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## INDEPENDENT AUDITOR'S 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, 2017, 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, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### 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 Auditor's 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.

**Auditor's 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 auditor's 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 auditor's 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 auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

**Auditor's 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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Bank's audit. We remain solely responsible for our audit opinion.

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

**January 10, 2018**

**THE BANK OF NOVA SCOTIA – GUYANA BRANCH**

Statement of Financial Position
As at October 31, 2017
With comparative figures for October 31, 2016
*($ thousands)*

| | Notes | 2017 | 2016 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash on hand and in transit | | 1,312,547 | 805,003 |
| Due from banks and related companies | 4 | 12,025,429 | 8,818,333 |
| Deposits with the Central Bank | 5 | 6,803,597 | 6,447,474 |
| Investment securities | 6 | 5,568,302 | 7,765,714 |
| Net loans to customers | 7 | 47,229,813 | 44,511,948 |
| Assets classified as held for sale | 8 | 36,628 | 41,528 |
| Property, plant and equipment | 9 | 818,190 | 902,706 |
| Deferred tax | 13 | 226,321 | 150,030 |
| Other assets | 10 | 123,015 | 126,509 |
| | | 74,143,842 | 69,569,245 |
| **LIABILITIES, ASSIGNED CAPITAL, RESERVES & HEAD OFFICE ACCOUNT** | | | |
| **LIABILITIES** | | | |
| Deposits | 11 | 57,891,180 | 54,228,595 |
| Due to banks and related companies | 12 | 824,943 | 739,950 |
| Provision for taxation | | 730,742 | 433,005 |
| Other liabilities | 14 | 941,543 | 819,087 |
| | | 60,388,408 | 56,220,637 |
| **ASSIGNED CAPITAL, RESERVES AND HEAD OFFICE ACCOUNT** | | | |
| Assigned capital | 15 | 251,327 | 251,327 |
| Other capital | 16 | 801,700 | 801,700 |
| Statutory reserve | 17 | 251,400 | 251,400 |
| General Banking Risk Reserve | 2.7(iii) | 98,435 | - |
| Head office account | | 12,352,572 | 12,044,181 |
| | | 13,755,434 | 13,348,608 |
| | | 74,143,842 | 69,569,245 |

*The accompanying notes form an integral part of these financial statements.*
The financial statements have been approved for issue by the Country Manager on January 10, 2018 and signed accordingly:

RAYMOND SMITH

**THE BANK OF NOVA SCOTIA – GUYANA BRANCH**

Statement of Profit or Loss and Other Comprehensive Income
For the year ended October 31, 2017
With comparative figures for October 31, 2016
*($ thousands)*

| | Notes | 2017 | 2016 |
|---|---|---|---|
| **NET INTEREST AND OTHER INCOME** | | | |
| Total interest income | 18 | 5,244,617 | 4,904,319 |
| Total interest expense | 19 | 235,272 | 211,232 |
| Net interest income | | 5,009,345 | 4,693,087 |
| Other income | 20 | 2,694,078 | 2,564,353 |
| Net interest and other income | | 7,703,423 | 7,257,440 |
| **NON INTEREST EXPENSES** | | | |
| Salaries and benefits | | 935,707 | 899,670 |
| Premises and technology | | 743,695 | 691,880 |
| Communication and marketing | | 232,321 | 255,055 |
| Loan loss expense | 7.4 | 278,897 | 243,747 |
| Other | 21 | 1,018,166 | 1,036,747 |
| Total non-interest expense | | 3,208,786 | 3,127,099 |
| **INCOME BEFORE TAXATION** | | 4,494,637 | 4,130,341 |
| **INCOME TAX EXPENSE** | 13 | (1,686,985) | (1,729,515) |
| **NET INCOME FOR THE YEAR** | | 2,807,652 | 2,400,826 |
| **APPROPRIATIONS** | | | |
| Head office | | 2,807,652 | 2,400,826 |

*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, 2017
With comparative figures for October 31, 2016
*($ thousands)*

| | Assigned Capital | Other Capital | Statutory Reserve | General Banking Risk Reserve | Head Office Account | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| **Year ended October 31, 2017** | | | | | | |
| **Balance as at October 31, 2016** | **251,327** | **801,700** | **251,400** | **-** | **12,044,181** | **13,348,608** |
| Net income for the year | - | - | - | - | 2,807,652 | 2,807,652 |
| Withholding tax relating to prior year deemed profit transfer | - | - | - | - | - | - |
| Transfer of profits | - | - | - | - | (2,400,826) | (2,400,826) |
| Transfer to general banking risk reserve | | | | 98,435 | (98,435) | - |
| **Balance as at October 31, 2017** | **251,327** | **801,700** | **251,400** | **98,435** | **12,352,572** | **13,755,434** |
| **Year ended October 31, 2016** | | | | | | |
| **Balance as at October 31, 2015** | **251,327** | **801,700** | **251,400** | **-** | **11,780,164** | **13,084,591** |
| Net income for the year | - | - | - | - | 2,400,826 | 2,400,826 |
| Withholding tax relating to prior year deemed profit transfer | - | - | - | - | (302,175) | (302,175) |
| Transfer of profits | - | - | - | - | (1,834,634) | (1,834,634) |
| **Balance as at October 31, 2016** | **251,327** | **801,700** | **251,400** | **-** | **12,044,181** | **13,348,608** |

