

Financial Statements of

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

October 31, 2020



THE BANK OF NOVA SCOTIA – GUYANA BRANCH

October 31, 2020

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Statement of Management's Responsibilities The Bank of Nova Scotia- Guyana Branch

Management is responsible for the following:

- Preparing and fairly presenting the accompanying financial statements of The Bank of Nova Scotia – Guyana Branch (Scotiabank or the Bank), which comprise the statement of financial position as at October 31, 2020, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information;
- Ensuring that Scotiabank keeps proper accounting records;
- Selecting appropriate accounting policies and applying them in a consistent manner;
- Implementing, monitoring and evaluating the system of internal control that assures security of Scotiabank's assets, detection/prevention of fraud, and the achievement of the Scotiabank's operational efficiencies;
- Ensuring that the system of internal controls operated effectively during the reporting period;
- Producing reliable financial reporting that complies with laws and regulations, including the Companies Act; and
- Using reasonable and prudent judgment in the determination of estimates.

In preparing these financial statements, management utilised the International Financial Reporting Standards, as issued by the International Accounting Standards Board and adopted by the Institute of Chartered Accountants of Guyana. Where International Financial Reporting Standards presented alternative accounting treatments, management chose those considered most appropriate in the circumstances.

Nothing has come to the attention of management to indicate that Scotiabank will not remain a going concern for the next twelve months from the reporting date, or up to the date the accompanying financial statements have been authorised for issue, if later.

Management affirms that it has carried out its responsibilities as outlined above.



Raymond Smith
Country Manager

Date: December 31, 2020



Nizam Ali & Company

Chartered Accountants

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Bank of Nova Scotia –Guyana Branch, which comprise the statement of financial position as at October 31, 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements, present fairly, in all material respects, the financial position of the Bank as at October 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Emphasis of Matter

Without qualifying our opinion, we draw attention to:

(i) Note 25 (b)(ii), which explains that the Guyana Revenue Authority (GRA) has issued additional assessment for Corporation Tax liability of \$1,122,791,107 for the years of assessment 2011 to 2017. The Bank has appealed the GRA's assessment. Management believes that the Bank will be successful on appeal and accordingly no provision has been recognised in these financial statements for the effect of the additional Corporation Tax assessment.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Guyana, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Going Concern

The Bank's financial statements have been prepared using the going concern basis of accounting. The use of this basis of accounting is appropriate unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so. As part of our audit of the financial statements, we have concluded that management's use of the going concern basis of accounting in the preparation of the Bank's financial statements is appropriate. Management has not identified a material uncertainty that may cast significant doubt on the Bank's ability to continue as a going concern, and accordingly none is

disclosed in the financial statements. Based on our audit of the financial statements, we also have not identified such a material uncertainty. However, neither management nor the auditor can guarantee the Bank's ability to continue as a going concern.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they can reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

Auditors' Responsibilities for the Audit of the Financial Statements, continued

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

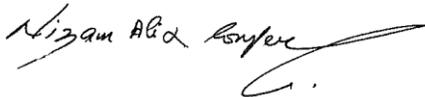
We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We are also required to provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period.

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

December 31, 2020

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Statement of Financial Position

October 31, 2020

(\$ thousands)

	Notes	2020	2019
ASSETS			
Cash on hand and in transit		1,118,610	1,308,721
Due from banks and related companies	5	18,971,108	12,174,192
Deposits with Central Bank	6	7,063,535	7,120,209
Investment securities	7	6,578,453	3,538,183
Loans to customers	8.1	48,320,315	46,691,304
Assets classified as held for sale	9	28,028	30,628
Property and equipment	10	908,571	679,872
Deferred tax asset	15.1	568,165	75,130
Other assets	11	<u>374,560</u>	<u>494,012</u>
Total assets		<u>83,931,345</u>	<u>72,112,251</u>

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

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Statement of Financial Position (continued)

October 31, 2020

(\$ thousands)

	Notes	2020	2019
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from customers	12.1	67,127,896	56,632,020
Due to banks and other related companies	13	1,146,904	1,043,912
Taxation payable		135,556	354,729
Deferred tax liability	15.1	15,181	11,125
Other liabilities	14	<u>1,858,312</u>	<u>1,399,858</u>
Total liabilities		<u>70,283,849</u>	<u>59,441,644</u>
CAPTIAL AND EQUITY			
Assigned capital	16	251,327	251,327
Other capital	17	801,700	801,700
Statutory reserve fund	18	251,400	251,400
Investment revaluation reserve		23,554	17,771
Retained earnings		<u>12,319,515</u>	<u>11,348,409</u>
Total capital and equity		<u>13,647,496</u>	<u>12,670,607</u>
Total Liabilities, Capital and Equity		<u>83,931,345</u>	<u>72,112,251</u>

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

These financial statements were approved for issue by the Country Manager on December 31, 2020 and signed accordingly:



Raymond Smith
Country Manager

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Statement of Profit or Loss and Other Comprehensive Income

For the year ended October 31, 2020

(\$ thousands)

	Notes	2020	2019
REVENUE			
Interest income	20	4,854,788	5,240,315
Interest expense	21	<u>229,944</u>	<u>217,816</u>
Net interest income		<u>4,624,844</u>	<u>5,022,499</u>
Other income		2,724,462	2,826,780
Fee and commission expense		<u>(458,706)</u>	<u>(460,728)</u>
Net other income	22	<u>2,265,756</u>	<u>2,366,052</u>
Total revenue		<u>6,890,600</u>	<u>7,388,551</u>
NON-INTEREST EXPENSES			
Salaries and other staff benefits		895,874	896,092
Premises and technology		757,877	668,738
Communication and marketing		109,277	135,312
Other expenses	23	<u>1,181,880</u>	<u>1,044,808</u>
Total non-interest expenses		<u>2,944,908</u>	<u>2,744,950</u>
Net impairment loss on financial assets	8.9	<u>1,715,664</u>	<u>514,015</u>
Profit before taxation		2,230,028	4,129,586
Income tax expense	24.1	<u>(894,439)</u>	<u>(1,871,094)</u>
Profit for the year		<u>1,335,589</u>	<u>2,258,492</u>
OTHER COMPREHENSIVE INCOME			
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Expected credit losses on deposits with banks at FVTOCI		(27)	(5,400)
Expected credit losses on investment securities at FVTOCI		251	524
Fair value re-measurement of investments at FVTOCI		10,139	(19,083)
Related tax	24.3	<u>(4,055)</u>	<u>7,633</u>
Other comprehensive income (loss) for the year, net of tax		<u>6,308</u>	<u>(16,326)</u>
Total comprehensive income		<u>1,341,897</u>	<u>2,242,166</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, 2020

(\$ thousands)

	Assigned Capital	Other Capital Reserve	General Banking Risk Reserve	Statutory Reserve	Investment Revaluation Reserve	Retained Earnings	Total
<u>Year ended 31 October 2020</u>							
Balance as at 31 October 2019	251,327	801,700	-	251,400	17,771	11,348,409	12,670,607
Cumulative effect of IFRS 9	-	-	-	-	(525)	-	(525)
Adjusted balance	251,327	801,700	-	251,400	17,246	11,348,409	12,670,082
Net income for the period	-	-	-	-	-	1,335,589	1,335,589
Other comprehensive income, net of tax							
Revaluation of FVTOCI/AFS	-	-	-	-	6,335	-	6,335
Revaluation of deposit with banks at FVTOCI	-	-	-	-	(27)	-	(27)
Withholding taxes paid	-	-	-	-	-	(364,483)	(364,483)
Balance as at 31 October, 2020	251,327	801,700	-	251,400	23,554	12,319,515	13,647,496
<u>Year ended 31 October 2019</u>							
Balance as at 31 October 2018	251,327	801,700	561,551	251,400	28,138	13,682,599	15,576,715
Cumulative effect of adopting IFRS 9	-	-	-	-	5,959	(627,939)	(621,980)
Cumulative effect of adopting IFRS 15	-	-	-	-	-	(23,935)	(23,935)
Adjusted balance	251,327	801,700	561,551	251,400	34,097	13,030,725	14,930,800
Net income for the period	-	-	-	-	-	2,258,492	2,258,492
Other comprehensive income, net of tax							
Revaluation of FVTOCI/AFS	-	-	-	-	(10,926)	-	(10,926)
Revaluation of deposit with banks at FVTOCI	-	-	-	-	(5,400)	-	(5,400)
Withholding taxes paid	-	-	-	-	-	(377,222)	(377,222)
Transfer of Profits	-	-	-	-	-	(4,125,137)	(4,125,137)
Transfer to reserve	-	-	(561,551)	-	-	561,551	-
Balance as at 31 October, 2019	251,327	801,700	-	251,400	17,771	11,348,409	12,670,607

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, 2020

(\$ thousands)

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		2,230,028	4,129,586
Adjustments for:			
- Interest income	20	(4,854,788)	(5,240,315)
- Interest expense	21	229,944	217,816
- Depreciation and amortisation	10	172,104	98,959
- Loss on disposal of property and equipment		-	47,185
Changes in:			
- Right of use asset		48,333	-
- Deposits with Central Bank		56,674	127,150
- Loans to customers		(2,410,178)	1,738,202
- Allowance for credit losses		1,166,684	99,702
- Other assets		207,085	(313,055)
- Deposits from customers		10,496,796	(2,068,235)
- Other liabilities		458,454	308,902
-Due to banks and related companies		102,441	(115,115)
- Interest received		4,521,942	5,224,432
- Interest paid		(230,865)	(220,351)
- Taxation paid		<u>(1,744,350)</u>	<u>(1,827,201)</u>
Net cash from operating activities		<u>10,450,304</u>	<u>2,207,662</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Change in investments securities		(3,029,880)	3,315,742
Purchase of property and equipment	10	<u>(449,136)</u>	<u>(54,537)</u>
Net cash (used in) from investing activities		<u>(3,479,016)</u>	<u>3,261,205</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Remittances including withholding tax		<u>(364,483)</u>	<u>(4,502,359)</u>
Net cash used in financing activities		<u>(364,483)</u>	<u>(4,502,359)</u>

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

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Statement of Cash Flows (continued)

For the year ended October 31, 2020

(\$ thousands)

	Notes	2020	2019
Net increase in cash and cash equivalents		6,606,805	966,508
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		<u>13,482,913</u>	<u>12,516,405</u>
CASH AND CASH EQUIVALENTS, END OF YEAR		<u>20,089,718</u>	<u>13,482,913</u>
CASH AND CASH EQUIVALENTS REPRESENTED BY			
Cash on hand and in transit		1,118,610	1,308,721
Due from banks and related companies	5	<u>18,971,108</u>	<u>12,174,192</u>
		<u>20,089,718</u>	<u>13,482,913</u>

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

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to the Financial Statements

October 31, 2020

(\$ thousands)

1. Incorporation and Business Activities

The Bank of Nova Scotia – Guyana Branch (Scotiabank or The Bank) was registered on September 23, 1968 as a branch of The Bank of Nova Scotia, 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. Basis of Preparation

(a) *Basis of accounting*

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

(b) *Basis of measurement*

These financial statements are prepared on the historical cost basis, modified for the inclusion of:

- investments at fair value through profit or loss (FVTPL).
- investments measured at fair value through other comprehensive income (FVOCI).
- equity instruments designated at fair value through other comprehensive income.

