527,058**

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

The financial statements have been approved for issue by the Country Manager on December 31, 2013 and signed accordingly:

Amanda V.M.L. St Aubyn

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Statement of Comprehensive Income

October 31, 2013
($ thousands)

	Notes	2013	2012
NET INTEREST AND OTHER INCOME			
Total interest income	17	4,611,615	4,481,798
Total interest expense	18	432,416	593,538
Net interest income		4,179,199	3,888,260
Other income	19	1,867,037	2,056,451
Net interest and other income		6,046,236	5,944,711
NON INTEREST EXPENSES			
Salaries and benefits		684,181	641,714
Premises and technology		641,094	555,842
Communication and marketing		243,219	143,937
Loan loss expense	7.5	(185,371)	719,527
Other	20	850,434	813,767
Total non-interest expense		2,233,557	2,874,787
INCOME BEFORE TAXATION		3,812,679	3,069,924
INCOME TAX EXPENSE	13	(1,695,529)	(1,231,794)
NET INCOME FOR THE YEAR		2,117,150	1,838,130
APPROPRIATIONS			
Head office		2,117,150	1,838,130

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

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Statement of Changes in Equity

October 31, 2013
($ thousands)

	Assigned Capital	Other Capital	Statutory Reserve	General Banking Risk Reserve	Head Office Account	Total Shareholders' Equity
Year ended October 31, 2012						
Balance as at October 31, 2011	251,327	801,700	251,400	-	4,402,522	5,706,949
Net Income for the year	-	-	-	-	1,838,130	1,838,130
Balance as at October 31, 2012	**251,327**	**801,700**	**251,400**	**-**	**6,240,652**	**7,545,079**
Year ended October 31, 2013						
Balance as at October 31, 2012	**251,327**	**801,700**	**251,400**	**-**	**6,240,652**	**7,545,079**
Net income for the year	-	-	-	-	2,117,150	2,117,150
Withholding tax relating to prior year deemed profit transfer	-	-	-	-	(249,990)	(249,990)
Transfer to general banking risk reserve	-	-	-	370,705	(370,705)	-
Balance as at October 31, 2013	**251,327**	**801,700**	**251,400**	**370,705**	**7,737,107**	**9,412,239**

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

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Statement of Cash Flows

Year ended October 31, 2013
($ thousands)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before taxation	3,812,679	3,069,924
Adjustments to reconcile income before taxation to net cash from operating activities:-		
Interest income	(4,611,615)	(4,481,798)
Interest expense	432,416	593,538
Depreciation	106,790	70,116
Net loss on disposal of other assets	1,500	-
Net loss on disposal of property, plant and equipment	-	270
Change in deposits with the Central Bank	(68,908)	(419,147)
Change in due to banks and related companies	(199,238)	1,018,128
Change in loans	(2,984,342)	(1,736,708)
Change in loan loss provision	(321,267)	615,755
Change in deposits	1,405,563	1,028,112
Change in other liabilities	135,073	1,733
Change in other assets	13,809	1,032
Interest received	4,637,250	4,521,091
Interest paid	(433,653)	(634,333)
Taxation paid	(1,349,351)	(1,550,423)
Net cash from operating activities	576,706	2,097,290
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in investments	(9,259)	(2,988,819)
Proceeds from disposal of other assets	4,778	-
Proceeds from disposal of property, plant and equipment	-	4,521
Purchase of property, plant and equipment	(175,052)	(183,944)
Net cash used in investing activities	(179,533)	(3,168,242)
CASH FLOWS FROM FINANCING ACTIVITIES		
Remittances including withholding tax	(249,990)	(261,302)
Net cash used in financing activities	(249,990)	(261,302)
Increase / (Decrease) in cash and cash equivalents	147,183	(1,332,254)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,713,241	10,045,495
CASH AND CASH EQUIVALENTS, END OF YEAR	8,860,424	8,713,241

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Statement of Cash Flows (continued)

Year ended October 31, 2013
($ thousands)

	2013	2012
CASH AND CASH EQUIVALENTS		
Represented by		
Cash on hand and in transit	862,804	878,567
Due from banks and related companies	7,997,620	7,834,674
Cash and cash equivalents	8,860,424	8,713,241

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

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.

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, commissions 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 comprehensive income.

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.