*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, 2017
With comparative figures for October 31, 2016
*($ thousands)*

| | 2017 | 2016 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income before taxation | 4,494,637 | 4,130,341 |
| Adjustments to reconcile income before taxation to net cash from operating activities:- | | |
| Interest income | (5,244,617) | (4,904,319) |
| Interest expense | 235,272 | 211,232 |
| Depreciation | 139,953 | 138,930 |
| Net gain on disposal of property, plant and equipment | (2,606) | (3,072) |
| Change in deposits with the Central Bank | (356,122) | (181,269) |
| Change in due to banks and related companies | 84,993 | 406,942 |
| Change in loans | (2,171,349) | (2,791,200) |
| Change in loan loss provision | (539,523) | (1,195) |
| Change in deposits | 3,666,351 | 489,526 |
| Change in other liabilities | 122,456 | 168,949 |
| Change in other assets | 8,394 | (46,812) |
| Interest received | 5,239,364 | 4,898,922 |
| Interest paid | (239,038) | (245,173) |
| Taxation paid (net of refunds) | (1,465,540) | (1,696,399) |
| Net cash from operating activities | 3,973,225 | 575,403 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Change in investments | 2,195,672 | (1,116,363) |
| Proceeds from disposal of property, plant and equipment | 3,501 | 3,072 |
| Purchase of property, plant and equipment | (56,932) | (64,785) |
| Net cash used in investing activities | 2,142,241 | (1,178,076) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Remittances including withholding tax | (2,400,826) | (2,136,809) |
| Net cash used in financing activities | (2,400,826) | (2,136,809) |
| Increase/(Decrease) in cash and cash equivalents | 3,714,640 | (2,739,482) |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | 9,623,336 | 12,362,818 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | 13,337,976 | 9,623,336 |

**THE BANK OF NOVA SCOTIA – GUYANA BRANCH**

Statement of Cash Flows (continued)

For the year ended October 31, 2017
With comparative figures for October 31, 2016
*($ thousands)*

| | 2017 | 2016 |
|---|---|---|
| **CASH AND CASH EQUIVALENTS** | | |
| **Represented by** | | |
| Cash on hand and in transit | 1,312,547 | 805,003 |
| Due from banks and related companies | 12,025,429 | 8,818,333 |
| Cash and cash equivalents | 13,337,976 | 9,623,336 |

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

## 1. Incorporation and Business Activities

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

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

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

## 2. Significant Accounting Policies

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

### 2.1 Basis of preparation

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

The financial statements are prepared on the historical cost basis, modified for the inclusion of investments at fair value through profit or loss, available-for-sale investments at fair value.

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

## 2. Significant Accounting Policies *(continued)*

### 2.2 Revenue recognition

2.2.1. Interest income

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

2.2.2. Fees and commissions

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

### 2.3 Foreign currency translation

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

## 2. Significant Accounting Policies *(continued)*

### 2.4 Financial assets and liabilities

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

(i) Recognition

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

(ii) Derecognition

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

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

## 2. Significant Accounting Policies *(continued)*

### 2.4 Financial assets and liabilities *(continued)*

(iii) Classification

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

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

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

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

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

(iv) Measurement

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

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

## 2. Significant Accounting Policies *(continued)*

### 2.4 Financial assets and liabilities *(continued)*

(iv) Measurement (continued)

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

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

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

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

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

### 2.5 Cash and cash equivalents

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

### 2.6 Investment securities

Debt investments that The Bank of Nova Scotia - Guyana Branch has the intent and ability to hold to maturity are classified as held-to-maturity assets. At October 31, 2017 all investments are classified as held- to maturity assets.

On disposal or on maturity of an investment, the difference between the net proceeds and the carrying amount is included in the statement of profit or loss and other comprehensive income.

## 2. Significant Accounting Policies *(continued)*

### 2.7 Loans and advances

**i) <u>Classification</u>**

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

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

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

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

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

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

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

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

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

## 2. Significant Accounting Policies *(continued)*

### 2.7 Loans and advances (*continued)*

#### ii) Impairment assessment (*continued)*

**Collective impairment allowance**

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

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

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

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

#### iii) General banking risk reserve

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

### 2.8 Assets held for sale

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

## 2. Significant Accounting Policies *(continued)*

### 2.9 Property, plant and equipment

i) Recognition and measurement

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

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

ii) Subsequent cost

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

iii) Depreciation

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

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

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

## 2. Significant Accounting Policies *(continued)*

### 2.10 Taxation

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

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

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

### 2.11 Employee benefits

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

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

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

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

### 2.12 Leases

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

**2. Significant Accounting Policies *(continued)***

**2.13 Segment reporting**

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

**2.14 Acceptances, guarantees and letters of credit**

The Bank of Nova Scotia – Guyana Branch's commitments under acceptances, guarantees and letters of credit have been excluded from these financial statements because they do not meet the criteria for recognition. These commitments as at October 31, 2017 total $2,500 million (2016 - $1,434 million). In the event of a call on these commitments, the Bank has equal and offsetting claims against its customers.

**2.15 Deposit liabilities**

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

**2.16 Impairment**

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

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

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

## 2. Significant Accounting Policies *(continued)*

### 2.16 Impairment, continued

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

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

### 2.17 Comparative information

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

### 2.18 New standards, amendments and interpretations adopted

*Disclosure Initiative amendments to IAS 1. Effective January 1, 2016.*

The amendment clarifies, the materiality requirement in IAS 1, that specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated, that entities have flexibility as to the order in which they present the notes to the financial statements and that the share of OCI of associates and Joint Ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will be subsequently reclassified to profit or loss.

*Amendments to IAS 16 and IAS 38 - Clarification of acceptable methods of depreciation and amortisation. Effective January 1, 2016.*

The amendment clarifies the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business rather than the economic benefits that are consumed through use of the asset.

Entities currently using revenue-based amortisation methods for property, plant and equipment will need to change their current amortisation approach to an acceptable method.

## 2. Significant Accounting Policies *(continued)*

### 2.18 New standards, amendments and interpretations adopted *(continued)*

Annual improvements to IFRS's 2012 -2014 cycle effective January 1, 2016

- IFRS 5 – Non- current asset held for sale and discontinued operations- The amendment clarifies that changing from one disposal method to another would not be considered a new plan of disposal, rather it is a continuation of the original plan.

- IFRS 7 – Financial instrument: disclosure- The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset.

- IAS 19 – Employee benefits- The amendment clarifies that market depth of high quality corporate bond is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. Where there is no deep market for high quality corporate bond in that currency, government bond rates must be used.

- IAS 34 – Interim financial reporting- The amendment clarifies that the required interim financial disclosures must either be in the interim financial statements or incorporated by cross reference between the interim financial statements and whether they are included within the interim financial report.