(c) *Functional and presentation currency*

Items included in these financial statements of the Scotiabank are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). These financial statements are presented in Guyana dollars, rounded to the nearest thousand, which is Scotiabank's functional and presentation currency.

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to the Financial Statements

October 31, 2020

(\$ thousands)

3. 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:

(a) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefit will flow to Scotiabank and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured as the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duties. Scotiabank has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to credit risk.

The specific recognition criteria described below must also be met before revenue is recognised.

- Interest income

Interest income is accounted for on the accrual basis for financial assets measured at amortised cost calculated on an effective interest basis, other than non-accrual loans. The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial assets (or, where appropriate, a shorter period) to the carrying amount of the financial asset and is not revised subsequently. When calculating the effective interest rate, Scotiabank estimates the future cash flows considering all contractual terms of the financial instrument, but not the future credit losses.

When a loan is classified as non-accrual, accrued but uncollected interest is reversed against income of the current period. Thereafter, interest income is recognised only after the loan reverts to performing status.

Scotiabank 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 include incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset.

- Other income

Other income comprises various fees and commissions, trading income and premium income. Fees and commissions that are material to the effective interest rate on a financial asset is included in the measurement of the effective interest rate.

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to the Financial Statements

October 31, 2020

(\$ thousands)

3. Significant Accounting Policies (continued)

(a) Revenue recognition (continued)

- Deposit and payment services

Scotiabank provides deposit and payment services to retail and commercial customers. Revenue from account servicing fees is recognised over time as the services are provided. Transaction based fees are charged to the customer's account and recognised when the transaction takes place.

- Card revenues

Scotiabank offers a full suite of credit cards for retail and commercial customers for their cash management and financing needs. Revenues include cardholder fees, interchange fees and merchant fees. Revenues are mainly transaction based and recognised when the card transaction takes place.

- Credit fees

Scotiabank Branch provides working capital financing and trade services including bankers' acceptances and letters of credit. Transaction based fees are recognised when the transaction takes place. Loan origination fees are recognised over the term of the loan unless immaterial.

- Other fees and commissions

Other fees and commissions are recognised in income as the related services are performed.

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to the Financial Statements

October 31, 2020

(\$ thousands)

3. Significant Accounting Policies (continued)

(b) Foreign currency transactions

Transactions in foreign currencies are translated at the rate of exchange ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the rate of exchange ruling at the reporting date. Resulting translation differences and profits and losses from trading activities are included in the Statement of Profit or Loss and other comprehensive income.

(c) Financial assets and financial liabilities

Financial instruments carried on the statement of financial position include cash resources, loans and advances to banks and related companies, investment securities including treasury bills and loans to customers, deposits from customers and deposits from banks, subsidiaries and other related parties.

The standard treatment for recognition, de-recognition, classification and measurement of Scotiabank's financial instruments is set out below in notes (i) – (iv), whilst additional information on specific categories of Scotiabank's financial instruments are disclosed in notes 3(d), 3(h) and 3(k).

(i) Recognition

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

A financial asset or financial liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue. For financial assets or financial liabilities measured at fair value through profit or loss, transaction costs are recognised immediately in the statement of profit or loss other comprehensive income.

(ii) Classification and measurement

Scotiabank classifies its financial assets and financial liabilities into the following categories: fair value through profit or loss; fair value through other comprehensive income (FVOCI) and amortized cost. Management determines the classification of its financial assets at initial recognition. Financial assets and financial liabilities include both debt and equity instruments.

Classification of debt instruments is determined based on the business model under which the asset is held and the contractual cash flow characteristics of the instrument.

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to the Financial Statements

October 31, 2020

(\$ thousands)

3. Significant Accounting Policies (continued)

(c) *Financial assets and financial liabilities* (continued)

(ii) *Classification and measurement* (continued)

Business model assessment

Business model assessment involves determining how financial assets are managed in order to generate cash flows. Scotiabank's business model assessment is based on the following categories:

- Held to collect: The objective of the business model is to hold assets and collect contractual cash flows. Any sales of the asset are incidental to the objective of the model ;
- Held to collect and for sale: Both collecting contractual cash flows and sales are integral to achieving the objectives of the business model ;
- Other business model: The business model is neither held-to-collect nor held-to collect and for sale.

Scotiabank assesses business models at a portfolio level reflective of how groups of assets are managed together to achieve a particular business objective. For the assessment of a business model, Scotiabank takes into consideration the following factors:

- How the performance of assets in a portfolio is evaluated and reported to heads and other key decision makers within Scotiabank's business lines;
- How compensation is determined for Scotiabank's business lines' management that manages the assets;
- Whether the assets are held for trading purposes i.e., assets that Scotiabank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking;
- The risks that affect the performance of assets held within a business model and how those risks are managed; and
- The frequency and volume of sales in prior periods and expectations about future sales activity.

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to the Financial Statements

October 31, 2020

(\$ thousands)

3. Significant Accounting Policies (continued)

(c) *Financial assets and financial liabilities* (continued)

(ii) *Classification and measurement* (continued)

Contractual cash flow characteristics assessment

The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instrument due to repayments or amortization of premium/discount.

Interest is defined as the consideration for the time value of money and the credit risk associated with the principal amount outstanding and for other basic lending risks and costs (liquidity risk and administrative costs), and a profit margin.

If Scotiabank identifies any contractual features that could significantly modify the cash flows of the instrument such that they are no longer consistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Debt instruments measured at amortised cost

Debt instruments are measured at amortized cost if they are held within a business model whose objective is to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. After initial measurement, debt instruments in this category are carried at amortised cost. Interest income on these instruments is recognised in interest income using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. Amortized cost is calculated by taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate.

Impairment on debt instruments measured at amortised cost is calculated using the expected credit loss approach. Loans and debt securities measured at amortised cost are presented net of the allowance for credit losses (ACL) in the statement of financial position.

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to the Financial Statements

October 31, 2020

(\$ thousands)

3. Significant Accounting Policies (continued)

(c) *Financial assets and financial liabilities* (continued)

(ii) *Classification and measurement* (continued)

Debt instruments measured at FVOCI

Debt instruments are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the assets' cash flows represent payments that are solely payments of principal and interest. Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVOCI are recorded in other comprehensive income (OCI), unless the instrument is designated in a fair value hedge relationship. When designated in a fair value hedge relationship, any changes in fair value due to changes in the hedged risk are recognised in other income in the statement of profit or loss and other comprehensive income. Upon derecognition, realized gains and losses are reclassified from OCI and recorded in other income in the statement of profit or loss and other comprehensive income. Foreign exchange gains and losses that relate to the amortised cost of the debt instrument are recognised in the statement of profit or loss and other comprehensive income. Premiums, discounts and related transaction costs are amortised over the expected life of the instrument to interest income in the statement of profit or loss and other comprehensive income using the effective interest rate method.

Impairment on debt instruments measured at FVOCI is calculated using the expected credit loss approach. The ACL on debt instruments measured at FVOCI does not reduce the carrying amount of the asset in the statement of financial position, which remains at its fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI with a corresponding charge to net impairment loss on financial assets in the statement of profit or loss and other comprehensive income. The accumulated allowance recognised in OCI is recycled to the statement of profit or loss and other comprehensive income upon derecognition of the debt instrument.

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to the Financial Statements

October 31, 2020

(\$ thousands)

3. Significant Accounting Policies (continued)

(c) *Financial assets and financial liabilities* (continued)

(ii) *Classification and measurement* (continued)

Debt instruments measured at FVTPL

Debt instruments are measured at FVTPL if assets:

- i) Are held for trading purposes;
- ii) Are held as part of a portfolio managed on a fair value basis; or
- iii) Whose cash flows do not represent payments that are solely payments of principal and interest.

These instruments are measured at fair value in the statement of financial position, with transaction costs recognised immediately in the statement of profit or loss and other comprehensive income as part of other income. Realised and unrealised gains and losses are recognised as part of other income in statement of profit or loss and other comprehensive income.

Equity instruments measured at FVTPL

Equity instruments are measured at FVTPL, unless an election is made to designate them at FVOCI upon purchase, with transaction costs recognised immediately in the statement of profit or loss and other comprehensive income as part of other income. Subsequent to initial recognition the changes in fair value are recognised as part of other income in the statement of profit or loss and other comprehensive income.

Equity instruments measured at FVOCI

At initial recognition, there is an irrevocable option for Scotiabank to classify non-trading equity instruments at FVOCI. This election is used for certain equity investments for strategic or longer term investment purposes. This election is made on an instrument-by-instrument basis and is not available to equity instruments that are held for trading purposes.

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to the Financial Statements

October 31, 2020

(\$ thousands)

3. Significant Accounting Policies (continued)

(c) *Financial assets and financial liabilities* (continued)

(ii) *Classification and measurement* (continued)

Gains and losses on these instruments including when derecognised/sold are recorded in OCI and are not subsequently reclassified to the statement of profit or loss and other comprehensive income. As such, there is no specific impairment requirement. As at October 31 2020, there were no equity instruments recognised.

Financial liabilities

Scotiabank classifies its financial liabilities, other than financial guarantees and undrawn loan commitments, as measured at amortised cost or fair value through profit or loss (FVTPL).

Determination of fair value

Fair value of a financial asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal, or in its absence, the most advantageous market to which Scotiabank has access at the measurement date.

Scotiabank values instruments carried at fair value using quoted market prices, where available. Unadjusted quoted market prices for identical instruments represent a Level 1 valuation. When quoted market prices are not available, Scotiabank maximizes the use of observable inputs within valuation models. When all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3.

Inception gains and losses are only recognised where the valuation is dependent only on observable market data, otherwise, they are deferred and amortised over the life of the related contract or until the valuation inputs become observable.

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to the Financial Statements

October 31, 2020

(\$ thousands)

3. Significant Accounting Policies (continued)

(c) *Financial assets and financial liabilities* (continued)

(iii) *Derecognition*

Scotiabank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which Scotiabank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised), and the sum of:

- (i) the consideration received (including any new asset obtained less any new liability assumed); and
- (ii) any cumulative gain or loss that had been recognised in other comprehensive income (OCI) is recognised in the statement of profit or loss.

Scotiabank derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to the Financial Statements

October 31, 2020

(\$ thousands)

3. Significant Accounting Policies (continued)

(c) *Financial assets and financial liabilities* (continued)

(iv) *Offsetting*

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, Scotiabank has a current legally enforceable right to set off the amounts and it intends to either settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis when permitted under IFRS, or for gains and losses arising from a group of similar transactions

(d) *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 convertible to known amounts of cash on hand and is subject to insignificant risk of change in value.

