Financial Statements of

SCOTIABANK (BAHAMAS) LIMITED

Year ended October 31, 2018

SCOTIABANK (BAHAMAS) LIMITED

Financial Statements

Year ended October 31, 2018

KPMG
PO Box N-123
Montague Sterling Centre
East Bay Street
Nassau, Bahamas

Telephone +1 242 393 2007
Fax +1 242 393 1772
kpmg.com.bs

INDEPENDENT AUDITORS' REPORT

To the Shareholder of Scotiabank (Bahamas) Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Scotiabank (Bahamas) Limited ("the Bank"), which comprise the statement of financial position as at October 31, 2018, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, including significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

We 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.

KPMG

February 28, 2019
Nassau, Bahamas

SCOTIABANK (BAHAMAS) LIMITED
Statement of Financial Position

October 31, 2018, with corresponding figures for 2017
(Expressed in thousands of Bahamian dollars)

	Note	2018 ($'000s)	2017 ($'000s)
Assets			
Cash and cash equivalents, treasuries and balances with Central Bank	3	366,896	299,765
Due from banks	4	425,162	432,779
Other assets	5	3,119	2,762
Investment securities	6	77,445	159,413
Loans and advances to customers	7	1,302,271	1,257,856
Property and equipment	8	24,178	25,458
Total Assets		2,199,071	2,178,033
Liabilities			
Deposits	9	1,477,183	1,474,083
Other liabilities	10	42,956	35,785
Total Liabilities		1,520,139	1,509,868
Equity			
Share capital	12	25,000	25,000
Share premium	13	40,000	40,000
Revaluation Reserve		(945)	(381)
Retained earnings		614,877	603,546
Total Equity		678,932	668,165
Total Liabilities and Equity		2,199,071	2,178,033
Commitments & Contingencies	18, 22		

See accompanying notes to financial statements.

These financial statements were approved on behalf of the Board of Directors on February 27, 2019 by the following:

Beth M. Nottage Director

Director

SCOTIABANK (BAHAMAS) LIMITED
Statement of Comprehensive Income

Year ended October 31, 2018, with corresponding figures for 2017
(Expressed in thousands of Bahamian dollars)

	Note	2018 ($'000s)	2017 ($'000s)
Net interest income	14	92,756	89,239
Non-interest income	15	47,027	41,623
Total Income		139,783	130,862
Loan loss impairment	7	10,937	15,697
Non-interest expenses	16	78,941	76,591
Operating Expenses		89,878	92,288
Net and total comprehensive income for the year		49,905	38,574

See accompanying notes to financial statements.

SCOTIABANK (BAHAMAS) LIMITED
Statement of Changes in Equity

Year ended October 31, 2018, with corresponding figures for 2017
(Expressed in thousands of Bahamian dollars)

	Share Capital ($'000s)	Share Premium ($'000s)	Revaluation Reserves ($'000s)	Retained Earnings ($'000s)	Total ($'000s)
Balance at October 31, 2016	25,000	40,000	–	595,748	660,748
Total comprehensive income for the year:					
Net income for the year	–	–	–	38,574	38,574
Revaluation reserves:					
Net unrealized loss arising from changes in fair value of available for sale securities	–	–	(381)	–	(381)
Transactions with the owners of the Bank recognized directly in equity:					
Dividends (note 24)	–	–	–	(30,776)	(30,776)
Balance at October 31, 2017	25,000	40,000	(381)	603,546	668,165
Total comprehensive income for the year:					
Net income for the year	–	–	–	49,905	49,905
Revaluation reserves:					
Net unrealized loss arising from changes in fair value of available for sale securities	–	–	(564)	–	(564)
Transactions with the owners of the Bank recognized directly in equity:					
Dividends (note 24)	–	–	–	(38,574)	(38,574)
Balance at October 31, 2018	25,000	40,000	(945)	614,877	678,932

See accompanying notes to financial statements.