### 2.19 New standards, amendments and interpretations not yet adopted

**IFRS 9 Financial Instruments**

IFRS 9 Financial Instruments sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39; Financial Instruments: Recognition and Measurement.

IFRS 9 contains a new recognition and measurement approach, for financial assets that reflects the business model in which assets are managed by their cash flow characteristics.

IFRS 9 contains three principle recognition categories for financial assets measured and amortized at fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity loans, recoverables and available for sale.

Based on their assessment, the Bank does not believe that the new classification requirements will have a material impact on its annuity for the loans and investments that are managed on a fair value basis.

## 2. Significant Accounting Policies *(continued)*

### 2.19 New standards, amendments and interpretations not yet adopted *(continued)*

**IFRS 9 Financial Instruments-*(continued)***

Under IFRS 9, the Bank has designated there investment as measured at FVOCI. Consequently all fair value gains and losses will be reported in OCI, no impairment loss will be recognized in profit or loss and no gains or losses will be recognized in profit or loss on disposal.

IFRS 9 replaces the "named loss" model in IAS 39 with a forward looking expected credit loss (ECL) model. This will require considerable judgment about how changes in economic factors affect ECL which will be determined in a probability weighted basis.

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following basis:

- 12 months ECL's then on ECL's that results from possible default events within 12 months after the reporting date; and,
- Lifetimes ECLs assets, these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Bank believes that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 Impairment model.

**IFRS 15 - Revenue from Contract with Customers**

IFRS 15 establishes a comprehensive framework for determining whether how much and when revenue is recognized. It replaces existing revenue recognition guidance. IAS18 Revenue, IAS11 Construction contracts and IFRIC 13 Customer Loyalty Programs.

Based on assessment the Bank does not expect the application of IFRS 15 to result in a significant impact in its financial statements.

The Bank plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognized at the date of initial application (January 1, 2018) as a result, the Bank will not apply the requirement of IFRS 15 to the comparative period presented.

## 2. Significant Accounting Policies *(continued)*

### 2.19 New standards, amendments and interpretations not yet adopted *(continued)*

**<u>IFRS 16 – Leases</u>**

IFRS 16 replaces existing lease guidance, including IAS 17 Leases, IFRIC 4 determining whether an arrangement contains a lease, SIC 15 operating leases - incentives and SIC 27 Evaluating the Substance of transactions in the legal form of the lease. The Standard is effective for annual reporting periods beginning on or after January 1, 2019.

IFRS 16 Introduces a single, on balance sheet lease accounting model for lessees. A lessee recognize a right-of-use asset, representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exception for short-term leases and leases of low-value-items.

Based on the banks initial assessment, no significant impact is expected on the adoption of these standards.

The following amended standards and interpretations are not expected to have a significant impact on the Bank's financial statements:

- Annual Improvements to IFRSs 2014-2016 cycle (Amendment to IFRS 1 and IFRS 18)-***Effective January 1, 2018.***
- Classification and measurement of share based payments transactions (Amendment to IFRS 2) –***Effective January 1, 2018***.
- Transfer to investment property (Amendment to IAS 40)-***Effective January 1, 2018***
- IFRIC 22 - Foreign Currency Transactions and Advance Consideration-***Effective January 1, 2018***
- IFRIC 23- Uncertainty over Income Tax Treatments***.-Effective January 1, 2019.***

## 3. Use of Accounting Estimates and Judgments

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

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

(a) Allowances for credit losses

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

The specific counter-party component of total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.
Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. A component of collectively assessed allowances is for country risks. In assessing the need for collective loan loss allowances, management considers factors
such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modeled and to determine the required input parameters based on historical experience and current economic conditions. The accuracy of the allowances depends on how well these estimated future cash flows for specific counter-party allowances and the model assumptions and parameters are used in determining collective allowances.

b) Determining fair values

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

*($ thousands)*

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

c) Financial asset and liability classification

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

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

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

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

d) Useful Lives of property, plant and equipment

Management reviews the estimated useful lives of property, plant and equipment at the end of each reporting period to determine it appropriateness.

**4. Due from banks and related companies**

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

| | **2017** | **2016** |
|---|---|---|
| Deposits with Central Bank other than statutory deposits | 3,819,428 | 2,816,525 |
| Deposits with head office and related companies | 8,004,645 | 5,938,810 |
| Deposits with other banks | 201,356 | 62,998 |
| | 12,025,429 | 8,818,333 |

*($ thousands)*

## 5. Deposits with the Central Bank

In accordance with the Financial Institutions Act 1995, The Bank of Nova Scotia – Guyana Branch is required to hold and maintain, as a non-interest bearing deposit with the Central Bank of Guyana, a cash reserve balance equivalent to 12% (2016 -12%) of total prescribed liabilities.

| | **2017** | **2016** |
|---|---|---|
| Primary | 6,803,597 | 6,447,474 |
| | 6,803,597 | 6,447,474 |

## 6. Investment securities

| | **2017** | **2016** |
|---|---|---|
| **Held – to- maturity** | | |
| GOG Treasury bills | 5,518,563 | 7,714,235 |
| Accrued interest | 49,739 | 51,479 |
| | 5,568,302 | 7,765,714 |

## 7. Net loans to customers

### 7.1 Loans and advances

| | **2017** | **2016** |
|---|---|---|
| Principal neither past due nor impaired | 37,659,549 | 34,744,222 |
| Principal which is past due but not impaired | 6,991,176 | 7,720,546 |
| Principal which is impaired | 3,389,370 | 3,403,978 |
| Gross loans | 48,040,095 | 45,868,746 |
| Loan loss provision | (1,041,311) | (1,580,834) |
| Total net of provision | 46,998,784 | 44,287,912 |
| Interest receivable | 231,029 | 224,036 |
| | 47,229,813 | 44,511,948 |