(e) *Impairment of financial assets*

Scotiabank applies a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9, for the following categories of financial instruments that are not measured at fair value through profit or loss.

- Amortized cost financial assets;
- Debt securities classified as at FVOCI;
- Off-balance sheet loan commitments; and
- Financial guarantee contracts.

(i) *Expected credit loss impairment model*

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

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to the Financial Statements

October 31, 2020

(\$ thousands)

3. Significant Accounting Policies (continued)

(e) Impairment of financial assets (continued)

(i) Expected credit loss impairment model (continued)

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

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

October 31, 2020

(\$ thousands)

3. Significant Accounting Policies (continued)

(e) *Impairment of financial assets* (continued)

(ii) *Measurement of expected credit loss*

The probability of default (PD), exposure at default (EAD), and loss given default (LGD) inputs used to estimate expected credit losses are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio. Details of these statistical parameters/inputs are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life, if the facility has not been previously derecognized and is still in the portfolio.
- EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

(iii) *Forward-looking information*

The estimation of expected credit losses for each stage and the assessment of significant increases in credit risk consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information may require significant judgment.

(iv) *Macroeconomic factors*

In its models, Scotiabank relies on a broad range of forward-looking economic information as inputs, such as: GDP growth, unemployment rates and central-bank interest rates. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays may be made as temporary adjustments using expert credit judgment.

October 31, 2020

(\$ thousands)

3. Significant Accounting Policies(continued)

(e) *Impairment of financial assets* (continued)

(v) *Multiple forward-looking scenarios*

Scotiabank determines its allowance for credit losses using three probability-weighted forward-looking scenarios. Scotiabank considers both internal and external sources of information and data in order to achieve unbiased projections and forecasts. Scotiabank prepares the scenarios using forecasts generated by Scotiabank Economics (SE). The forecasts are created using internal and external models which are modified by SE as necessary to formulate a 'base case' view of the most probable future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The process involves the development of two additional economic scenarios and consideration of the relative probabilities of each outcome.

The 'base case' represents the most likely outcome and is aligned with information used by Scotiabank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Scotiabank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables, credit risk, and credit losses.

(vi) *Assessment of significant increase in credit risk (SIR)*

At each reporting date, Scotiabank assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information without consideration of collateral, and the impact of forward-looking macroeconomic factors.

The common assessments for SIR on retail and non-retail portfolios include macroeconomic outlook, management judgment, and delinquency and monitoring. Forward-looking macroeconomic factors are a key component of the macroeconomic outlook. The importance and relevance of each specific macroeconomic factor depends on the type of product, characteristics of the financial instruments and the borrower and the geographical region. Quantitative models may not always be able to capture all reasonable and supportable information that may indicate a significant increase in credit risk. Qualitative factors may be assessed to supplement the gap. Examples of situations include changes in adjudication criteria for a particular group of borrowers; changes in portfolio composition; and natural disasters impacting certain portfolios. With regards to delinquency and monitoring, there is a rebuttable presumption that the credit risk of the financial instrument has increased since initial recognition when contractual payments are more than 30 days overdue.

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to the Financial Statements

October 31, 2020

(\$ thousands)

3. Significant Accounting Policies (continued)

(e) *Impairment of financial assets* (continued)

(vi) *Assessment of significant increase in credit risk (SIR)* (continued)

Retail portfolio – For retail exposures, a significant increase in credit risk cannot be assessed using forward looking information at an individual account level. Therefore, the assessment must be done at the segment level. Segment migration thresholds exist for each PD model by product which considers the proportionate change in PD as well as the absolute change in PD. The thresholds used for PD migration are reviewed and assessed at least annually, unless there is a significant change in credit risk management practices in which case the review is brought forward.

Non-retail portfolio – Scotiabank uses a risk rating scale (IG codes) for its non-retail exposures. All non-retail exposures have an IG code assigned that reflects the probability of default of the borrower. Both borrower specific and non-borrower specific (i.e. macroeconomic) forward looking information is considered and reflected in the IG rating. Significant increase in credit risk is evaluated based on the migration of the exposures among IG codes.

(vii) *Expected life*

When measuring expected credit loss, Scotiabank considers the maximum contractual period over which Scotiabank is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment, and extension and rollover options. For certain revolving credit facilities, such as credit cards, the expected life is estimated based on the period over which Scotiabank is exposed to credit risk and how the credit losses are mitigated by management actions.

(viii) *Presentation of allowance for credit losses in the Statement of Financial Position*

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the financial assets;
- Debt instruments measured at fair value through other comprehensive income: no allowance is recognised in the statement of financial position because the carrying value of these assets is their fair value.
- Off-balance sheet credit risks include undrawn lending commitments, letters of credit and letters of guarantee: as a provision in other liabilities.

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to the Financial Statements

October 31, 2020

(\$ thousands)

3. Significant Accounting Policies (continued)

(e) *Impairment of financial assets* (continued)

(ix) *Modified financial assets*

If the terms of a financial asset are modified or an existing financial asset is replaced with a new one, an assessment is made to determine if the existing financial asset should be derecognised. Where a modification does not result in derecognition, the date of origination continues to be used to determine SIR. Where a modification results in derecognition, the new financial asset is recognised at its fair value on the modification date. The modification date is also the date of origination for this new asset.

Scotiabank may modify the contractual terms of loans for either commercial or credit reasons. The terms of a loan in good standing may be modified for commercial reasons to provide competitive pricing to borrowers. Loans are also modified for credit reasons where the contractual terms are modified to grant a concession to a borrower that may be experiencing financial difficulty.

For all financial assets modifications of the contractual terms may result in derecognition of the original asset when the changes to the terms of the loans are considered substantial. These terms include interest rate, authorised amount, term, or type of underlying collateral. The original loan is derecognised and the new loan is recognised at its fair value. The difference between the carrying value of the derecognised asset and the fair value of the new asset is recognised in the statement of profit or loss and other comprehensive income.

For all loans, performing and credit-impaired, where the modification of terms did not result in the derecognition of the loan, the gross carrying amount of the modified loan is recalculated based on the present value of the modified cash flows discounted at the original effective interest rate and any gain or loss from the modification is recorded in the net impairment loss on financial assets line in the statement of profit or loss and other comprehensive income.

(x) *Definition of default*

Scotiabank considers a financial instrument to be in default as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. This includes events that indicate:

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

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to the Financial Statements

October 31, 2020

(\$ thousands)

3. Significant Accounting Policies (continued)

(e) *Impairment of financial assets* (continued)

(x) *Definition of default* (continued)

Scotiabank considers that default has occurred and classifies the financial asset as impaired when it is more than 90 days past due, with the exception of credit card receivables that are treated as defaulted when 180 days past due, unless reasonable and supportable information demonstrates that a more lagging default criterion is appropriate.

(xi) *Write-off policy*

Scotiabank writes off an impaired financial asset (and the related impairment allowance), either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, write-off is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier. Credit card receivables 180 days past due are written-off. In subsequent periods, any recoveries of amounts previously written off are credited to the net impairment loss on financial assets shown in the statement of profit or loss and other comprehensive income.

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to the Financial Statements

October 31, 2020

(\$ thousands)

3. Significant Accounting Policies (continued)

(f) Property and equipment

(i) Recognition and measurement

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

Cost includes expenditures 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. Scotiabank has not incurred any significant expenditure on software that is not an integral part of related hardware as classified under property and equipment.

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to the Financial Statements

October 31, 2020

(\$ thousands)

3. Significant Accounting Policies (continued)

(f) *Property and equipment* (continued)

(i) *Recognition and measurement* (continued)

Any gain or loss on disposal of an item of property and equipment is recognised within other income in the statement of profit and loss and other comprehensive income.

(ii) *Subsequent cost*

The cost of replacing part of an item of property 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 Scotiabank over a period exceeding one year and its cost can be measured reliably. The cost of the day-to-day servicing of property and equipment is recognised in the statement of profit and loss and other comprehensive income as incurred.

(iii) *Depreciation*

Depreciation and amortisation are provided, on the straight-line basis, over the estimated useful lives of the respective assets at the following rates:

Buildings	- 40 years
Equipment and furniture	- 5 to 10 years
Motor Vehicles	- 5 years
Leasehold improvements	- 5 years.

Depreciation methods, useful lives and residual values are reviewed, and adjusted if appropriate, at each reporting date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

(g) *Leases*

The Bank has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and is reported under IAS 17. Accounting policies prior to 1 November 2019 under IAS 17 are disclosed separately.

Policy applicable from 1 November, 2019

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to the Financial Statements

October 31, 2020

(\$ thousands)

3. Significant Accounting Policies (continued)

(g) *Leases* (continued)

(i) *As a lessee*

The Bank recognises a right-of-use (“ROU”) asset and a lease liability at the lease commencement date. An ROU asset represents a lessee’s right to use an underlying asset for the lease term. The ROU asset is initially measured at cost, which is based on the initial amount of the lease liability, and any direct costs incurred, any lease payments made at or before the commencement date net of lease incentives received, and estimated decommissioning costs.

The ROU asset is subsequently measured at cost less accumulated depreciation and accumulated impairment losses, if any. The ROU asset is depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the ROU asset or the end of the lease term. The depreciation is recorded in depreciation and amortisation in the statement of profit or loss and other comprehensive income. In addition, the ROU asset is adjusted for certain re-measurements of the lease liability.

At commencement date, the Bank initially measures the lease liability at the present value of the future lease payments, discounted using the Bank’s incremental borrowing rate. The Bank’s discount rate is based on the borrowing rate on its debt of different maturities that match the term of the lease. The discount rate is also dependent on the Bank’s credit risk and economic environment in which the lease is entered.

The lease liability is subsequently measured at amortised cost using the effective interest method. It is re-measured if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the ROU asset, or is recorded in the statement of profit or loss and other comprehensive income if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents ROU assets in “Property and equipment” and lease liabilities in “Other liabilities” in the Statement of Financial Position.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise ROU assets and lease liabilities for short-term leases of assets that have a lease term of 12 months or less and leases of low-value assets. The Bank recognises the lease payment associated with these leases as an expense on a straight-line basis over the lease term

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to the Financial Statements

October 31, 2020

(\$ thousands)

3. Significant Accounting Policies (continued)

(g) Leases (continued)

(ii) Determining lease term

The Bank's expectation of exercising the option to renew a lease is determined by assessing if the Bank is "reasonably certain" to exercise that option. The Bank will be reasonably certain to exercise an option when factors create a significant economic incentive to do so. This assessment requires a significant level of judgement as it is based on current expectations of future decisions. The Bank considers the following criteria when determining whether it has an economic incentive that makes it reasonably certain to exercise an option: key locations for its branch network, locations on which the Bank has spent significant capital on renovation work, contribution to profit, value of locations based on current economic environment and the remaining term of existing leases.