SCOTIABANK (BAHAMAS) LIMITED
Statement of Cash Flows

Year ended October 31, 2018, with corresponding figures for 2017
(Expressed in thousands of Bahamian dollars)

	Note	2018 ($'000s)	2017 ($'000s)
Cash flows from operating activities:			
Net income for the year		49,905	38,574
Adjustments for:			
Interest income	14	(97,773)	(93,214)
Interest expense	14	5,017	3,975
Loan loss impairment	7	10,937	15,697
Depreciation	8	2,527	2,663
Gain on disposal of property and equipment		(254)	(7)
Net cash used in operations before changes in operating assets and liabilities		(29,641)	(32,312)
Increase in restricted balances with Central Bank		(970)	(3,884)
(Increase)/decrease in treasury bills with original maturities greater than three months		(40,401)	28,102
Decrease/(increase) in due from banks with original maturities greater than three months		13,570	(20,477)
Increase in loans and advances to customers		(54,358)	(53,545)
Increase in other assets		(409)	(875)
Increase in deposits		3,100	13,335
Increase in other liabilities		7,299	203
Interest received		96,831	92,942
Interest paid		(5,145)	(4,038)
Net cash (used in)/provided by operating activities		(10,124)	19,451
Cash flows from investing activities:			
Net proceeds/(payments) from maturity/purchase of investment securities		81,968	(39,269)
Purchase of property and equipment	8	(1,617)	(1,125)
Proceeds from the disposal of property and equipment		624	49
Net cash provided by/(used in) investing activities		80,975	(40,345)
Cash flows from financing activities:			
Dividends paid	24	(38,574)	(30,776)
Net cash used in financing activities		(38,574)	(30,776)
Net increase/(decrease) in cash and cash equivalents		32,277	(51,670)
Cash and cash equivalents, beginning of year		638,365	690,035
Cash and cash equivalents, end of year		670,642	638,365
Composition:			
Cash, treasuries and balances with Central Bank	3	263,677	237,353
Due from banks	4	406,965	401,012
Cash and cash equivalents, end of the year		670,642	638,365

See accompanying notes to financial statements.

1. Reporting entity

Scotiabank (Bahamas) Limited ("the Bank") is incorporated under the Companies Act, 1992 of the Commonwealth of The Bahamas and is licensed under The Bank and Trust Companies Regulation Act, 2000. The Bank is also licensed as an authorized dealer pursuant to the Exchange Control Regulations Act. The Bank is wholly owned by The Bank of Nova Scotia International Limited ("the Parent"), a Bahamian company, also incorporated in the Commonwealth of The Bahamas. The ultimate parent company is The Bank of Nova Scotia ("BNS"), a company incorporated in Canada.

The Bank provides commercial and retail banking services, including the acceptance of deposits, granting of loans and the provision of foreign exchange services in The Bahamas. The Bank's registered office is located on Bay Street and Rawson Square, Nassau, The Bahamas.

2. Basis of preparation and significant accounting policies

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The accounting policies set out below have been applied consistently to all periods presented in these financial statements. Where necessary, corresponding figures have been reclassified and or adjusted to confirm with changes in presentation in the current year.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except where otherwise noted below.

(c) Functional and presentation currency

The financial statements are presented in Bahamian dollars ("B$"), which is the Bank's functional currency. Except as indicated, financial information presented in B$ has been rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described within these policy notes and individual notes as applicable.

2. Basis of preparation and significant accounting policies *(continued)*

(e) New standards and interpretations not yet adopted

Up to the date of issue of these financial statements, the International Accounting Standards Board has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended October 31, 2018 and which have not been adopted in these financial statements.

The Bank is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application, and so far it has concluded that the adoption of them is unlikely to have a significant impact on the Bank's results of operations and financial position, except for:

(i) IFRS 9 *Financial Instruments*

IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018. IFRS 9, published in July 2015, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. The Standard covers three broad topics: Classification and Measurement, Impairment, and Hedging. The following is a summary of the significant items important in understanding the impact of the implementation of IFRS 9:

Classification and measurement

The Standard introduces new requirements to determine the measurement basis of financial assets, involving the cash flow characteristics of assets and the business models under which they are managed. The Bank is currently completing detailed reviews of its business models and the cash flow characteristics of its portfolio holdings. Based upon assessments completed to date, the implementation could result in a significant change in the classification and measurement of the Bank's financial assets, between Amortized cost, Fair value through Other Comprehensive Income (OCI), and Fair value through the Statement of Comprehensive Income.

Impairment

The adoption of IFRS 9 will have a significant impact on the Bank's impairment methodology. The IFRS 9 expected credit loss (ECL) model is forward looking compared to the current incurred loss approach under IAS 39. Expected credit losses under IFRS 9 are the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception. ECL should reflect an unbiased, probability-weighted outcome as opposed to the single best estimate allowed under the current approach.