*($ thousands)*

## 7. Net loans to customers *(continued)*

### 7.2 Loans past due but not impaired

| | **2017** | | | |
|---|---|---|---|---|
| | **Less than 30 days** | **30 – 60 days** | **61 – 89 days** | **Total** |
| **Loans and advances to customers** | | | | |
| Commercial loans | 581,791 | 137,027 | 79,783 | 798,601 |
| Retail loans | 4,998,876 | 753,954 | 439,745 | 6,192,575 |
| | **5,580,667** | **890,981** | **519,528** | **6,991,176** |

| | **2016** | | | |
|---|---|---|---|---|
| | **Less than 30 days** | **30 – 60 days** | **61 – 89 days** | **Total** |
| **Loans and advances to customers** | | | | |
| Commercial loans | 558,697 | 121,308 | 87,917 | 767,922 |
| Retail loans | 5,895,606 | 600,183 | 456,835 | 6,952,624 |
| | **6,454,303** | **721,491** | **544,752** | **7,720,546** |

*($ thousands)*

## 7. Net loans to customers *(continued)*

### 7.3 Analysis of movement of loan loss provision

| | 2017 | 2016 |
|---|---|---|
| **Balance, beginning of year** | | |
| Specific provision | 1,580,834 | 1,541,029 |
| General provision | - | 41,000 |
| | 1,580,834 | 1,582,029 |
| **Additions/(deductions)** | | |
| Specific provision net of write offs | (453,265) | 39,805 |
| General provision | - | (41,000) |
| Provisions no longer required | (86,258) | - |
| | (539,523) | (1,195) |
| **Balance, end of year** | | |
| Specific provision | 1,041,311 | 1,580,834 |
| | 1,041,311 | 1,580,834 |

### 7.4 Loan loss expense

| | 2017 | 2016 |
|---|---|---|
| Loan loss charge for the year | 471,497 | 364,218 |
| Recoveries | (192,600) | (120,471) |
| | 278,897 | 243,747 |

*($ thousands)*

## 8. Assets classified as held for sale

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

## 9. Property, plant and equipment

| | Land & Building | Leasehold Improvements | Furniture, Fittings & Equipment | Motor Vehicles | Work in progress | 2017 Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **At beginning of the year** | 631,613 | 276,580 | 1,429,696 | 29,657 | 19,200 | 2,386,746 |
| Additions | - | - | - | - | 56,932 | 56,932 |
| Transfers | 6,965 | 13,814 | 30,746 | - | (51,525) | - |
| Disposals | - | - | (2,392) | - | - | (2,392) |
| **At end of year** | 638,578 | 290,394 | 1,458,050 | 29,657 | 24,607 | 2,441,286 |
| **Accumulated Depreciation** | | | | | | |
| **At beginning of the year** | 202,264 | 202,187 | 1,071,585 | 8,004 | - | 1,484,040 |
| Charge for the year | 14,251 | 39,444 | 80,465 | 5,793 | - | 139,953 |
| Disposals | - | - | (897) | - | - | (897) |
| **At end of year** | 216,515 | 241,631 | 1,151,153 | 13,797 | - | 1,623,096 |
| **Net book value** | 422,063 | 48,763 | 306,897 | 15,860 | 24,607 | 818,190 |

*($ thousands)*

## 9. Property, plant and equipment- *(continued)*

| | Land & Building | Leasehold Improvements | Furniture, Fittings & Equipment | Motor Vehicles | Work in progress | 2016 Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **At beginning of the year** | 624,563 | 273,675 | 1,363,003 | 29,657 | 35,175 | 2,326,073 |
| Additions | - | - | - | - | 64,785 | 64,785 |
| Transfers | 7,050 | 2,905 | 70,805 | - | (80,760) | - |
| Disposals | - | - | (4,112) | - | - | (4,112) |
| **At end of year** | 631,613 | 276,580 | 1,429,696 | 29,657 | 19,200 | 2,386,746 |
| **Accumulated Depreciation** | | | | | | |
| **At beginning of the year** | 188,177 | 164,654 | 994,207 | 2,184 | - | 1,349,222 |
| Charge for the year | 14,087 | 37,533 | 81,490 | 5,820 | - | 138,930 |
| Disposals | - | - | (4,112) | - | - | (4,112) |
| **At end of year** | 202,264 | 202,187 | 1,071,585 | 8,004 | - | 1,484,040 |
| **Net book value** | 429,349 | 74,393 | 358,111 | 21,653 | 19,200 | 902,706 |

*($ thousands)*

## 10. Other assets

| | 2017 | 2016 |
|---|---|---|
| Interest accrued | 34,977 | 15,173 |
| Recoverable charges | 1,028 | 66 |
| Others | 87,010 | 111,270 |
| | 123,015 | 126,509 |

## 11. Deposits

| | 2017 | 2016 |
|---|---|---|
| Demand | 16,411,900 | 14,869,196 |
| Savings | 37,183,371 | 35,135,494 |
| Term | 4,280,765 | 4,204,995 |
| | 57,876,036 | 54,209,685 |
| Accrued interest | 15,144 | 18,910 |
| | 57,891,180 | 54,228,595 |

**Sector analysis**

| | | |
|---|---|---|
| General Government (including Public Corp.) | 1,395,286 | 1,636,855 |
| Financial Corp. other than Commercial Banks | 1,547,674 | 1,491,579 |
| Private Sector | 16,965,668 | 15,822,767 |
| Individuals | 28,186,758 | 26,102,164 |
| Non-Residents | 9,795,794 | 9,175,230 |
| | 57,891,180 | 54,228,595 |

*($ thousands)*

## 12. Due to banks and related companies

| | 2017 | 2016 |
|---|---|---|
| Due to related companies | 30,380 | 48,886 |
| Due to banks | 794,563 | 691,064 |
| | 824,943 | 739,950 |

## 13. Taxation

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

| | 2017 | 2016 |
|---|---|---|
| Property, plant and equipment | 117,599 | 66,639 |
| Post retirement benefit | 108,722 | 83,391 |
| | 226,321 | 150,030 |

The taxation charge is made up of the following:-

| | | 2017 | 2016 |
|---|---|---|---|
| Corporation tax | - Current year | 1,895,360 | 1,763,667 |
| | - Prior year | (132,084) | 396 |
| Deferred tax | | (76,291) | (34,548) |
| | | 1,686,985 | 1,729,515 |