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.

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 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 comprehensive income.

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.

2) Significant Accounting Policies *(continued)*

2.7 Loans and advances, *continued*

ii) <u>Impairment assessment, *continued*</u>

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.

Impaired loans

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 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) **<u>General banking risk reserve</u>**

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 and the carrying amount of non-performing advances.

2.8 Assets held for resale

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.

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 that is not an integral part of related hardware as classified under property, plant and equipment.

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 comprehensive income as incurred.

2) Significant Accounting Policies *(continued)*

2.9 Property, plant and equipment *(continued)*

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%
• Leasehold improvements	33 1/3%
• Equipment, furniture and fixtures and computer equipment	5% - 33 1/3%
• Motor vehicles	25%
• Work in progress	Nil

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 comprehensive income, except to the extent that it relates to items previously charged or credited directly to equity.

2) Significant Accounting Policies *(continued)*

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 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 an operating lease.

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 assesses 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, 2013 total $815 million (2012 - $956 million). In the event of a call on these commitments, the Bank has equal and offsetting claims against its customers.

2) Significant Accounting Policies *(continued)*

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 comprehensive income.

The recoverable amount of 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.

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) Significant Accounting Policies *(continued)*

2.18 New standards, amendments and interpretations adopted

Annual Improvements to the IFRS's 2009 - 2011 Cycle in accordance with the International Financial Reporting Standards which were incorporated into the group are IFRS 1 *First-Time Adoption of IFRS*, IAS 1 *Presentation of Financial Statements*, IAS 16 *Property, Plant and Equipment*, IAS 32 *Financial Instruments Presentation*, IAS 34 *Interim Financial Reporting*. In addition, IFRS 13 *Fair Value Measurement* which defines fair value and replaces the requirement contained in individual standards, has been adopted into the financial statements. 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 January 1, 2013, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements except for IFRS 9 *Financial Instruments*, which becomes mandatory for the 2016 financial statements and could change the classification and measurement of financial assets.

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.

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).

4) Due from banks and related companies

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

	2013 ($'000)	2012 ($'000)
Deposits with Central Bank other than statutory deposits	2,585,067	2,789,911
Deposits with head office	5,248,549	4,818,942
Deposits with other branches and affiliates	-	4,507
Deposits with other banks	164,004	221,314
	7,997,620	7,834,674

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% (2012 -12%) of total prescribed liabilities.

	2013 ($'000)	2012 ($'000)
Primary	6,099,936	6,031,028
	6,099,936	6,031,028

6) Investment securities

	2013 ($'000)	2012 ($'000)
Available for sale		
GOG Treasury bills	6,736,197	6,726,938
Accrued interest	23,678	41,818
	6,759,875	6,768,756

7) Net loans to customers

7.1 Loans and advances

	2013 ($'000)	2012 ($'000)
Principal neither past due nor impaired	32,205,683	30,707,984
Principal which is past due but not impaired	6,199,489	4,770,941
Principal which is impaired	2,813,025	2,754,931
Gross loans	41,218,197	38,233,856
Loan loss provision	(1,267,559)	(1,588,826)
Total net of provision	39,950,638	36,645,030
Interest receivable	232,727	240,222
	40,183,365	36,885,252

7) Net loans to customers *(continued)*

7.2 Loans past due but not impaired

	2013			
	Less than 30 days ($'000)	**30 – 60 days ($'000)**	**61 – 90 days ($'000)**	**Total ($'000)**
Loans and advances to customers				
Commercial loans	437,259	38,276	92,911	568,446
Retail loans	3,903,624	1,030,119	697,300	5,631,043
	4,340,883	**1,068,395**	**790,211**	**6,199,489**

	2012			
	Less than 30 days ($'000)	**30 – 60 days ($'000)**	**61 – 90 days ($'000)**	**Total ($'000)**
Loans and advances to customers				
Commercial loans	273,178	60,299	131,980	465,457
Retail loans	2,959,093	701,379	645,012	4,305,484
	3,232,271	**761,678**	**776,992**	**4,770,941**

7.3 Concentration of credit

	2013 ($'000)	**2012 ($'000)**
Agricultural and mining	1,773,175	1,063,048
Manufacturing	4,032,292	3,145,543
Distribution	2,986,859	2,541,430
Personal	4,616,996	4,828,733
Real Estate	20,993,628	20,646,332
Entertainment	248,563	199,983
Other	5,531,852	4,460,183
	40,183,365	36,885,252