Policy applicable before 1 November, 2019

(iii) Lease payments – Lessee

Payments made under operating leases are recognised in statement of profit or loss and other comprehensive income on the straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iv) Leased assets – Lessee

Assets held by the Bank under leases that transfer to the Bank substantially all of the risks and rewards of ownership are classified as finance leases. The leased asset is initially measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Bank's consolidated statement of financial position.

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to the Financial Statements

October 31, 2020

(\$ thousands)

3. Significant Accounting Policies (continued)

(h) Taxation

Income tax expense comprises current tax and the change in deferred tax. It is recognised in the statement of profit or loss and other comprehensive income except to the extent that it relates to items recognised directly in equity or in OCI. Current tax comprises tax payable calculated on the basis of the 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 recognised on all temporary differences arising 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, except to the extent that it relates to items previously charged or credited directly to equity.

In determining the amount of current and deferred tax, Scotiabank considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgment about future events. New information may become available that causes Scotiabank to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact income tax expense in the period in which such a determination is made.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that future taxable profits will be available against which they can be used.

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to the Financial Statements

October 31, 2020

(\$ thousands)

3. Significant Accounting Policies (continued)

(i) *Employee benefits*

(i) *Short-term*

Employee benefits are all forms of consideration given by Scotiabank 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. Post-employment benefits are accounted for as described below.

(ii) *Post-employment*

Scotiabank operates a non-contributory defined benefit pension plan covering the majority of its employees. The funds of the plan are administered by the Head Office. Normal retirement age is sixty five (65) years and membership of the plan is non-contributory.

This defined-benefit pension plan became closed to new employees from November 1, 2018.

In fiscal 2021, Scotiabank will begin operating a defined contribution pension plan in which all pension service from November 1, 2018 will be earned for Scotiabank's employees. This new plan will also be non-contributory but additional voluntary contributions will be permitted.

All regular full-time employees as at November 1, 2018 will be eligible for membership in this new plan. The twelve (12) months of continuous service with the Bank criterion will still be in effect.

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

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to the Financial Statements

October 31, 2020

(\$ thousands)

3. Significant Accounting Policies (continued)

(i) *Employee benefits* (continued)

(iii) *Post-employment* (continued)

Other post-employment benefits

Scotiabank provides post-employment medical and life assurance benefits for retirees. The entitlement to this benefit is usually based on the employees remaining in service up to retirement age and the completion of a minimum service period. The method of accounting used to recognise the liability is similar to that for the defined benefit plan.

(j) *Acceptances, guarantees and letters of credit*

Financial guarantees are contracts that require Scotiabank to make specified payments to reimburse the holder for a loss that occurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument.

‘Loan commitments’ are firm commitments to provide credit under pre-specified terms and conditions.

Scotiabank’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, 2020 total \$3,079 million (2019: \$3,311million). In the event of a call on these commitments, Scotiabank has equal and offsetting claims against its customers.

(k) *Deposit liabilities*

Deposits from customers are Scotiabank’s source of funds. Deposits are initially measured at fair value and subsequently measured at their amortised cost using the effective interest method.

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

(l) *Impairment of non-financial assets*

The carrying amounts of Scotiabank’s assets, other than deferred tax assets (see Note 3 (h)) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists for that asset, that 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 BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to the Financial Statements

October 31, 2020

(\$ thousands)

3. Significant Accounting Policies (continued)

(l) *Impairment of non-financial assets* (continued)

The recoverable amount of other assets is the greater of their value in use and their fair value less costs to sell. 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.

(m) *Provisions*

A provision is recognised, if as a result of a past event, Scotiabank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to the Financial Statements

October 31, 2020

(\$ thousands)

3. Significant Accounting Policies (continued)

(n) *New, revised and amended standards and interpretations that became effective during the year*

Certain new, revised and amended standards and interpretations came into effect during the current financial year. Scotiabank has assessed them and has adopted those which are relevant to its financial statements:

IFRS 16, Leases

On November 1, 2019, the Bank adopted IFRS 16, *Leases*. The new standard replaces the previous standard IAS 17, *Leases*. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases were accounted for under IAS 17. Lessor accounting remains largely unchanged under IFRS 16.

IFRS 16 applies to all leases with the exception of assets within the scope of IAS 38 *Intangible Assets*. IFRS 16 requires lessees to recognise a right-of-use (ROU) asset and a corresponding lease liability on the statement of financial position. The ROU asset will be amortised over the length of the lease, and the financial liability measured at amortised cost. The Bank will also recognize amortization expense on the ROU asset in non-interest expenses and interest expense on the lease liability in interest expenses, in the statement of profit or loss and other comprehensive income.

The Bank applied IFRS 16 on a modified retrospective approach and opted not to restate comparative periods. The Bank applied the following transition options available under the modified retrospective approach:

- Measure the ROU asset at the date of initial application as equal to lease liability.
- Not apply IFRS 16 to operating leases with a remaining lease term of less than 12 months (short-term leases) or low value assets.
- Not apply IFRS 16 to leases of intangible assets.

The adoption of IFRS 16 increased property and equipment by \$437 million and increased other liabilities by the same amount. This amount represents real estate leases recognised as a ROU asset and a corresponding increase in lease liabilities. There was no impact on equity.

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3. *Significant Accounting Policies (continued)*

(o) *New standards, amendments and interpretations not yet adopted*

The following amended standards are not expected to have a significant impact on Scotiabank's financial statements.

Effective November 1, 2019

- Amendment to IFRS 9 *Financial Instruments*: prepayment features with negative compensation
- IFRIC 23 *Uncertainty over Income Tax Treatments*
- Amendments to IAS 19, *Employee Benefits*: Plan Amendment, Curtailment or Settlement
- Amendments to IAS 28, *Investments in Associates and Joint Ventures*: Long-term interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards: various standards

Effective November 1, 2020

- Revised Conceptual Framework for Financial Reporting
- Amendment to IFRS 3, *Business Combinations*: Definition of a business
- Amendments to IAS 1, *Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*: Definition of material

Effective November 1, 2021

IFRS 17, Insurance Contracts, which is effective for annual reporting periods beginning on or after January 1, 2021, provides a comprehensive principle-based framework for the measurement and presentation of all insurance contracts. The new standard will replace IFRS 4 Insurance Contracts and requires insurance contracts to be measured using current fulfillment cash flows and for revenue to be recognised as the service is provided over the coverage period.

The Bank is assessing the impact that this new standard will have on its 2022 financial statements.

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Notes to the Financial Statements

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4. Use of Judgments and Estimates

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of Scotiabank's accounting policies and the reported amount of assets, liabilities, income and expenses and contingent assets and contingent liabilities. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

A. Judgments

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognised in these financial statements are described below:

Classification of financial assets

Scotiabank's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

B. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the next financial year to amounts reported as at and for the year ended October 31, 2020 is included below on pages 40-41.

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Notes to the Financial Statements

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4. Use of Judgments and Estimates (continued)

B. Assumptions and estimation uncertainties (continued)

(a) Allowances for credit losses

Scotiabank's allowance calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs. Some of the key drivers include the following:

- Changes in risk ratings of the borrower or instrument reflecting changes in their credit quality;
- Changes in the volumes of transactions;
- Changes in the forward-looking macroeconomic environment reflected in the variables used in the models such as GDP growth, unemployment rates, commodity prices, and house price indices, which are most closely related with credit losses in the relevant portfolio;
- Changes in macroeconomic scenarios and the probability weights assigned to each scenario; and
- Borrower migration between the three stages which can result from changes to any of the above inputs and assumptions.

(b) Determining fair values with significant unobservable inputs

The determination of fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(c)(ii). 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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October 31, 2020

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4. Use of Judgements and Estimates (continued)

B. Assumptions and estimation uncertainties (continued)

(c) Taxation

Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Scotiabank recognises liabilities for possible tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. Due from banks and related companies

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

	<u>2020</u>	<u>2019</u>
Deposits with Central Bank other than statutory deposits	10,929,452	2,747,725
Deposits with head office and related companies	8,026,717	9,419,389
Deposits with other banks	14,939	7,078
	<u>18,971,108</u>	<u>12,174,192</u>
Maturity of assets		
Assets with original maturity date less than 3 months	<u>18,971,108</u>	<u>12,174,192</u>

6. 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 Bank of Guyana, a cash reserve balance equivalent to 12% of total prescribed liabilities. However; in keeping with the COVID 19 relief measures the Central Bank reduced the requirement to 10% until December 31, 2020.

Additionally, in accordance with the Financial Institutions Act 1995, Section 7(2), an assigned capital has been maintained and pledged with the Bank of Guyana.

	<u>2020</u>	<u>2019</u>
Primary Reserve	6,812,208	6,868,882
Assigned Capital Pledged	251,327	251,327
	<u>7,063,535</u>	<u>7,120,209</u>

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Notes to the Financial Statements

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7. Investment Securities

	<u>2020</u>	<u>2019</u>
Government of Guyana	6,578,453	3,538,183
	<u>6,578,453</u>	<u>3,538,183</u>
 <i>Maturity of assets</i>		
Assets with original maturity date over 3 months	<u>3,483,685</u>	<u>3,289,595</u>

8. Loans and advances to customers**8.1 Loans and advances**

	<u>2020</u>	<u>2019</u>
Loans and advances to customers	50,387,464	47,977,286
Allowance for impairment	<u>(2,680,141)</u>	<u>(1,513,457)</u>
Total loans net of impairment allowance	47,707,323	46,463,829
Interest receivable	<u>612,992</u>	<u>227,475</u>
Total loans to customers	<u>48,320,315</u>	<u>46,691,304</u>

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to the Financial Statements

October 31, 2020

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8. Loans and advances to customers (continued)**8.2 Loans and advances impairment profile**

	<u>2020</u>	<u>2019</u>
Principal neither past due nor impaired	32,991,362	36,788,485
Principal which is past due but not impaired	13,859,082	7,437,374
Principal which is impaired	3,537,020	3,751,427
	<hr/>	<hr/>
Gross loans	50,387,464	47,977,286
Loan loss provision	(2,680,141)	(1,513,457)
	<hr/>	<hr/>
Total net of provision	47,707,323	46,463,829
Interest receivable	612,992	227,475
	<hr/>	<hr/>
	<u>48,320,315</u>	<u>46,691,304</u>

8.3 Loans past due but not impaired

	<u>2020</u>			
	<u>Less than 30 days</u>	<u>30 – 60 days</u>	<u>61 – 89 days</u>	<u>Total</u>
Loans and advances to customers				
Commercial loans	660,499	70,789	26,463	757,751
Retail loans	10,126,553	2,027,119	947,659	13,101,331
	<hr/>	<hr/>	<hr/>	<hr/>
	<u>10,787,052</u>	<u>2,097,908</u>	<u>974,122</u>	<u>13,859,082</u>
	<u>2019</u>			
	<u>Less than 30 days</u>	<u>30 – 60 days</u>	<u>61 – 89 days</u>	<u>Total</u>
Loans and advances to customers				
Commercial loans	202,017	28,419	55,612	286,048
Retail loans	5,249,708	1,128,661	772,957	7,151,326
	<hr/>	<hr/>	<hr/>	<hr/>
	<u>5,451,725</u>	<u>1,157,080</u>	<u>828,569</u>	<u>7,437,374</u>

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Notes to the Financial Statements

October 31, 2020

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8. Loans to Customers (continued)

8.4 Loans and advances to customers

	2020			
	Gross loans	Impairment allowance	Interest receivable	Carrying amount
Loans and advances to customers				
Commercial loans	17,050,285	(624,443)	59,699	16,485,541
Retail loans	<u>33,337,179</u>	<u>(2,055,698)</u>	<u>553,293</u>	<u>31,834,774</u>
	<u>50,387,464</u>	<u>(2,680,141)</u>	<u>612,992</u>	<u>48,320,315</u>
	2019			
	Gross loans	Impairment allowance	Interest receivable	Carrying amount
Loans and advances to customers				
Commercial loans	14,635,812	(294,010)	55,860	14,397,662
Retail loans	<u>33,341,474</u>	<u>(1,219,447)</u>	<u>171,615</u>	<u>32,293,642</u>
	<u>47,977,286</u>	<u>(1,513,457)</u>	<u>227,475</u>	<u>46,691,304</u>

8.5 Concentration of credit

Scotiabank monitors concentrations of credit risk by sector based on the volume of loans granted to retail and commercial customers based on their industry sector. An analysis of concentrations of credit risk from gross loans, inclusive of interest receivable, to customers is shown below.