IFRS 9 impairment model uses a three stage approach based on the extent of credit deterioration since origination:

Stage 1 - 12 month ECL applies to all financial assets that have not experienced a significant increase in credit risk (SIR) since origination and are not credit impaired. The ECL will be computed using a 12-month probability of default (PD) that

2. Basis of preparation and significant accounting policies *(continued)*

(e) New standards and interpretations not yet adopted *(continued)*

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

Impairment (continued)

represents the probability of default occurring over the next 12 months or less in line with the maturity profile of the asset.

Stage 2 - When a financial asset experiences a SIR since origination but is not credit impaired, it is considered to be in Stage 2. This requires the computation of ECL based on lifetime PD that represents the probability of default occurring over the remaining lifetime of the financial asset. Allowances are higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.

Stage 3 - Financial assets that have an objective evidence of impairment will be included in this stage. Similar to Stage 2, the allowance for credit losses will continue to capture the lifetime expected credit losses for such loans. As the Bank's definition of default is not likely to change materially and will align with the regulatory definition, the treatment of loans in Stage 3 remains substantially the same as the current treatment of impaired loans under IAS 39.

Transition and impact

The Bank will record an adjustment to its opening November 1, 2018 retained earnings, to reflect the application of the new requirements of Impairment and Classification and Measurement at the adoption date and will not restate comparative periods. This adjustment includes the reversal of the regulatory general provision which the Bank's lead regulatory the Central Bank of The Bahamas no longer requires effective November 1, 2018.

The Bank estimates the IFRS 9 transition amount will reduce shareholder's equity by approximately $11,500 and the Common Equity Tier 1 capital ratio by approximately 169.15 basis points as at November 1, 2018. The estimated impact relates primarily to the implementation of the ECL requirements of IFRS 9.

Financial instruments: disclosures (IFRS 7)

IFRS 7 Financial Instruments: Disclosures, has been amended to include more extensive qualitative and quantitative disclosure relating to IFRS 9 such as new classification categories, three stage impairment model, new hedge accounting requirements and transition provisions.

(ii) IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018.

2. Basis of preparation and significant accounting policies *(continued)*

(e) New standards and interpretations not yet adopted *(continued)*

(ii) IFRS 15 *Revenue from Contracts with Customers* *(continued)*

The standard is a control-based model as compared to the existing revenue standard which is primarily focused on risks and rewards and provides a single principle based framework to be applied to all contracts with customers that are in scope of the standard. Under the new standard revenue is recognized when a customer obtains control of a good or service. Transfer of control occurs when the customer has the ability to direct the use of and obtain the benefits of the good or service. The standard introduces a new five step model to recognize revenue as performance obligations in a contract are satisfied. The standard scopes out contracts that are considered to be lease contracts, insurance contracts and financial instruments, and as such will impact the businesses that earn fee and commission revenue. The Bank is in process of making an assessment of what the impact of this standard is expected to be in the period of initial application.

(iii) IFRS 16 *Leases*

IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. Early adoption is permitted but the Bank does not plan to early adopt and the extent of the impact has not yet been determined.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes 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 optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – IAS 17 *Leases*, i.e. lessors continue to classify leases as finance or operating leases.

(f) Foreign currency translation

Transactions in foreign currencies are translated at exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rates at that date. The foreign currency exchange gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rates at the end of the period. Foreign currency exchange differences arising on translation are recognized in the statement of comprehensive income.

(g) Interest

Interest income and expense are recognized in the statement of comprehensive income using the effective interest method. The effective interest rate is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

2. Basis of preparation and significant accounting policies *(continued)*

(g) Interest *(continued)*

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs, and 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 or liability.

Interest income and expense presented in the statement of comprehensive income include interest on financial assets and liabilities at amortized cost, held-to-maturity investment securities and available-for-sale investment securities all of which are calculated on an effective interest basis.

(h) Leases

Payments made under operating leases are recognized in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(i) Financial assets and liabilities

(i) Classification

Financial assets classified as at fair value through profit or loss are either designated on initial recognition as one to be measured at fair value with fair value changes in profit or loss or held for trading. All derivatives (except those designated as hedging instruments) and financial assets acquired or held for the purpose of selling in the short term or for which there is a recent pattern of short-term profit taking are held for trading.