7) Net loans to customers *(continued)*

7.4 Analysis of movement of loan loss provision

	2013 ($'000)	**2012 ($'000)**
Balance, beginning of year		
Specific provision	1,548,326	932,771
General provision	40,500	40,300
	1,588,826	973,071
Additions/(deductions)		
Specific provision	304,771	851,885
General provision	500	200
Provisions no longer required	(370,705)	-
	(65,434)	852,085
Write-offs		
Specific provision	(255,833)	(236,330)
Balance, end of year		
Specific provision	1,226,559	1,548,326
General provision	41,000	40,500
	1,267,559	1,588,826

7.5 Loan loss expense

	2013 ($'000)	**2012 ($'000)**
Loan loss charge for the year	(65,434)	852,085
Recoveries	(119,937)	(132,558)
	(185,371)	719,527

8) Assets classified as held for sale assets

	2013 ($'000)	2012 ($'000)
Cost	47,179	47,179
Deposits	(32,796)	(32,796)
	14,383	14,383

The above 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	Motor Vehicles	Work in progress	2013 Total	2012 Total
Cost							
At beginning of the year	438,670	77,458	1,016,011	26,023	410,497	1,968,659	1,796,125
Additions	-	-	-	-	175,052	175,052	183,944
Transfers	161,119	167,567	233,288	(1,074)	(560,900)	-	-
Disposals	-	-	-	-	-	-	(11,410)
At end of year	599,789	245,025	1,249,299	24,949	24,649	2,143,711	1,968,659
Accumulated deprecation							
At beginning of the year	151,526	73,554	744,281	25,672	-	995,033	931,536
Charge for the year	9,749	24,634	73,316	(909)	-	106,790	70,116
Write back on disposals	-	-	-	-	-	-	(6,619)
At end of year	161,275	98,188	817,597	24,763	-	1,101,823	995,033
Net book value	438,514	146,837	431,702	186	24,649	1,041,888	973,626

10) Other assets

	2013 ($'000)	2012 ($'000)
Interest accrued	1,286	10,191
Short-term receivables	-	6,061
Assets held for use	2,929	9,207
Recoverable charges	1,321	-
Other	27,361	27,525
	32,897	52,984

11) Deposits

	2013 ($'000)	2012 ($'000)
Demand	11,317,402	11,732,177
Savings	36,974,414	35,210,930
Term	2,797,584	2,740,730
	51,089,400	49,683,837
Accrued interest	72,915	74,152
	51,162,315	49,757,989
Sector analysis		
Financial	1,878,913	1,713,864
Consumers	32,413,888	31,051,629
Private	16,398,724	14,882,439
State	470,790	2,110,057
	51,162,315	49,757,989

12) Due to banks and related companies

	2013 ($'000)	2012 ($'000)
Due to related companies	31,741	26,006
Due to banks	1,370,913	1,575,886
	1,402,654	1,601,892

13) Taxation

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

	2013 ($'000)	2012 ($'000)
Property, plant and equipment	89,430	87,788
Banking provision	(148,282)	-
	(58,852)	87,788

The taxation charge is made up of the following:-

		2013 ($'000)	2012 ($'000)
Corporation tax	- Current year	1,523,544	1,319,582
	- Prior year	25,345	-
Deferred tax		146,640	(87,788)
		1,695,529	1,231,794

13) **Taxation** ***(continued)***

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

		2013 ($'000)	**2012 ($'000)**
Net income before taxation		3,812,679	3,069,924
Tax calculated at a rate of 40% (2012 – 40%)		1,525,072	1,227,969
Income exempt from tax		(20,597)	(23,877)
Expenses not deductible for tax purposes		32,342	72,761
Loan impairment provision		148,282	-
Difference in accounting depreciation vs. tax depreciation		(14,915)	(45,059)
Corporation tax	- Current year	1,670,184	1,231,794
	- Prior year	25,345	-
		1,695,529	1,231,794

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 fund

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

17) Total interest income

	2013 ($'000)	2012 ($'000)
Loans and receivables	4,477,525	4,331,167
Investment securities – available-for-sale	109,184	114,386
Other	24,906	36,245
	4,611,615	4,481,798