	2020	2019
Agriculture	188,954	181,282
Mining & Quarrying	945,481	1,051,711
Manufacturing	2,219,135	2,509,129
Mortgages - Residential	26,545,630	25,339,711
Construction & Engineering	964,837	940,854
Services	12,881,299	9,925,057
Public Sector	30,500	39,853
Trade Credit Instruments	2,596,240	2,994,099
Resident Consumers	4,346,198	5,119,661
Non – Resident consumers	<u>282,182</u>	<u>103,404</u>
	<u>51,000,456</u>	<u>48,204,761</u>

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Notes to the Financial Statements

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8. Loans to Customers (continued)*Loans and advances to customers (continued)***8.6 Impaired loans**

	2020		
	Gross impaired loans	Allowance for credit losses	Net
Loans and advances to customers			
Commercial loans	1,688,289	(158,891)	1,529,398
Retail loans	1,848,731	(795,722)	1,053,009
	<u>3,537,020</u>	<u>(954,613)</u>	<u>2,582,407</u>
	2019		
	Gross impaired loans	Allowance for credit losses	Net
Loans and advances to customers			
Commercial loans	1,632,611	(192,973)	1,439,638
Retail loans	2,118,816	(471,790)	1,647,026
	<u>3,751,427</u>	<u>(664,763)</u>	<u>3,086,664</u>

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Notes to the Financial Statements

October 31, 2020

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8. Loans to Customers (continued)*Loans and advances to customers (continued)***8.7 Allowance for credit losses**

	2020			
	Stage1	Stage2	Stage3	Total
Loans and advances to customers				
Commercial loans	310,603	154,949	158,891	624,443
Retail loans	447,722	812,254	795,722	2,055,698
	<u>758,325</u>	<u>967,203</u>	<u>954,613</u>	<u>2,680,141</u>

	2019			
	Stage1	Stage2	Stage3	Total
Loans and advances to customers				
Commercial loans	1,862	99,175	192,973	294,010
Retail loans	152,324	595,333	471,790	1,219,447
	<u>154,186</u>	<u>694,508</u>	<u>664,763</u>	<u>1,513,457</u>

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Notes to the Financial Statements

October 31, 2020

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8. Loans to Customers (continued)*Loans and advances to customers (continued)*

	<u>2020</u>	<u>2019</u>
8.8 Analysis of movement of impairment allowance		
Allowance, beginning of		
year	1,513,457	785,816
IFRS 9 transitional		
adjustment	-	627,939
Adjusted balance	1,513,457	1,413,755
Additions/ deductions		
Impairment		
Charge/ (credit) for the year	1,756,513	619,805
Write-offs	(589,829)	(520,103)
Net increase in impairment allowance for		
the year	<u>1,166,684</u>	<u>99,702</u>
Allowance, end of year	<u>2,680,141</u>	<u>1,513,457</u>
8.9 Net impairment loss on		
<i>financial assets</i>		
Impairment charge for the		
year	1,794,122	619,805
Recoveries	(78,458)	(105,790)
	<u>1,715,664</u>	<u>514,015</u>

9. Assets classified as 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.

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10. Property and Equipment

	Land & Building	Leasehold Imp.	Equipment & Furniture	Motor Vehicle	Right-of- Use Asset	Total
October 31, 2020						
Cost						
At beginning of year	644,374	295,595	1,544,563	29,682	-	2,514,214
Additions	830	536	10,131	-	437,639	449,136
Disposals/transfers				-	(48,333)	(48,333)
At end of year	<u>645,204</u>	<u>296,131</u>	<u>1,554,694</u>	<u>29,682</u>	<u>389,306</u>	<u>2,915,017</u>
Accumulated depreciation						
At beginning of year	245,327	271,239	1,292,609	25,167	-	1,834,342
Charge for year	<u>14,422</u>	<u>7,737</u>	<u>67,273</u>	<u>4,383</u>	<u>78,289</u>	<u>172,104</u>
At end of year	<u>259,749</u>	<u>278,976</u>	<u>1,359,882</u>	<u>29,550</u>	<u>78,289</u>	<u>2,006,446</u>
Net book value	<u>385,455</u>	<u>17,155</u>	<u>194,812</u>	<u>132</u>	<u>311,017</u>	<u>908,571</u>

THE BANK OF NOVA SCOTIA – GUYANA BRANCH

Notes to the Financial Statements

October 31, 2020

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10. Property and Equipment (continued)

	Land & Building	Leasehold Imp.	Equipment & Furniture	Motor Vehicle	Work in progress	Total
October 31, 2019						
<i>Cost</i>						
At beginning of year	644,374	293,296	1,510,985	29,682	28,525	2,506,862
Additions	-	2,299	33,578	-	18,660	54,537
Disposals/transfers	-	-	-	-	(47,185)	(47,185)
At end of year	<u>644,374</u>	<u>295,595</u>	<u>1,544,563</u>	<u>29,682</u>	<u>-</u>	<u>2,514,214</u>
<i>Accumulated depreciation</i>						
At beginning of year	230,921	261,686	1,223,434	19,342	-	1,735,383
Charge for year	14,406	9,553	69,175	5,825	-	98,959
Disposals	-	-	-	-	-	-
At end of year	<u>245,327</u>	<u>271,239</u>	<u>1,292,609</u>	<u>25,167</u>	<u>-</u>	<u>1,834,342</u>
<i>Net book value</i>	<u>399,047</u>	<u>24,356</u>	<u>251,954</u>	<u>4,515</u>	<u>-</u>	<u>679,872</u>

There were no capitalised borrowing costs related to the acquisition of property and equipment during the year (2019: NIL).

11. Other Assets

	<u>2020</u>	<u>2019</u>
Accounts receivable and prepayments	216,293	390,176
Clearing items in transit	103,951	72,419
Others	<u>54,316</u>	<u>31,417</u>
	<u>374,560</u>	<u>494,012</u>

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Notes to the Financial Statements

October 31, 2020

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	<u>2020</u>	<u>2019</u>
12. Deposits from customers		
12.1 Demand	21,022,057	16,980,294
Savings	43,215,167	36,449,740
Term	<u>2,879,977</u>	<u>3,190,370</u>
	67,117,201	56,620,404
Accrued Interest	<u>10,695</u>	<u>11,616</u>
	<u>67,127,896</u>	<u>56,632,020</u>
12.2 Concentration of deposits		
Public Sector	840,233	1,098,005
Financial Corp. other than Commercial Banks	1,868,708	2,370,961
Private Sector	21,722,437	12,508,764
Individuals	31,383,193	32,901,110
Non-Residents	<u>11,313,325</u>	<u>7,753,180</u>
	<u>67,127,896</u>	<u>56,632,020</u>
13. Due to banks and related companies		
Related companies	8,133	19,722
Banks	<u>1,138,771</u>	<u>1,024,190</u>
	<u>1,146,904</u>	<u>1,043,912</u>
14. Other liabilities		
Deferred Income	36,027	38,307
Unclaimed accounts	406,449	237,321
Accrued charges and other payables	975,374	931,384
Provision for operational losses	8,489	13,819
Other	<u>431,973</u>	<u>179,027</u>
	<u>1,858,312</u>	<u>1,399,858</u>

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Notes to the Financial Statements

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	<u>2020</u>	<u>2019</u>
15. Deferred taxation		
15.1 The net deferred tax liabilities (asset) is attributable to the following items:		
<i>Deferred tax liability</i>		
Investment securities at FVOCI	15,181	11,125
	<u>15,181</u>	<u>11,125</u>
<i>Deferred tax asset</i>		
Property and equipment	(54,206)	(59,807)
IFRS 16 ROU Asset/Lease liability	(1,356)	-
IFRS 9 ECL	(498,192)	-
Deferred Income	(14,411)	(15,323)
	<u>(568,165)</u>	<u>(75,130)</u>
<i>Net deferred tax liability (asset)</i>	<u>(552,984)</u>	<u>(64,005)</u>
15.2 The movement in the deferred tax amount comprised:		
Balance at beginning of year	(64,005)	(198,010)
<i>Amounts recognised in OCI</i>		
- Investment securities at FVOCI	4,055	(7,633)
<i>Amounts recognised in profit or loss</i>		
- Current year's deferred tax (Note 24.1)	(493,034)	141,638
Balance at end of year	<u>(552,984)</u>	<u>(64,005)</u>

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Notes to the Financial Statements

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16. Assigned capital

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

17. Other capital

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

18. 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).

19. General banking risk reserve

The Bank 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 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.

	<u>2020</u>	<u>2019</u>
20. Interest Income		
Loans and receivables	4,729,459	4,916,174
Investment securities	49,855	55,271
Others	<u>75,474</u>	<u>268,870</u>
	<u>4,854,788</u>	<u>5,240,315</u>

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	<u>2020</u>	<u>2019</u>
21. Interest Expense		
Savings deposits	193,139	183,711
Term deposits	29,645	34,105
Lease interest	<u>7,160</u>	<u>-</u>
	<u>229,944</u>	<u>217,816</u>
	<u>2020</u>	<u>2019</u>
22. Other Income (Net)		
Foreign exchange gains	1,278,839	1,194,198
Fees and commission	985,392	1,170,014
Others	<u>1,525</u>	<u>1,840</u>
	<u>2,265,756</u>	<u>2,366,052</u>
	<u>2020</u>	<u>2019</u>
23. Other Expenses		
Property tax	93,943	104,645
Business licenses	4,750	4,750
Deposit insurance premium	96,149	27,640
Professional fees	49,533	36,527
Stationery	56,569	51,479
Outsourced services	577,104	555,313
Other operating expenses	<u>303,832</u>	<u>264,454</u>
	<u>1,181,880</u>	<u>1,044,808</u>

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Notes to the Financial Statements

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	<u>2020</u>	<u>2019</u>
24. Taxation		
24.1 Taxation charge		
Current tax	1,427,352	1,763,117
Origination and reversal of temporary differences	(493,034)	141,638
Change in estimates related to prior years	(39,879)	(33,661)
	<u>894,439</u>	<u>1,871,094</u>

24.2 Taxation reconciliation

The tax on the operating profit differs from the theoretical amount that would arise using the basic tax rate of The Bank of Nova Scotia – Guyana Branch.