*($ thousands)*

## 13. Taxation *(continued)*

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

| | | 2017 | 2016 |
|---|---|---|---|
| Net income before taxation | | 4,494,637 | 4,130,341 |
| Tax calculated at a rate of 40% | | 1,797,855 | 1,652,136 |
| Income exempt from tax | | (16,108) | (13,842) |
| Expenses not deductible for tax purposes | | 66,026 | 128,171 |
| Pension liability | | 25,330 | 23,124 |
| Difference in accounting depreciation vs. tax depreciation | | 22,257 | (25,922) |
| Corporation tax | - Current | 1,895,360 | 1,763,667 |
| | - Deferred | (76,291) | (34,548) |
| Total Corporation tax- current year | | 1,819,069 | 1,729,119 |
| Corporation tax- Prior year | | (132,084) | 396 |
| | | 1,686,985 | 1,729,515 |

## 14. Other liabilities

| | 2017 | 2016 |
|---|---|---|
| Accrued expenses | 644,971 | 529,557 |
| Unclaimed accounts | 216,440 | 132,950 |
| Provision for operational losses | 17,656 | 117,434 |
| Others | 62,476 | 39,146 |
| | 941,543 | 819,087 |

*($ thousands)*

## 15. Assigned capital

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

## 16. Other capital

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

## 17. 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).

## 18. Total interest income

| | 2017 | 2016 |
|---|---|---|
| Loans and receivables | 5,013,803 | 4,698,848 |
| Investment securities – held -to- maturity | 148,095 | 165,021 |
| Others | 82,719 | 40,450 |
| | 5,244,617 | 4,904,319 |

## 19. Total interest expense

| | 2017 | 2016 |
|---|---|---|
| Savings deposits | 191,017 | 168,024 |
| Term deposits | 44,255 | 43,208 |
| | 235,272 | 211,232 |

## 20. Other income

| | 2017 | 2016 |
|---|---|---|
| Foreign exchange gains | 1,386,254 | 1,355,017 |
| Commissions | 1,289,913 | 1,193,688 |
| Others | 17,911 | 15,648 |
| | 2,694,078 | 2,564,353 |

*($ thousands)*

## 21. Other expenses

| | **2017** | **2016** |
|---|---|---|
| Property taxes and business licenses | 115,202 | 107,314 |
| Professional fees | 71,020 | 46,487 |
| Stationery | 75,351 | 69,361 |
| Outsourced services | 485,280 | 492,027 |
| Others | 271,313 | 321,558 |
| | 1,018,166 | 1,036,747 |

## 22. Commitments and contingent liabilities

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

As at October 31, 2017, there were certain legal proceedings against The Bank of Nova Scotia - Guyana Branch. Management does not believe that liabilities, if any, arising from pending litigation will have an adverse effect on the Bank's financial position.

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

| | **2017** | **2016** |
|---|---|---|
| Rental due within one year | 75,938 | 67,278 |
| Rental due between one and five years | 80,118 | 70,206 |
| Rental due after five years | - | - |
| | 156,056 | 137,484 |

## 23. Financial risk

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

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

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

Risk management framework

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

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

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

### 23.1 Credit risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour its financial or contractual obligations to the Bank. Credit risk is created in The Bank of Nova Scotia - Guyana Branch's direct lending operations, and in its funding, investment and trading activities where counterparties have repayment, or other obligations to the Bank.

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

## 23. Financial risk *(continued)*

### 23.1 Credit risk *(continued)*

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

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

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

Relationship Managers develop and structure individual proposals at branches and commercial centres. Furthermore, for business borrowers, they conduct a full financial review for each customer at least annually, so that the Bank remains fully aware of customers' risk profiles. The Credit Risk Management and Global Risk Management departments analyse and adjudicate on commercial and corporate credits as per established lending limits. In assessing credit proposals, the Bank of Nova Scotia – Guyana Branch is particularly sensitive to the risks posed to credit quality by environmental exposures.

Retail credits are authorised by the Lending Adjudication Centre (LAC) or International Loan Development Centre (ILDC) within established criteria using a credit scoring system. The ILDC 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 approval by the appropriate management credit committee.

*($ thousands)*

## 23. Financial risk *(continued)*

### 23.1 Credit risk *(continued)*

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

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

| | 2017 | 2016 |
|---|---|---|
| Credit risk recognized on the statement of financial position | | |
| Due from banks and related companies | 12,025,429 | 8,818,333 |
| Deposits with Central Bank | 6,803,597 | 6,447,474 |
| Investment securities (excluding equities) | | |
| - held-to-maturity | 5,568,302 | 7,765,714 |
| Net loans to customers | 47,229,813 | 44,511,948 |
| | 71,627,141 | 67,543,469 |
| Credit risk not recognized on the statement of financial position | | |
| Acceptances, guarantees and letters of credit | 2,500,384 | 1,434,142 |
| Total credit risk exposure | 74,127,525 | 68,977,611 |

*($ thousands)*

## 23. Financial risk *(continued)*

### 23.1 Credit risk *(continued)*

Credit quality by class of financial asset

| | 2017 | | | |
|---|---|---|---|---|
| | **Not Impaired** | **Impaired** | **Impairment provision** | **Total** |
| **As at October 31, 2017** | | | | |
| Due from banks and related companies | 12,025,429 | - | - | 12,025,429 |
| Deposits with Central Bank | 6,803,597 | - | - | 6,803,597 |
| | 18,829,026 | - | - | 18,829,026 |
| **Investment securities** | | | | |
| *Classified as held- to-maturity* | | | | |
| Treasury bills | 5,568,302 | - | - | 5,568,302 |
| | 5,568,302 | - | - | 5,568,302 |
| **Loans and advances** | | | | |
| Commercial | 13,843,015 | 1,354,689 | (286,370) | 14,911,334 |
| Mortgages | 22,048,235 | 1,795,925 | (536,134) | 23,308,026 |
| Others | 8,990,504 | 238,756 | (218,807) | 9,010,453 |
| | 44,881,754 | 3,389,370 | (1,041,311) | 47,229,813 |
| Total | 69,279,082 | 3,389,370 | (1,041,311) | 71,627,141 |