18) Total interest expense

	2013 ($'000)	2012 ($'000)
Savings deposits	377,157	451,297
Term deposits	55,202	133,846
Demand deposits	57	8,395
	432,416	593,538

19) Other income

	2013 ($'000)	2012 ($'000)
Foreign exchange gains	822,521	1,028,230
Commissions	1,027,935	886,120
Others	16,581	142,101
	1,867,037	2,056,451

20) Other expenses

	2013 ($'000)	2012 ($'000)
Business taxes	66,366	44,500
Professional fees	18,936	20,220
Stationery	51,576	69,166
Outsourced services	392,602	345,330
Other	320,954	334,551
	850,434	813,767

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, 2013, 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:

	2013 ($'000)	**2012 ($'000)**
Rental due within one year	61,507	55,697
Rental due between one and five years	186,178	15,790
Rental due after five years	-	-
	247,685	71,487

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 risk, 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-Guyana Branch Scotia's 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 risk 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 is 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.

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.

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 slightly 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:-

	2013 ($'000)	**2012 ($'000)**
Credit risk recognized on the statement of financial position		
Due from banks and related companies	7,997,620	7,834,674
Deposits with Central Bank	6,099,936	6,031,028
Investment securities (excluding equities)		
- available-for-sale	6,759,875	6,768,756
Net loans to customers	40,183,365	36,885,252
	61,040,796	57,519,710
Credit risk not recognized on the statement of financial position		
Acceptances, guarantees and letters of credit	815,173	955,844
Total credit risk exposure	61,855,969	58,475,554

22) Financial risk *(continued)*

22.1 Credit risk *(continued)*

<u>Credit quality by class of financial asset</u>

	2013			
	Not Impaired ($'000)	**Impaired ($'000)**	**Impairment provision ($'000)**	**Total ($'000)**
As at October 31, 2013				
Due from banks and related companies	7,997,620	-	-	7,997,620
Deposits with Central Bank	6,099,936	-	-	6,099,936
	14,097,556	-	-	14,097,556
Investment securities				
Classified as available for sale				
Treasury bills	6,759,875	-	-	6,759,875
	6,759,875	-	-	6,759,875
Loans and advances				
Commercial	11,881,997	681,637	(308,376)	12,255,258
Mortgages	19,835,059	1,972,496	(957,717)	20,849,838
Other	6,920,843	158,892	(1,466)	7,078,269
	38,637,899	2,813,025	(1,267,559)	40,183,365
Total	59,495,330	2,813,025	(1,267,559)	61,040,796

Financial risk *(continued)*

22.1 Credit risk *(continued)*

Credit quality by class of financial asset

	2012			
	Not Impaired ($'000)	**Impaired ($'000)**	**Impairment provision ($'000)**	**Total ($'000)**
As at October 31, 2012				
Due from banks and related companies	7,834,674	-	-	7,834,674
Deposits with Central Bank	6,031,028	-	-	6,031,028
	13,865,702			13,865,702
Investment securities				
Classified as available for sale				
Treasury bills	6,768,756	-	-	6,768,756
	6,768,756	-	-	6,768,756
Loans and advances				
Commercial	8,388,427	604,578	(534,134)	8,458,871
Mortgages	18,537,309	2,054,198	(793,469)	19,798,038
Other	8,793,411	96,155	(261,223)	8,628,343
	35,719,147	2,754,931	(1,588,826)	36,885,252
Total	56,353,605	2,754,931	(1,588,826)	57,519,710

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 control 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 activity 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.

22) Financial risk *(continued)*

Market risk *(continued)*

22.2.1 Currency risk (continued)

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

	2013			
	GY ($'000)	**US ($'000)**	**Other ($'000)**	**Total ($'000)**
Assets				
Cash on hand and in transit	844,355	15,433	3,016	862,804
Due from banks and related company	2,840,648	5,009,826	147,146	7,997,620
Deposits with Central Bank	6,099,936	-	-	6,099,936
Net loans to customers	40,183,362	3	-	40,183,365
Investment securities	6,759,875	-	-	6,759,875
Assets classified as held for sale	14,383	-	-	14,383
Property, plant and equipment	1,041,888	-	-	1,041,888
Other assets	23,236	9,661	-	32,897
Total assets	57,807,683	5,034,923	150,162	62,992,768
Liabilities				
Deposits	47,139,077	3,978,415	44,823	51,162,315
Due to banks and related company	1,349,096	12	53,546	1,402,654
Provision for taxation	541,113	-	-	541,113
Deferred tax liability	58,852	-	-	58,852
Other liabilities	412,182	3,341	72	415,595
Total liabilities	49,500,320	3,981,768	98,441	53,850,529
Net financial position	8,307,363	1,053,155	51,721	9,412,239