The following is a reconciliation of the application of the effective tax rate with the provision for taxation:

	<u>2020</u>		<u>2019</u>	
		%		%
Profit before taxation	<u>2,230,028</u>	<u>100</u>	<u>4,129,586</u>	<u>100</u>
Computed tax calculated at the statutory rate of 40% (2019: 40%)	892,011	40	1,651,834	40
Tax effect of items that are adjusted in determining taxable profit:				
- Tax effect of non-taxable income	(8,057)	40	(9,696)	40
- Tax effect of non-deductible costs	572,894	40	119,476	40
- Rental cost	(32,758)	40	-	40
- Accounting depreciation vs. capital allowances	3,262	40	1,503	40
- Change in estimates related to prior years	(39,879)	40	(33,661)	40
Current tax charge and effective tax rate	<u>1,387,473</u>	<u>62.2</u>	<u>1,729,456</u>	<u>41.9</u>
Deferred tax charge / (credit)	<u>(493,034)</u>		<u>141,638</u>	
Tax charge and effective tax rate	<u>894,439</u>	<u>40.1</u>	<u>1,871,094</u>	<u>45.3</u>

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Notes to the Financial Statements

October 31, 2020

(\$ thousands)

24. Taxation (continued)

24.3 Amounts recognised in OCI:

	<u>Before Tax</u>	<u>Tax (Expense) Benefit</u>	<u>Net of Tax</u>
<u>2020</u>			
Fair value re-measurement of investments at FVOCI	<u>10,139</u>	<u>(4,055)</u>	<u>6,084</u>
<u>2019</u>			
Fair value re-measurement of investments at FVOCI	<u>(19,083)</u>	<u>7,633</u>	<u>(11,450)</u>

25. Commitments and Contingent Liabilities

(a) Commitments

The undiscounted commitment under the terms of various leases used primarily for banking purposes, exclusive of any related value-added tax, is:

	<u>2020</u>	<u>2019</u>
Rental due within one year	71,815	87,952
Rental due between one and five years	187,692	255,663
Rental due after five years	—	—
	<u>259,507</u>	<u>343,615</u>

(b) Contingent liabilities

(i) General

In the normal course of business, various commitments and contingent liabilities are outstanding (see Note 3(j)) which are not reflected in these 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, 2020, there were certain legal proceedings against Scotiabank. Based upon legal advice, the Directors do not expect the outcome of those actions to have a material effect on Scotiabank's financial position at that date or profit or loss for the year then ended.

(ii) Additional Corporation Tax Assessment

During 2018, the Guyana Revenue Authority (GRA) assessed the Bank for additional Corporation Tax of \$1,122,791,107 for Years of Assessment 2011 to 2017. The premise of the GRA's additional assessment is that the Bank incorrectly claimed provision for loan loss expense as a tax deductible expense citing Section 16(1) of the Income Tax Act Chapter 81:01. The amount challenged by the GRA represents 99% of the Bank's loan loss expenses over the period assessed. The Bank does not agree with the GRA's position regarding the deductibility of loan loss provision and has objected to the additional assessment. Based on professional advice received, Management believes that there is a high probability of a successful appeal.

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26. Financial Risk Management

The Bank has exposure to the following risks from its use of financial instruments:

(a) Credit risk

- (i) Collateral held and other credit enhancements and their financial effects
- (ii) Exposure to credit risk
- (iii) Analysis of credit quality

(b) Market risk

- (i) Exposure to currency risks
- (ii) Exposure to interest rate risk
- (iii) Exposure to equity price risk

(c) Liquidity risk

- (i) Exposure to liquidity risk
- (ii) Maturity analysis for financial liabilities and financial assets.

(d) Capital management

(e) Operational risk

This note presents information about Scotiabank's exposure to each of the above risks, Scotiabank's objectives, policies and processes for measuring and managing risk, and Scotiabank's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of Scotiabank's risk management framework. Scotiabank has established the Scotiabank Group Asset Liability Committee (ALCO), Scotiabank Group Audit Committee, Group Credit Committee and Group Operational Risk Committee, which are responsible for developing and monitoring Scotiabank's risk management policies in their specified areas.

Scotiabank's risk management policies are established to identify and analyse the risks faced by Scotiabank, 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. Scotiabank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

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26. Financial Risk Management (continued)

The Scotiabank Group Audit Committee is responsible for monitoring compliance with Scotiabank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by Scotiabank. The Scotiabank Group Audit Committee is assisted in these functions by the Group Internal Audit function. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Group Audit Committee.

26.1 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 Scotiabank. Credit risk is created in Scotiabank's direct lending operations, and in its funding, investment and trading activities where counterparties have repayment or other obligations to Scotiabank.

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

Scotiabank'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.

Scotiabank'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 Scotiabank's 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 Scotiabank 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, Scotiabank is particularly sensitive to the risks posed to credit quality by economic exposures.

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26. Financial Risk Management (continued)

26.1 Credit risk (continued)

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.

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 Scotiabank. 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.

(i) **Collateral held and other credit enhancements, and their financial effects**

Collateral

Scotiabank, as part of its credit risk management strategy, employs the practice of taking security in respect of funds advanced to its clients. Scotiabank, through its ALCO and its Credit Risk department, develops and reviews policies related to the categories of security and their valuation that are acceptable to Scotiabank as collateral. The principal collateral types are as follows:

- Mortgages over residential property
- Charges over business assets such as premises, inventory and accounts receivable
- Charges over debt instruments and equity instruments.

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Notes to the Financial Statements

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26. Financial Risk Management (continued)

26.1 Credit risk (continued)

Repossessed collateral

Scotiabank enforces its power of sale agreements over various types of collateral (as noted above) as a consequence of failure by borrowers or counter-parties to honour their financial obligations to Scotiabank. Appraisals are obtained for the current value of the collateral as an input to the impairment measurement, and once repossessed, the collateral is sold as soon as practicable. The proceeds net of disposal cost are applied to the outstanding debt.

(ii) Exposure to credit risk

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

	<u>2020</u>	<u>2019</u>
<i>Credit risk recognised on the statement of financial position</i>		
Due from banks and related companies	18,971,108	12,174,192
Deposits with Central Bank	7,063,535	7,120,219
Loans to customers	48,320,315	46,691,304
Investment securities (excluding equities)		
- Debt instruments measured at FVOCI	<u>6,578,453</u>	<u>3,538,183</u>
	<u>80,933,411</u>	<u>69,523,898</u>
<i>Credit risk not recognised on the statement of financial position</i>		
Acceptances, guarantees and letters of credit	<u>3,078,841</u>	<u>3,310,692</u>
Total credit risk exposure	<u>84,012,252</u>	<u>72,834,590</u>

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26. Financial Risk Management (continued)**26.1 Credit risk**(continued)**(iii) Changes to the allowance for credit losses**

The following table presents the changes to the allowance for credit losses on loans:

	2020			Total
	Stage 1	Stage 2	Stage 3	
Retail loans				
Balance at beginning of the year	152,324	595,333	471,790	1,219,447
Remeasurement	14,354	488,639	707,516	1,210,509
Newly originated or purchased	66,962	-	-	66,962
Derecognition and maturities	(16,329)	(31,178)	-	(47,507)
Changes in models & methodologies	10,025	38,039	82,227	130,291
Transfers to (from):				
Stage 1	316,115	(300,599)	(15,516)	-
Stage 2	(65,417)	146,745	(81,328)	-
Stage 3	(751)	(116,607)	117,358	-
Gross write offs	-	-	(562,889)	(562,889)
Recoveries	-	-	78,076	78,076
Foreign exchange & other movements	(29,560)	(8,118)	(1,513)	(39,191)
Balance at end of year	<u>447,723</u>	<u>812,254</u>	<u>795,721</u>	<u>2,055,698</u>

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26. Financial Risk Management (continued)**26.1 Credit risk**(continued)**(iii) Changes to the allowance for credit losses** (continued)

	2020			
	Stage 1	Stage 2	Stage 3	Total
Commercial loans				
Balance at beginning of the year	1,862	99,175	192,973	294,010
Remeasurement	293,912	79,520	(7,666)	365,766
Newly originated or purchased	21,726	-	-	21,726
Derecognition and maturities	(4,895)	(9,514)	(456)	(14,865)
Changes in models & methodologies	174	(4,971)	-	(4,797)
Transfers to (from):				
Stage 1	74	(74)	-	-
Stage 2	5,676	(5,676)	-	-
Stage 3	-	-	-	-
Gross write offs	-	-	(26,940)	(26,940)
Recoveries	-	-	383	383
Foreign exchange & other movements	(7,926)	(3,512)	598	(10,840)
Balance at end of year	<u>310,603</u>	<u>154,948</u>	<u>158,892</u>	<u>624,443</u>

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26. Financial Risk Management (continued)**(iv) Analysis of Credit Quality**

The following tables present the carrying value of exposures by risk rating.

	2020			
	Stage 1	Stage 2	Stage 3	Total
Retail loans				
Very low	30,120	-	-	30,120
Low	16,633,171	110,032	-	16,743,203
Medium	6,501,893	117,496	-	6,619,389
High	2,472,369	3,888,635	-	6,361,004
Very high	970	1,980,012	-	1,980,982
Loans not graded	251,850	55,193	-	307,043
Default	-	-	1,848,731	1,848,731
Total	25,890,373	6,151,368	1,848,731	33,890,472
Allowance for credit losses	(447,723)	(812,254)	(795,721)	(2,055,698)
Carrying value	25,442,650	5,339,114	1,053,010	31,834,774

	2020			
	Stage 1	Stage 2	Stage 3	Total
Commercial loans				
Investment grade	1,518,508	4,078,826	-	5,597,334
Non-Investment	6,557,540	2,916,553	-	9,474,093
Watch list	-	350,268	-	350,268
Loans not graded	-	-	-	-
Default	-	-	1,688,289	1,688,289
Total	8,076,048	7,345,647	1,688,289	17,109,984
Allowance for credit losses	(310,603)	(154,948)	(158,892)	(624,443)
Carrying value	7,765,445	7,190,699	1,529,397	16,485,541

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26. Financial Risk Management (continued)

26.1 Credit risk(continued)

(iv) Analysis of Credit Quality (continued)

The definitions of the internal ratings are as follows:

- | | |
|--------------|--|
| Excellent - | An obligor rated as "Excellent" has an excellent financial position characterised by very high equity, liquidity and debt serviceability. These obligors are only susceptible to extreme adverse changes in economic conditions or circumstances. These facilities are generally fully secured by readily realisable collateral or by a first mortgage on real estate of sufficient value to cover all amounts advanced. |
| Very Good - | An obligor rated as "Very Good" has a very strong financial position, characterised by high equity, liquidity and debt serviceability. These obligors have a high level of tolerance to adverse changes in economic conditions or circumstances. Facilities are generally well collateralised. |
| Good - | An obligor rated as "Good" has a strong financial position, characterised by adequate equity, liquidity and debt serviceability. These obligors though susceptible to adverse changes in economic conditions or circumstances are generally able to tolerate moderate levels of changes. Facilities are generally collateralised. |
| Acceptable - | An obligor rated as "Acceptable" has a good financial position characterised by sufficient equity, liquidity and debt serviceability. These obligors are susceptible to adverse changes in economic conditions or circumstances and can handle these changes with some level of difficulty. Facilities may or may not be secured by collateral. |

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26. Financial Risk Management (continued)

26.2 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 Scotiabank Group Asset Liability Committee (ALCO) provides senior management oversight of the various activities that expose Scotiabank to market risk. This includes, asset liability management, while also approving limits for funding and investment activities, and reviewing Scotiabank's interest rate strategies and performance against established limits.