Financial assets classified as available-for-sale are any non-derivative financial assets designated on initial recognition as available for sale or any other instruments that are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. Investments in equity instruments are classified as available-for-sale securities.

Financial assets classified as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than held for trading or designated on initial recognition as assets at fair value through profit or loss or as available-for-sale.

Financial assets classified as held-to-maturity investments are non-derivative financial assets with fixed or determinable payments that an entity intends and is able to hold to maturity and that do not meet the definition of loans and receivables and are not designated on initial recognition as assets at fair value through profit or loss or as available for sale. If there is a sale of a held-to-maturity investment other than an insignificant amount or as a consequence of a non-recurring, isolated event beyond the Bank's control that could not be reasonably anticipated, all other held-to-maturity investments must be reclassified as available-for-sale for the current and next two financial reporting years.

2. Basis of preparation and significant accounting policies *(continued)*

(i) Financial assets and liabilities *(continued)*

(i) Classification *(continued)*

Financial liabilities are classified as either at fair value through profit or loss or other financial liabilities measured at amortised cost using the effective interest method. Financial liabilities at fair value through profit or loss can be either designated at fair value through profit or loss upon initial recognition or held for trading.

(ii) Recognition

The Bank initially recognizes loans and advances and deposit liabilities on the date that they are originated or accepted, as applicable.

All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

(iii) Derecognition

The Bank derecognizes 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 Bank is recognized as a separate asset or liability. On recognition of a financial asset, the difference between the carrying amount of the asset and the sum of (i) the consideration received and (ii) any cumulative gain or loss that had been recognized in OCI is recognized in profit and loss.

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and liabilities with the same counterparty are offset, with the net amount reported in the statement of financial position, only if there is currently a legally enforceable right to offset the amounts, and there is an intention to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

(iv) Measurement

Financial instruments are measured initially at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial instruments at fair value through profit or loss are expensed immediately.

Subsequent to initial recognition, loans and receivables and held-to-maturity investments are carried at amortized cost.

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or

2. Basis of preparation and significant accounting policies *(continued)*

(i) Financial assets and liabilities *(continued)*

(iv) Measurement *(continued)*

minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

Subsequent to initial recognition, all instruments classified as at fair value through profit or loss are measured at fair value with changes in their fair value recognized in the statement of comprehensive income.

The fair value of forward currency contracts is the product of the difference between the contract rate and the forward currency rate from the reporting date to the settlement date and the notional amount of the contract. Subsequent to initial recognition, available-for-sale securities whose fair value can be reliably measured are carried at their fair values.

Available-for-sale securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost.

Unrealized gains and losses arising from changes in the fair value of available-for sale securities are recognized in the revaluation reserve, except for foreign exchange gains and losses on monetary items such as debt securities, which are recognized in the statement of comprehensive income.

When the available-for-sale securities are sold, the difference between the net sales proceeds and the carrying value, including the accumulated fair value adjustments in the revaluation reserve, are treated as gains or losses on disposal.

The determination of fair values is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value, the discounted cash flow model, comparison to similar instruments for which market observable prices exist, and other valuation models.

The Bank 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 prices 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 than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

2. Basis of preparation and significant accounting policies *(continued)*

(i) Financial assets and liabilities *(continued)*

(iv) Measurement *(continued)*

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

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(v) Identification and measurement of impairment

At each reporting date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers, or economic conditions that correlate with defaults in the group.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortized cost) with similar risk characteristics.

In assessing collective impairment the Bank uses statistical modeling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

2. Basis of preparation and significant accounting policies *(continued)*

(i) Financial assets and liabilities *(continued)*

(v) Identification and measurement of impairment *(continued)*

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Impairment losses are recognized in the statement of comprehensive income and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognized through the unwinding of the discount.

When a subsequent event causes the amount of the impairment loss to decrease, the impairment loss is reversed through the statement of comprehensive income. Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized directly in equity to profit or loss. The cumulative loss that is removed from equity and recognized in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, less any impairment loss previously recognized in profit or loss, and the current fair value.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized directly in other comprehensive income.

(j) Derivative financial instruments

Derivative financial instruments are contracts whose value is derived from an underlying financial variable such as interest rates, foreign exchange rates, commodities, equity prices, and the like. The Bank enters into these contracts for the purpose of managing its non-trading risk exposures.