22) Financial risk *(continued)*

Market risk *(continued)*

22.2.1 Currency risk (continued)

	2012			
	GY ($'000)	**US ($'000)**	**Other ($'000)**	**Total ($'000)**
Assets				
Cash on hand and in transit	862,418	13,508	2,641	878,567
Due from banks and related company	3,042,528	4,639,686	152,460	7,834,674
Deposits with Central Bank	6,031,028	-	-	6,031,028
Net loans to customers	36,885,191	61	-	36,885,252
Investment securities	6,768,756	-	-	6,768,756
Assets classified as held for sale	14,383	-	-	14,383
Property, plant and equipment	973,626	-	-	973,626
Deferred tax asset	87,788	-	-	87,788
Other assets	52,984	-	-	52,984
Total assets	54,718,702	4,653,255	155,101	59,527,058
Liabilities				
Deposits	45,831,681	3,892,035	34,273	49,757,989
Due to banks and related company	1,601,892	-	-	1,601,892
Provision for taxation	341,576	-	-	341,576
Other liabilities	280,522	-	-	280,522
Total liabilities	48,055,671	3,892,035	34,273	51,981,979
Net financial position	6,663,031	761,220	120,828	7,545,079

22) Financial risk *(continued)*

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.

22) Financial risk *(continued)*
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.

	2013 ($'000)					
	Due on demand	**Due in one year**	**Due in two to five years**	**Over five years**	**Non -interest bearing**	**Total**
Assets						
Cash on hand and in transit	-	-	-	-	862,804	862,804
Due from banks and related companies	5,248,549	-	-	-	2,749,071	7,997,620
Deposits with Central Bank		-			6,099,936	6,099,936
Net loans to Customers	5,822,979	10,727,326	8,245,067	13,586,123	1,801,870	40,183,365
Investment securities	-	6,759,875	-	-	-	6,759,875
Assets classified as held for sale	-	-	-	-	14,383	14,383
Property, plant and equipment	-	-	-	-	1,041,888	1,041,888
Other assets					32,897	32,897
Total assets	11,071,528	17,487,201	8,245,067	13,586,123	12,602,849	62,992,768
Liabilities						
Deposits	39,885,864	1,906,234	934,250	-	8,435,967	51,162,315
Due to banks and related companies	-	-	-	-	1,402,654	1,402,654
Provision for taxation	-	-	-	-	541,113	541,113
Deferred tax liability					58,852	58,852
Other liabilities	-	-	-	-	415,595	415,595
Assigned capital, reserves and head office account	-	-	-	-	9,412,239	9,412,239
Total liabilities	39,885,864	1,906,234	934,250	-	20,266,420	62,992,768
Net Gap	(28,814,336)	15,580,967	7,310,817	13,586,123	(7,663,571)	-
Cumulative Gap	(28,814,336))	(13,233,369)	(5,922,522)	7,663,571	-	-