Scotiabank measures and controls market risk primarily through the use of risk sensitivity analysis. 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 Scotiabank's market risk are as follows:

26.2.1 Currency risk

Scotiabank 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 Scotiabank 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.

The results of the sensitivity analyses conducted as at October 31, on the possible impact on net profits before tax (PBT) and on equity, of fluctuations of the US dollar foreign exchange rate relative to the Guyana dollar are presented below.

Change in currency rate	Effect on PBT		Effect on Equity	
	2020	2019	2020	2019
Increase of 1%	(10,322)	(23,890)	(10,765)	(18,893)
Decrease of 1%	10,322	23,890	10,765	18,893

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26. Financial Risk Management (continued)**26.2 Market risk** (continued)**26.2.1 Currency risk** (continued)**Concentration of assets and liabilities by currency**

Scotiabank has the following significant currency positions, shown in GY\$ equivalents:

	2020			
	GY	US	Others	Total
Assets				
Cash on hand and in transit	1,104,288	4,405	9,917	1,118,610
Due from banks and related companies	8,727,512	9,913,017	330,579	18,971,108
Deposit with central bank	7,063,535	-	-	7,063,535
Investment securities	6,578,453	-	-	6,578,453
Net loans to customers	48,227,936	92,379	-	48,320,315
Assets classified as held for sale	28,028	-	-	28,028
Property, plant and equipment	705,849	202,722	-	908,571
Deferred tax asset	568,165	-	-	568,165
Other assets	345,681	28,879	-	374,560
Total assets	73,349,447	10,241,402	340,496	83,931,345
Liabilities				
Deposits	59,516,183	7,609,972	1,741	67,127,896
Due to banks and related companies	853,393	12	293,499	1,146,904
Other liabilities	201,334	1,599,254	57,724	1,858,312
Deferred tax liability	15,181	-	-	15,181
Provision for taxation	135,556	-	-	135,556
Total liabilities	60,721,647	9,209,238	352,964	70,283,849
Net financial position	12,627,800	1,032,164	(12,468)	13,647,496

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26. Financial Risk Management (continued)**26.2 Market risk** (continued)**26.2.1 Currency risk**(continued)*Concentration of assets and liabilities by currency* (continued)

	2019			
	GY	US	Others	Total
Assets				
Cash on hand and in transit	1,295,021	12,052	1,648	1,308,721
Due from banks and related companies	3,457,946	8,596,902	119,344	12,174,192
Deposits with Central Bank	7,120,209	-	-	7,120,209
Investment securities	3,538,183	-	-	3,538,183
Net loans to customers	46,683,733	7,571	-	46,691,304
Assets classified as held for sale	30,628	-	-	30,628
Property, plant and equipment	679,872	-	-	679,872
Deferred tax asset	75,130	-	-	75,130
Other assets	235,219	255,086	3,707	494,012
Total assets	63,115,941	8,871,611	124,699	72,112,251
Liabilities				
Deposits	50,687,741	5,942,461	1,818	56,632,020
Due to banks and related companies	981,369	12	62,531	1,043,912
Other Liabilities	855,194	540,167	4,497	1,399,858
Deferred tax liability	11,125	-	-	11,125
Provision for taxation	354,729	-	-	354,729
Total liabilities	52,890,158	6,482,640	68,846	59,441,644
Net financial position	10,225,783	2,388,971	55,853	12,670,607

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Notes to the Financial Statements

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26. Financial Risk Management (continued)

26.2 Market risk (continued)

26.2.2 Interest rate risk

Interest rate risk arises when there is a mismatch between positions which are subject to interest rate adjustments within a specific period. In Scotiabank'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. The interest rates on a material amount of Scotiabank's assets can be repriced as and when required.

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26. Financial Risk Management (continued)

26.2 Market risk (continued)

26.2.2 Interest rate risk (continued)

Interest Sensitivity of Financial Assets and Financial Liabilities

The following table summarises carrying amounts of financial assets and financial liabilities on the statement of financial position, in order to arrive at Scotiabank's interest rate gap on the earlier of contractual repricing and maturity dates:

	2020					
	Due on demand	Due in one year	Due in two to five years	Over five years	Non -interest bearing	Total
Financial assets						
Cash on hand and in transit	-	-	-	-	1,118,610	1,118,610
Due from banks and related companies	6,526,595	1,502,480	-	-	10,942,033	18,971,108
Deposits with Central Bank	-	251,327	-	-	6,812,208	7,063,535
Investment securities	-	6,578,453	-	-	-	6,578,453
Net loans to Customers	7,936,645	6,155,861	8,721,777	21,969,012	3,537,020	48,320,315
Assets classified as held for sale	-	-	-	-	28,028	28,028
Deferred tax assets	-	-	-	-	568,165	568,165
Other assets	-	-	-	-	374,560	374,560
Total financial assets	14,463,240	14,488,121	8,721,777	21,969,012	23,380,624	83,022,774
Financial liabilities						
Deposits	43,217,246	2,098,424	792,335	-	21,019,891	67,127,896
Due to banks and related companies	-	-	-	-	1,146,904	1,146,904
Provision for taxation	-	-	-	-	135,556	135,556
Other liabilities	-	-	-	-	1,858,312	1,858,312
Deferred tax liability	-	-	-	-	15,181	15,181
Total financial liabilities	43,217,246	2,098,424	792,335	-	24,175,844	70,283,849

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26. Financial Risk Management (continued)

26.2 Market risk (continued)

26.2.2 Interest rate risk(continued)

Interest Sensitivity of Financial Assets and Financial Liabilities

	2019					Total
	Due on demand	Due in one year	Due in two to five years	Over five years	Non -interest bearing	
Financial assets						
Cash on hand and in transit	-	-	-	-	1,308,721	1,308,721
Due from banks and related companies	7,921,179	1,498,211	-	-	2,754,802	12,174,192
Deposits with Central Bank	-	251,327	-	-	6,868,882	7,120,209
Investment securities	-	3,538,183	-	-	-	3,538,183
Net loans to Customers	9,667,567	3,352,673	8,202,777	22,381,812	3,086,475	46,691,304
Assets classified as held for sale	-	-	-	-	30,628	30,628
Deferred tax assets	-	-	-	-	75,130	75,130
Other assets	-	-	-	-	494,012	494,012
Total financial assets	17,588,746	8,640,394	8,202,777	22,381,812	14,618,650	71,432,379
Financial liabilities						
Deposits Due to banks and related companies	36,449,782	2,231,825	970,120	-	16,980,293	56,632,020
Provision for taxation	-	-	-	-	1,043,912	1,043,912
Other liabilities	-	-	-	-	354,729	354,729
Deferred tax liability	-	-	-	-	1,399,858	1,399,858
	-	-	-	-	11,125	11,125
Total financial liabilities	36,449,782	2,231,825	970,120	-	19,789,917	59,441,644

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October 31, 2020

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Financial Risk Management (continued)

26.2 Market risk (continued)

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 prices for those instruments that are categorised as held-to-maturity.

Scotiabank is exposed to an insignificant amount of equity price risk.

26.3 Liquidity risk

Liquidity risk is the risk that Scotiabank 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 Scotiabank honours all of its financial commitments as they fall due. Scotiabank, through its Treasury function, measures and forecasts its cash flow commitments and ensures that sufficient liquidity is available to meet its needs. The ALCO monitors Scotiabank's liquidity management process, policies and strategies.

To fulfill this objective, Scotiabank maintains diversified sources of funding, sets prudent limits and ensures immediate access to liquid assets. Scotiabank 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. Scotiabank'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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26. Financial Risk Management (continued)**26.3 Liquidity risk** (continued)

The table below shows a maturity analysis of financial instruments using discounted cash flows of financial assets and financial liabilities based on their contractual maturity dates as at October 31:

	2020				Total
	Due on demand	Up to one year	Two to five years	Over five years	
Assets					
Cash on hand and in transit	1,118,610	-	-	-	1,118,610
Due from banks and related companies	17,468,628	1,502,480	-	-	18,971,108
Deposit with Central bank	6,812,208	251,327	-	-	7,063,535
Investment securities	-	6,578,453	-	-	6,578,453
Net loans to customers	11,473,665	6,155,861	8,721,777	21,969,012	48,320,315
	<u>36,873,111</u>	<u>14,488,121</u>	<u>8,721,777</u>	<u>21,969,012</u>	<u>82,052,021</u>
Liabilities					
Taxation payable	135,556	-	-	-	135,556
Other liabilities	1,858,312	-	-	-	1,858,312
Deposits	64,237,137	2,098,424	792,335	-	67,127,896
Due to banks and related companies	1,146,904	-	-	-	1,146,904
	<u>67,377,909</u>	<u>2,098,424</u>	<u>792,335</u>	<u>-</u>	<u>70,268,668</u>
Net gap	<u>(30,504,798)</u>	<u>12,389,697</u>	<u>7,929,442</u>	<u>21,969,012</u>	<u>11,783,354</u>
Cumulative gap	<u>(30,504,798)</u>	<u>(18,115,101)</u>	<u>(10,185,659)</u>	<u>11,783,354</u>	<u>-</u>

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26. Financial Risk Management (continued)**26.3 Liquidity risk** (continued)

	2019				Total
	Due on demand	Up to one year	Two to five years	Over five years	
Assets					
Cash on hand and in transit	1,308,721	-	-	-	1,308,721
Due from banks and related companies	10,675,982	1,498,210	-	-	12,174,192
Deposit with Central bank	6,868,882	251,327	-	-	7,120,209
Investment securities	-	3,538,183	-	-	3,538,183
Net loans to customers	12,754,042	3,352,673	8,202,777	22,381,812	46,691,304
	<u>31,607,627</u>	<u>8,640,393</u>	<u>8,202,777</u>	<u>22,381,812</u>	<u>70,832,609</u>
Liabilities					
Taxation payable	354,729	-	-	-	354,729
Other liabilities	1,399,858	-	-	-	1,399,858
Deposits	53,430,075	2,231,825	970,120	-	56,632,020
Due to banks and related companies	1,043,912	-	-	-	1,043,912
	<u>56,228,574</u>	<u>2,231,825</u>	<u>970,120</u>	<u>-</u>	<u>59,430,519</u>
Net gap	<u>(24,620,947)</u>	<u>6,408,568</u>	<u>7,232,657</u>	<u>22,381,812</u>	<u>11,402,090</u>
Cumulative gap	<u>(24,620,947)</u>	<u>(18,212,379)</u>	<u>(10,979,722)</u>	<u>11,402,090</u>	<u>-</u>

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26. Financial Risk Management (continued)

26.4 Capital management

Scotiabank's capital management policies seek to achieve several objectives:

- Compliance with capital requirements as set by the Bank of Guyana
- Ensuring Scotiabank's ability to continue as a going concern
- Maintaining a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by Scotiabank's management. Scotiabank employs techniques derived from the guidelines developed by the Basel Committee on Banking Supervision - Basel I 1998 Capital Accord as implemented by the Bank of Guyana.