*($ thousands)*

## 23. Financial risk *(continued)*

### 23.1 Credit risk *(continued)*

Credit quality by class of financial asset

| | 2016 | | | |
|---|---|---|---|---|
| | **Not Impaired** | **Impaired** | **Impairment provision** | **Total** |
| **As at October 31, 2016** | | | | |
| Due from banks and related companies | 8,818,333 | - | - | 8,818,333 |
| Deposits with Central Bank | 6,447,474 | - | - | 6,447,474 |
| | 15,265,807 | - | - | 15,265,807 |
| **Investment securities** | | | | |
| *Classified as held- to-maturity* | | | | |
| Treasury bills | 7,765,714 | - | - | 7,765,714 |
| | 7,765,714 | - | - | 7,765,714 |
| **Loans and advances** | | | | |
| Commercial | 12,292,458 | 1,302,844 | (330,476) | 13,264,826 |
| Mortgages | 21,587,260 | 1,684,039 | (991,698) | 22,279,601 |
| Others | 8,809,086 | 417,095 | (258,660) | 8,967,521 |
| | 42,688,804 | 3,403,978 | (1,580,834) | 44,511,948 |
| Total | 65,720,325 | 3,403,978 | (1,580,834) | 67,543,469 |

## 23. Financial risk *(continued)*

### 23.2 Market risk

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

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

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

23.2.1 Currency risk

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

*($ thousands)*

## 23. Financial risk *(continued)*

### 23.2 Market risk *(continued)*

23.2.1 Currency risk (continued)

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

| | 2017 | | | |
|---|---|---|---|---|
| | **GY** | **US** | **Others** | **Total** |
| **Assets** | | | | |
| Cash on hand and in transit | 1,270,970 | 40,740 | 837 | 1,312,547 |
| Due from banks and related companies | 3,814,050 | 8,031,113 | 180,266 | 12,025,429 |
| Deposits with Central Bank | 6,803,597 | - | - | 6,803,597 |
| Investment securities | 5,568,302 | | | 5,568,302 |
| Net loans to customers | 47,218,950 | 10,863 | - | 47,229,813 |
| Assets classified as held for sale | 36,628 | - | - | 36,628 |
| Property, plant and equipment | 818,190 | - | - | 818,190 |
| Deferred tax asset | 226,321 | | | 226,321 |
| Other assets | 103,407 | 15,157 | 4,451 | 123,015 |
| Total assets | 65,860,415 | 8,097,873 | 185,553 | 74,143,842 |
| **Liabilities** | | | | |
| Deposits | 51,160,141 | 6,569,224 | 161,815 | 57,891,180 |
| Due to banks and related companies | 824,943 | - | - | 824,943 |
| Provision for taxation | 730,742 | - | - | 730,742 |
| Other liabilities | 882,719 | 38,401 | 20,423 | 941,543 |
| Total liabilities | 53,598,545 | 6,607,625 | 182,238 | 60,388,408 |
| **Net financial position** | 12,261,870 | 1,490,248 | 3,315 | 13,755,434 |

*($ thousands)*

**23. Financial risk *(continued)***

**23.2 Market risk *(continued)***

23.2.1 Currency risk (continued)

| | 2016 | | | |
|---|---|---|---|---|
| | **GY** | **US** | **Other** | **Total** |
| **Assets** | | | | |
| Cash on hand and in transit | 764,485 | 36,877 | 3,641 | 805,003 |
| Due from banks and related companies | 3,386,753 | 5,287,411 | 144,168 | 8,818,333 |
| Deposits with Central Bank | 6,447,474 | - | - | 6,447,474 |
| Investment securities | 7,765,714 | - | - | 7,765,714 |
| Net loans to customers | 44,499,961 | 11,987 | - | 44,511,948 |
| Assets classified as held for sale | 41,528 | - | - | 41,528 |
| Property, plant and equipment | 902,707 | - | - | 902,706 |
| Deferred tax assets | 150,030 | | | 150,030 |
| Other assets | 113,771 | 12,738 | - | 126,509 |
| Total assets | 64,072,423 | 5,349,013 | 147,809 | 69,569,245 |
| **Liabilities** | | | | |
| Deposits | 49,648,510 | 4,497,841 | 82,244 | 54,228,595 |
| Due to banks and related companies | 677,619 | 15 | 62,316 | 739,950 |
| Other liabilities | 780,295 | 38,460 | 332 | 819,087 |
| Total liabilities | 51,539,429 | 4,536,316 | 144,892 | 56,220,637 |
| **Net financial position** | 12,532,994 | 812,697 | 2,917 | 13,348,608 |

## 23. Financial risk *(continued)*

### 23.2 Market risk *(continued)*

23.2.2 Equity price risk

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

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

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

23.2.3 Interest rate risk

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

*($ thousands)*

## 23. Financial risk *(continued)*

### 23.2 Market risk *(continued)*

23.2.3 Interest rate risk (continued)

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

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | **Due on demand** | **Due in one year** | **Due in two to five years** | **Over five years** | **Non -interest bearing** | **Total** |
| **Assets** | | | | | | |
| Cash on hand and in transit | - | - | - | - | 1,312,547 | 1,312,547 |
| Due from banks and related companies | 5,035,843 | 3,007,327 | - | - | 3,982,259 | 12,025,429 |
| Deposits with Central Bank | | - | | | 6,803,597 | 6,803,597 |
| Investment securities | | 5,568,302 | | | | 5,568,302 |
| Net loans to Customers | 9,615,367 | 6,484,167 | 8,373,335 | 20,408,885 | 2,348,059 | 47,229,813 |
| Assets classified as held for sale | - | - | - | - | 36,628 | 36,628 |
| Property, plant and equipment | - | - | - | - | 818,190 | 818,190 |
| Deferred tax assets | | | | | 226,321 | 226,321 |
| Other assets | | | | | 123,015 | 123,015 |
| Total assets | 14,651,210 | 15,059,796 | 8,373,335 | 20,408,885 | 15,650,616 | 74,143,842 |
| **Liabilities** | | | | | | |
| Deposits | 37,184,158 | 2,938,264 | 1,356,856 | - | 16,411,902 | 57,891,180 |
| Due to banks and related companies | - | - | - | - | 824,943 | 824,943 |
| Provision for taxation | - | - | - | - | 730,742 | 730,742 |
| Other liabilities | - | - | - | - | 941,543 | 941,543 |
| Assigned capital, reserves and head office account | - | - | - | - | 13,755,434 | 13,755,434 |
| Total liabilities | 37,184,158 | 2,938,264 | 1,356,856 | - | 32,664,564 | 74,143,842 |
| **Net gap** | (22,532,948) | 12,121,532 | 7,016479 | 20,408,885 | (17,013,948) | - |
| **Cumulative gap** | (22,532,948) | (10,411,416) | (3,394,937) | 17,013,948 | - | - |