22) Financial risk *(continued)*

Market risk *(continued)*

22.2.3 Interest rate risk (continued)

	2012 ($'000)					
	Due on demand	**Due in one year**	**Due in two to five years**	**Over five years**	**Non -interest bearing**	**Total**
Assets						
Cash on hand and in transit	-	-	-	-	878,567	878,567
Due from banks and related companies	4,823,449	-	-	-	3,011,225	7,834,674
Deposits with Central Bank		-			6,031,028	6,031,028
Net loans to customers	4,757,370	8,123,222	8,422,895	14,133,620	1,448,145	36,885,252
Investment securities	-	6,768,756	-	-	-	6,768,756
Assets classified as held for sale	-	-	-	-	14,383	14,383
Property plant and equipment	-	-	-	-	973,626	973,626
Deferred tax asset	-	-	-	-	87,788	87,788
Other assets					52,984	52,984
Total assets	9,580,819	14,891,978	8,422,895	14,133,620	12,497,746	59,527,058
Liabilities						
Deposits	38,650,441	946,498	1,838,677	-	8,322,373	49,757,989
Due to banks and related companies	-	-	-	-	1,601,892	1,601,892
Provision for taxation	-	-	-	-	341,576	341,576
Other liabilities	-	-	-	-	280,522	280,522
Assigned capital, reserves and head office account	-	-	-	-	7,545,079	7,545,079
Total liabilities	38,650,441	946,498	1,838,677	-	18,091,442	59,527,058
Net Gap	(29,069,622)	13,945,480	6,584,218	14,133,620	(5,593,696)	-
Cumulative Gap	(29,069,622)	(15,124,142)	(8,539,924)	5,593,696	-	-

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 forecast 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.

22) Financial risk *(continued)*

22.2.4 Liquidity risk (continued)

	2013 ($'000)				
	Due on demand	**Up to one year**	**Two to five years**	**Over five years**	**Total**
Assets					
Cash on hand and in transit	862,804	-	-	-	862,804
Due from banks and related companies	7,997,620	-	-	-	7,997,620
Deposits with Central Bank	6,099,936	-	-	-	6,099,936
Net loans to customers	7,624,849	10,727,326	8,245,067	13,586,123	40,183,365
Investment securities	-	6,759,875	-	-	6,759,875
	22,585,209	17,487,201	8,245,067	13,586,123	61,903,600
Liabilities					
Deposits	48,321,831	1,906,234	934,250	-	51,162,315
Due to banks and related companies	1,402,654	-	-	-	1,402,654
	49,724,485	1,906,234	934,250	-	52,564,969
Net Gap	(27,139,276)	15,580,967	7,310,817	13,586,123	9,338,631
Cumulative Gap	(27,139,276)	(11,558,309)	(4,247,492)	9,338,631	-

22) Financial risk *(continued)*

22.2.4 Liquidity risk (continued)

	2012 ($'000)				
	Due on demand	**Up to one year**	**Two to five years**	**Over five years**	**Total**
Assets					
Cash on hand and in transit	878,567	-	-	-	878,567
Due from banks and related companies	7,834,674	-	-	-	7,834,674
Deposits with Central Bank	6,031,028	-	-	-	6,031,028
Net loans to customers	7,050,157	8,123,222	8,422,895	13,288,978	36,885,252
Investment securities	-	6,768,756	-	-	6,768,756
	21,794,426	14,891,978	8,422,895	13,288,978	58,398,277
Liabilities					
Deposits	46,972,814	946,498	1,838,677	-	49,757,989
Due to banks and related companies	1,601,892	-	-	-	1,601,892
	48,574,706	946,498	1,838,677	-	51,359,881
Net Gap	(26,780,280)	13,945,480	6,584,218	13,288,978	7,038,396
Cumulative Gap	(26,780,280)	(12,834,800)	(6,250,582)	7,038,396	-

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 as at October 31. The Bank complied with all the externally imposed capital requirements to which it is subject.

	2013 ($'000)	**2012 ($'000)**
Tier 1 capital		
Assigned capital	251,327	251,327
Statutory reserve	251,400	251,400
Other capital	6,790,587	5,377,374
	7,293,314	5,880,101
Tier II capital		
Revaluation reserves	-	84,600
General provision	41,000	40,500
	41,000	125,100
Risk weighted assets		
On-balance sheet	31,744,696	28,064,761
Off balance sheet	677,989	789,638
Total risk weighted assets	32,422,685	28,854,399
Total regulatory capital to risk weighted assets %	23.79%	20.38%

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 arise 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 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.

23) Fair value of financial assets and liabilities

The fair value of on and off balance sheet financial instruments are based on the valuation methods and assumptions set out in the significant accounting policies 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 judgement 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.

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

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.