The required information is filed with the regulatory authority on a monthly basis. Scotiabank complied with all the externally imposed capital requirements to which it is subject.

Scotiabank's regulatory capital consists of the sum of the following elements:

- *Tier 1 capital.* Tier 1 capital comprises equity and retained earnings and is a measure of Scotiabank's financial position. Deductions such as losses incurred in the current year of operations, whether audited or unaudited and whether or not publicly disclosed are made from Tier 1.
- *Tier 2 capital.* Tier 2 capital comprises revaluation reserves created by the revaluation of investments and general banking risk reserves.

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26. Financial Risk Management (continued)**26.4 Capital management**(continued)

The following table summaries the composition of regulatory capital and the ratios for Scotiabank as at October 31.

	2020	2019
Tier 1 capital		
Assigned capital	251,327	251,327
Statutory reserve	251,400	251,400
Other capital and reserves	<u>13,121,215</u>	<u>12,150,109</u>
Total qualifying Tier 1 capital	<u>13,623,942</u>	<u>12,652,836</u>
Tier 2 capital		
General provision and banking risk reserve	-	-
Investment revaluation reserve	<u>23,554</u>	<u>17,771</u>
Total qualifying Tier 2 capital	<u>23,554</u>	<u>17,771</u>
Risk weighted assets:		
On balance sheet	34,731,539	37,480,453
Off balance sheet	<u>2,340,833</u>	<u>2,139,022</u>
Total risk weighted assets	<u>37,072,372</u>	<u>39,619,475</u>
Total regulatory capital to risk weighted assets - Actual	36.81%	31.98%
Total regulatory capital to risk weighted assets - Minimum	<u>8%</u>	<u>8%</u>

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26. Financial Risk Management (continued)

26.5 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with Scotiabank'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 Scotiabank's operations.

Scotiabank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to Scotiabank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Internal Controls Committee. This responsibility is supported by the development of overall Scotiabank standards for the management of operational risk in the following areas:

- Appropriate segregation of duties, including the independent authorization 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 Scotiabank 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 Scotiabank.

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27. Fair Value of Financial Assets and Financial Liabilities and Other Contracts

The fair value of financial instruments that are recognised on the statement of financial position and the fair value of financial instruments that are not recognised on the statement of financial position are based on the valuation methods and assumptions set out in the significant accounting policies note 3(c)(i-iv).

A. Valuation models

Scotiabank classifies fair value using the following three-level fair value hierarchy based on the extent to which one or more significant inputs are observable or not observable:

- 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.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other inputs used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

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27. Fair Value of Financial Assets and Financial Liabilities and Other Contracts (continued)**A. Valuation models (continued)**

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.

Scotiabank recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred. There were no transfers between levels during the year.

B. Financial instruments measured at fair value

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:

	2020			Total
	Level 1	Level 2	Level 3	
Assets				
Investment securities	-	6,578,453	-	6,578,453
	-	6,578,453	-	6,578,453
2019				
	Level 1	Level 2	Level 3	Total
Assets				
Investment securities	-	3,538,183	-	3,538,183
	-	3,538,183	-	3,538,183

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Notes to the Financial Statements

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27. Fair Value of Financial Assets and Liabilities (continued)**C. Financial instruments not measured at fair value**

The table below is an analysis of financial instruments **not** measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorised. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying Value		Fair Value	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Financial assets				
Cash on hand and in transit	1,118,610	1,308,721	1,118,610	1,308,721
Due from banks and related companies	18,971,108	12,174,192	18,971,108	12,174,192
Deposits with Bank of Guyana	7,063,535	7,120,209	7,063,535	7,120,209
Net loans to customers	48,320,315	46,691,304	48,320,315	46,691,304
	<u>75,473,568</u>	<u>67,294,426</u>	<u>75,473,568</u>	<u>67,294,426</u>
Financial liabilities				
Deposits	67,155,869	56,632,020	67,155,869	56,632,020
Due to banks and related Companies	1,146,904	1,043,912	1,146,904	1,043,912
	<u>68,302,773</u>	<u>57,675,932</u>	<u>68,302,773</u>	<u>57,675,932</u>

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Notes to the Financial Statements

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27. Fair Value of Financial Assets and Financial Liabilities and Other Contracts (continued)

C. *Financial instruments not measured at fair value* (continued)

(a) Cash on hand and in transit

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

(b) 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.

(c) Deposits with Central Bank

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

(d) 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 at the reporting date for similar type facilities.

(e) Deposits and due to banks and related companies

Customer deposits and 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.

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Notes to the Financial Statements

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27. Fair Value of Financial Assets and Financial Liabilities and Other Contracts (continued)**D. Classification of Financial Assets and Financial Liabilities**

The following table provides a reconciliation between line items in the Statement of financial position and the categories of financial instruments:

	2020				
	FVTPL	FVOCI Debt	FVOCI Equity	Amortised Cost	Total
Assets					
Asset classified as held for sale			-	28,028	28,028
Cash on hand and in transit	-	-	-	1,118,610	1,118,610
Due from banks and related companies	-	-	-	18,971,108	18,971,108
Deposits with Central Bank	-	-	-	7,063,535	7,063,535
Investment securities	-	6,578,453	-	-	6,578,453
Net loans to customers				48,320,315	48,320,315
Deferred tax asset				568,165	568,165
Other Assets	-	-	-	374,560	374,560
Total financial assets	-	6,578,453	-	76,444,321	83,022,774
Liabilities					
Deposits	-	-	-	67,127,896	67,127,896
Due to banks and related companies				1,146,904	1,146,904
Other liabilities				1,858,312	1,858,312
Deferred tax liability				15,181	15,181
Provision for tax				135,556	135,556
Total financial liabilities	-	-	-	70,283,849	70,283,849

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Notes to the Financial Statements

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27. Fair Value of Financial Assets and Financial Liabilities and Other Contracts (continued)

D. Classification of Financial Assets and Financial Liabilities (continued)

		2019				
		FVTPL	FVOCI Debt	FVOCI Equity	Amortised Cost	Total
Assets						
	Asset classified as held for sale				30,628	30,628
	Cash on hand and in transit	-	-	-	1,308,721	1,308,721
	Due from banks and related companies	-	-	-	12,174,192	12,174,192
	Deposits with Central Bank	-	-	-	7,120,209	7,120,209
	Investment securities	-	3,538,183	-	-	3,538,183
	Net loans to customers					
	Deferred tax asset				46,691,304	46,691,304
	Other Assets				75,130	75,130
		-	-	-	494,012	494,012
Total	financial assets	-	3,538,183	-	67,863,568	71,401,751
Liabilities						
	Deposits	-	-	-	56,632,020	56,632,020
	Due to banks and related companies				1,043,912	
					11,125	1,043,912
	Deferred tax liability				354,729	11,125
	Provision for tax					354,729
	Other liabilities				1,399,858	1,399,858
Total	financial liabilities	-	-	-	59,441,644	59,441,644

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28. 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.

	2020					
	Corporate, Commercial & Small Business Banking	Retail Banking	Treasury	Total Segment	Others	Total Bank
Net interest income	1,542,881	3,032,108	49,855	4,624,844	-	4,624,844
Non-interest revenue	536,449	452,634	1,276,673	2,265,756	-	2,265,756
Net segment interest and other income	2,079,330	3,484,742	1,326,528	6,890,600	-	6,890,600
Net segment profit before taxes	341,122	661,868	1,227,038	2,230,028	-	2,230,028
Segment assets	17,267,954	33,112,464	31,813,967	82,194,385	1,736,960	83,931,345
Segment liabilities	33,858,663	33,091,847	177,386	67,127,896	3,155,953	70,283,849

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Notes to the Financial Statements

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28. Operating segments
(continued)

	2019					Total Bank
	Corporate, Commercial & Small Business Banking	Retail Banking	Treasury	Total Segment	Others	
Net interest income	1,519,304	3,179,119	324,076	5,022,499	-	5,022,499
Non-interest revenue	575,311	589,228	1,201,513	2,366,052	-	2,366,052
Net segment interest and other income	2,094,615	3,768,347	1,525,589	7,388,551	-	7,388,551
Net segment profit before taxes	843,990	1,874,427	1,411,169	4,129,586	-	4,129,586
Segment assets	14,941,271	33,017,450	22,918,227	70,876,948	1,235,303	72,112,251
Segment liabilities	26,466,501	30,005,777	198,753	56,671,031	2,770,613	59,441,644

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Notes to the Financial Statements

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29. 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:

- Data processing and information technology support
- Technical and management services
- Operations support
- Transaction processing support.

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29. Related Party Balances and Transactions(continued)

Outstanding balances

	<u>2020</u>	<u>2019</u>
Loans, investments and other assets		
Directors and key management personnel	187,927	182,240
Bank of Nova Scotia and other related entities	8,014,135	8,923,497
	<u>8,202,062</u>	<u>9,105,737</u>
Deposits and other liabilities		
Directors and key management personnel	77,508	45,783
Bank of Nova Scotia and other related entities	36,107	19,722
	<u>113,615</u>	<u>65,505</u>
Interest and other income		
Directors and key management personnel	7,167	7,727
Bank of Nova Scotia and other related entities	73,223	266,639
	<u>80,390</u>	<u>274,366</u>
Interest and expenses		
Directors and key management personnel	322	266
Bank of Nova Scotia and other related entities	577,104	555,313
	<u>577,426</u>	<u>555,579</u>

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

	<u>2020</u>	<u>2019</u>
Key management compensation		
Short term benefits	<u>174,204</u>	<u>168,311</u>

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30. Events after the Reporting Date

There are no events occurring after this statement of financial position date and before the date of approval of these financial statements by Country Manager that require adjustment to or disclosure in these financial statements.