*($ thousands)*

## 23. Financial risk *(continued)*

### 23.2 Market risk *(continued)*

23.2.3 Interest rate risk (continued)

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | **Due on demand** | **Due in one year** | **Due in two to five years** | **Over five years** | **Non -interest bearing** | **Total** |
| **Assets** | | | | | | |
| Cash on hand and in transit | - | - | - | - | 805,003 | 805,003 |
| Due from banks and related companies | 3,701,149 | 1,891,327 | - | - | 3,225,857 | 8,818,333 |
| Deposits with Central Bank | | - | | | 6,447,474 | 6,447,474 |
| Investment securities | | 7,765,714 | | | | 7,765,714 |
| Net loans to customers | 6,883,449 | 9,192,689 | 10,064,376 | 16,627,581 | 1,743,853 | 44,511,948 |
| Assets classified as held for sale | - | - | - | - | 41,528 | 41,528 |
| Property, plant and equipment | - | - | - | - | 902,706 | 902,706 |
| Deferred tax assets | | | | | 150,030 | 150,030 |
| Other assets | | | | | 126,509 | 126,509 |
| Total assets | 10,584,598 | 18,849,730 | 10,064,376 | 16,627,581 | 13,442,960 | 69,569,245 |
| **Liabilities** | | | | | | |
| Deposits | 35,139,251 | 3,146,550 | 1,073,597 | - | 14,869,197 | 54,228,595 |
| Due to banks and related companies | - | - | - | - | 739,950 | 739,950 |
| Provision for taxation | - | - | - | - | 433,005 | 433,005 |
| Other liabilities | - | - | - | - | 819,087 | 819,087 |
| Assigned capital, reserves and head office account | - | - | - | - | 13,348,608 | 13,348,608 |
| Total liabilities | 35,139,251 | 3,146,550 | 1,073,597 | - | 30,209,847 | 69,569,245 |
| **Net gap** | (24,554,653) | 15,703,180 | 8,990,779 | 16,627,581 | (16,766,887) | - |
| **Cumulative gap** | (24,554,653) | (8,851,473) | 139,306 | 16,766,887 | - | - |

## 23. Financial risk *(continued)*

### 23.2.4 Liquidity risk

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

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

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

*($ thousands)*

## 23. Financial risk *(continued)*

23.2.4 Liquidity risk (continued)

| | 2017 | | | | |
|---|---|---|---|---|---|
| | **Due on demand** | **Up to one year** | **Two to five years** | **Over five years** | **Total** |
| **Assets** | | | | | |
| Cash on hand and in transit | 1,312,547 | - | - | - | 1,312,547 |
| Due from banks and related companies | 9,018,102 | 3,007,327 | - | - | 12,025,429 |
| Deposit with Central bank | 6,803,597 | - | - | - | 6,803,597 |
| Investment securities | | 5,568,302 | | | 5,568,302 |
| Net loans to customers | 11,963,426 | 6,484,167 | 8,373,335 | 20,408,885 | 47,229,813 |
| | 29,097,672 | 15,059,796 | 8,373,335 | 20,408,885 | 72,939,688 |
| **Liabilities** | | | | | |
| Deposits | 53,596,060 | 2,938,264 | 1,356,856 | - | 57,891,180 |
| Due to banks and related companies | 824,943 | - | - | - | 824,943 |
| | 54,421,003 | 2,938,264 | 1,356,856 | - | 58,716,123 |
| **Net gap** | (25,323,331) | 12,121,532 | 7,016,479 | 20,408,885 | 14,223,565 |
| **Cumulative gap** | (25,323,331) | (13,201,799) | (6,185,320) | 14,223,565 | - |

*($ thousands)*

## 23. Financial risk *(continued)*

23.2.4 Liquidity risk (continued)

| | 2016 | | | | |
|---|---|---|---|---|---|
| | **Due on demand** | **Up to one year** | **Two to five years** | **Over five years** | **Total** |
| **Assets** | | | | | |
| Cash on hand and in transit | 805,003 | - | - | - | 805,003 |
| Due from banks and related companies | 7,178,333 | 1,640,000 | - | - | 8,818,333 |
| Deposits with Central Bank | 6,447,474 | - | - | - | 6,447,474 |
| Investment securities | | 7,765,714 | | | 7,765,714 |
| Net loans to customers | 8,627,302 | 9,192,689 | 10,064,376 | 16,627,581 | 44,511,948 |
| | 23,058,112 | 18,598,403 | 10,064,376 | 16,627,581 | 68,348,472 |
| **Liabilities** | | | | | |
| Deposits | 50,008,448 | 3,146,550 | 1,073,597 | - | 54,228,595 |
| Due to banks and related companies | 739,950 | | | | 739,950 |
| | 50,748,398 | 3,146,550 | 1,073,597 | - | 54,968,545 |
| **Net gap** | (27,690,286) | 15,451,853 | 8,990,779 | 16,627,581 | 13,379,927 |
| **Cumulative gap** | (27,690,286) | (12,238,433) | (3,247,654) | 13,379,927 | - |

*($ thousands)*

## 23. Financial risk *(continued)*

### 23.2.5 Capital management

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

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

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

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

| | 2017 | 2016 |
|---|---|---|
| **Tier 1 capital** | | |
| Assigned capital | 251,327 | 251,327 |
| Statutory reserve | 251,400 | 251,400 |
| Other capital | 13,154,272 | 12,845,881 |
| | 13,656,999 | 13,348,608 |
| **Tier II capital** | | |
| General provision and Banking risk reserve | 98,435 | - |
| | 98,435 | - |
| **Risk weighted assets** | | |
| On-balance sheet | 40,736,347 | 37,274,533 |
| Off balance sheet | 2,434,523 | 1,374,247 |
| **Total risk weighted assets** | 43,170,870 | 38,648,780 |
| Total regulatory capital to risk weighted assets % | 31.9% | 34.5% |

## 23. Financial risk *(continued)*

### 23.2.6 Operational risk

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

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

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

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

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

**24. Fair value of financial assets and liabilities**

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

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

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

- Level 1- Quoted market price (unadjusted) in an active market for an identical instrument.