	Carrying value		**Fair Value**	
	2013 ($'000)	**2012 ($'000)**	**2013 ($'000)**	**2012 ($'000)**
Financial assets				
Cash on hand and in transit	862,804	878,567	862,804	878,567
Due from banks and related companies	7,997,620	7,834,674	7,997,620	7,834,674
Deposits with Central Bank	6,099,936	6,031,028	6,099,936	6,031,028
Net loans to customers	40,183,365	36,885,252	40,183,365	36,885,252
	55,143,725	**51,629,521**	**55,143,725**	**51,629,521**
Financial liabilities				
Deposits	51,162,315	49,757,989	51,162,315	49,757,989
Due to banks and related companies	1,402,654	1,601,892	1,402,654	1,601,892
	52,564,969	**51,359,881**	**52,564,969**	**51,359,881**

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.

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 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:

	2013			
	Level 1 ($'000)	**Level 2 ($'000)**	**Level 3 ($'000)**	**Total ($'000)**
Assets				
Investment securities	-	6,759,875	-	6,759,875
	-	**6,759,875**	**-**	**6,759,875**

	2012			
	Level 1 ($'000)	**Level 2 ($'000)**	**Level 3 ($'000)**	**Total ($'000)**
Assets				
Investment securities	-	6,768,756	-	6,768,756
	-	**6,768,756**	**-**	**6,768,756**

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.
The party is a close member of the family of any individual referred to in (i) or (ii) above.

iii. 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. Loans deemed to be below market rates in accordance with personal income tax legislation are taxed as dictated for in law.

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.

24) Related party balances and transactions

Outstanding balances

	2013 ($'000)	2012 ($'000)
Loans, investments and other assets		
Directors and key management personnel	159,044	141,089
Bank of Nova Scotia and other related entities	5,239	4,867
	164,283	145,956
Provisions for amounts due from related parties	-	-
Deposits and other liabilities		
Directors and key management personnel	82,008	30,993
Bank of Nova Scotia and other related entities	85,299	26,000
	167,307	56,993
Interest and other income		
Directors and key management personnel	4,722	5,972
Bank of Nova Scotia and other related entities	29,155	22,344
	33,877	28,316
Interest and expenses		
Directors and key management personnel	696	372
Bank of Nova Scotia and other related entities	-	-
	696	372

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

Key management compensation	2013 ($'000)	2012 ($'000)
Short term benefits	113,622	83,873

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 and Commercial 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.
- Other – 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.

	2013			
	Corporate/ commercial banking ($'000)	**Retail banking ($'000)**	**Other ($'000)**	**Total ($'000)**
Net interest income	295,156	2,302,315	1,209,285	3,806,756
Non-interest revenue	538,301	674,312	414,832	1,627,445
Net segment interest and other income	833,457	2,976,627	1,624,117	5,434,201
Net segment profit before taxes	545,503	1,368,766	1,030,771	2,945,040
Segment assets	3,931,306	26,376,917	30,930,692	61,238,915
Segment liabilities	10,738,704	30,929,739	19,396,844	61,065,287

25) Operating segments *(continued)*

	2012			
	Corporate/ commercial banking ($'000)	**Retail banking ($'000)**	**Other ($'000)**	**Total ($'000)**
Net interest income	846,840	2,346,180	547,210	3,740,230
Non-interest revenue	1,099,990	757,920	74,150	1,932,060
Net segment interest and other income	1,946,830	3,104,100	621,360	5,672,290
Net segment profit before taxes	1,378,690	1,892,820	196,310	3,467,820
Segment assets	11,227,740	25,330,920	22,930,550	59,489,210
Segment liabilities	15,510,980	30,630,820	12,520,840	58,662,640

Reconciliation of operating segments financial results:-

	2013 ($'000)	**2012 ($'000)**
Revenues		
Total segment revenues	5,434,201	5,672,290
Eliminations/unallocated amounts	612,035.	272,421
Total revenues	6,046,236	5,944,711
Profits		
Total segment profits before taxes	2,945,040	3,467,820
Eliminations/unallocated amounts	867,639	(397,896)
Total profits before taxes	3,812,679	3,069,924

25) Operating segments *(continued)*

Reconciliation of operating segments financial results (continued):-

	2013 ($'000)	2012 ($'000)
Assets		
Total segment assets	61,238,915	59,489,210
Eliminations/unallocated amounts	1,753,853	37,848
Total assets	62,992,768	59,527,058
Liabilities		
Total segment liabilities	61,065,287	58,662,640
Eliminations/unallocated amounts	(7,484,758)	(6,680,661)
Total liabilities	53,580,529	51,981,979