- Level 2- Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- Level 3- Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique included inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

**24. Fair value of financial assets and liabilities *(continued)***

Investments

Other than investments classified as held to maturity, which are measured at amortized cost, there were no investment measured at fair value at October 31, 2017.

Cash on hand and in transit

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

Due from banks and related companies

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

Deposits with Central Bank

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

Net loans to customers

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

Deposits and due to banks and related companies

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

*($ thousands)*

## 24. Fair value of financial assets and liabilities *(continued)*

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

| | Carrying value | | Fair Value | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| **Financial assets** | | | | |
| Cash on hand and in transit | 1,312,547 | 805,003 | 1,312,547 | 805,003 |
| Due from banks and related companies | 12,025,429 | 8,818,333 | 12,025,429 | 8,818,333 |
| Deposits with Central Bank | 6,803,597 | 6,447,474 | 6,803,597 | 6,447,474 |
| Investment securities | 5,568,302 | 7,765,714 | 5,568,302 | 7,765,714 |
| Net loans to customers | 47,229,813 | 44,511,948 | 47,229,813 | 44,511,948 |
| | **72,939,688** | **68,348,472** | **72,939,688** | **68,348,472** |
| **Financial liabilities** | | | | |
| Deposits | 57,891,180 | 54,228,595 | 57,891,180 | 54,228,595 |
| Due to banks and related Companies | 824,943 | 739,950 | 824,943 | 739,950 |
| | **58,716,123** | **54,968,545** | **58,716,123** | **54,968,545** |

**25. Related party balances and transactions**

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

i. Directly or indirectly the party
   - controls, is controlled by, or is under common control with the Bank ;
   - has an interest in the Bank that gives it significant influence over the Bank ; or
   - has joint control over the Bank.

ii. The party is a member of the key management personnel of the Bank of Nova Scotia - Guyana Branch.

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

iv. The party is a post-employment benefit plan for the benefit of employees of the Bank of Nova Scotia - Guyana Branch, or any company that is a related party of the Bank.

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

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

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

*($ thousands)*

## 25. Related party balances and transactions *(continued)*

### Outstanding balances

| | 2017 | 2016 |
|---|---|---|
| **Loans, investments and other assets** | | |
| Directors and key management personnel | 210,848 | 244,307 |
| Bank of Nova Scotia and other related entities | 8,004,645 | 5,938,810 |
| | 8,215,493 | 6,183,117 |
| **Deposits and other liabilities** | | |
| Directors and key management personnel | 27,377 | 18,661 |
| Bank of Nova Scotia and other related entities | 20,592 | 7,393 |
| | 47,969 | 26,054 |
| **Interest and other income** | | |
| Directors and key management personnel | 9,040 | 8,814 |
| Bank of Nova Scotia and other related entities | 77,434 | 35,928 |
| | 86,474 | 44,742 |
| **Interest and expenses** | | |
| Directors and key management personnel | 230 | 189 |
| Bank of Nova Scotia and other related entities | 485,280 | 492,027 |
| | 485,510 | 492,216 |

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

| | 2017 | 2016 |
|---|---|---|
| **Key management compensation** | | |
| Short term benefits | 217,203 | 182,822 |

*($ thousands)*

## 26. 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.

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | **Corporate, Commercial & Small Business Banking** | **Retail Banking** | **Treasury** | **Total Segment** | **Unallocated / Eliminations** | **Total Bank** |
| Net interest income | 1,561,422 | 3,217,170 | 228,674 | 5,007,266 | 2,079 | 5,009,345 |
| Non-interest revenue | 531,021 | 774,670 | 1,361,404 | 2,667,095 | 26,983 | 2,694,078 |
| Net segment interest and other income | 2,092,443 | 3,991,840 | 1,590,078 | 7,674,361 | 29,062 | 7,703,423 |
| Net segment profit before taxes | 949,158 | 2,031,259 | 1,485,159 | 4,465,576 | 29,062 | 4,494,637 |
| Segment assets | 15,292,952 | 32,727,899 | 24,397,328 | 68,104,557 | 1,725,663 | 74,143,842 |
| Segment liabilities | 27,746,912 | 29,966,493 | 824,943 | 54,993,649 | 1,850,059 | 60,388,407 |

*($ thousands)*

## 26. Operating segments *(continued)*

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | **Corporate, Commercial & Small Business Banking** | **Retail Banking** | **Treasury** | **Total Segment** | **Unallocated / Eliminations** | **Total Bank** |
| Net interest income | 1,480,140 | 3,007,468 | 205,510 | 4,693,118 | (31) | 4,693,087 |
| Non-interest revenue | 495,336 | 708,848 | 1,355,017 | 2,559,201 | 5,152 | 2,564,353 |
| Net segment interest and other income | 1,975,476 | 3,716,316 | 1,560,527 | 7,252,319 | 5,121 | 7,257,440 |
| Net segment profit before taxes | 814,964 | 1,869,762 | 1,440,494 | 4,125,220 | 5,121 | 4,130,341 |
| Segment assets | 13,437,819 | 30,830,214 | 23,836,524 | 68,104,557 | 1,464,688 | 69,569,245 |
| Segment liabilities | 24,626,845 | 29,626,854 | 739,950 | 54,993,649 | 1,226,988 | 56,220,637 |