All derivatives are recorded at fair value in the statement of financial position. The determination of fair value of derivatives includes the consideration of credit risk, estimated funding costs and ongoing direct costs over the life of the instruments. Changes in the fair value of non-trading derivatives that do not qualify for hedge accounting are recorded in the statement of comprehensive income under non-interest income.

(k) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks, treasuries, and highly liquid financial assets with original maturities of three months or less from the date of acquisition, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Treasuries includes Treasury Bills and Notes.

2. Basis of preparation and significant accounting policies *(continued)*

(l) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. Loans are stated at their principal amount net of unearned interest and allowance for loan loss impairment. Due from banks and loans and advances to customers are carried at amortized cost and are due on demand.

In accordance with local regulatory guidelines, a loan is classified as non-performing when payment is contractually 90 days in arrears or the total amount outstanding outside of contractual arrangements is equal to at least 90 days worth of payments. Additionally, non-performing loans includes all loans against which a specific allowance has been established, or a write-off taken (except in the case of restructured assets).

When a loan is classified as non-performing, recognition of interest ceases, and interest in arrears is reversed from income. Loans are generally returned to performing status when the timely collection of both principal and interest is reasonably assured and all delinquent principal and interest payments are brought current.

Interest on non-performing loans which are assessed on a collective basis is recognized on a cash basis. The Bank continues to accrue interest to income on loans specifically assessed as non-performing and where the estimated net realizable value of security held is sufficient to recover the payment of outstanding principal and accrued interest.

(m) Allowance for impairment loss on loans and advances

The Bank's management conducts on-going credit assessments of the portfolio on an account-by-account basis and establishes specific and inherent risk allowances.

Specific risk allowances reflect the amounts required to reduce the carrying value of loans to their estimated realizable amount.

Inherent risk allowances reflect the amounts required to cover losses where there is objective evidence that probable losses are present in components of the loan portfolio at the reporting date. These have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate, and are classified as inherent risk allowances against the loan portfolio.

When a loan is deemed to be uncollectible, it is written off against the related allowance for impairment loss; subsequent recoveries are credited to the net loan loss impairment in the statement of comprehensive income. Charges in respect of credit losses are recorded as a component of net income in "loan loss impairment".

Inherent risk in relation to allowances is the probability of loss arising out of circumstances or existing in an environment. It is also a risk which is impossible to manage or transfer away. In the banking industry during good times, loan portfolios will grow rapidly and specific risk loss allowances will be low while general and inherent risks increase.

2. Basis of preparation and significant accounting policies *(continued)*

(n) Property and equipment

Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and allowance for impairment losses.

Depreciation is recognized in the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment less any residual value. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

Expenditures on assets constructed by the Company are included within construction-in-progress (CIP) until the projects are completed, at which time they are transferred to the relevant asset category. Cost includes raw materials, direct labour, other direct costs and related overheads.

The estimated useful lives for the current and corresponding period are as follows:

Buildings	-	40 years
Leasehold improvements	-	Lesser of useful life or term of lease plus one renewal option period
Furniture and equipment	-	3 to 10 years

CIP is not depreciated until transferred to one of the above categories of assets.

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

(o) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The asset is immediately written down to its recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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 amortization, if no impairment loss had been recognized.

2. Basis of preparation and significant accounting policies *(continued)*

(p) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction of equity.

(q) Income and expenditure

Income and expenditure are accounted for on an accrual basis.

(r) Fees and commission

Loan fees that are material to the Bank are recognized in income over the appropriate lending or commitment period using the straight-line method.

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, placement fees, syndication fees, merchant transaction fees, credit card processing fees and sales commission are recognized as the related services are performed.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(s) Employee benefits

The Bank's employees participate in a defined benefit pension plan ("DBP") sponsored by The Bank of Nova Scotia (BNS), the Bahamas Post-Retirement Benefits Plan ("PRB") and a Global Employee Share Ownership Plan ("GESOP") of BNS.

Employees become eligible for membership in the DBP after completing a probationary period and receive their benefits after retirement, termination or death. The DBP's benefits are determined based on years of service, contributions and final five year average salary at retirement, termination or death. Due to the long-term nature of the DBP, the calculation of benefit expenses and obligations depends on various assumptions such as discount rates, expected rates of return on assets, projected salary increases, retirement age, mortality and termination rates. Neither the Bank nor its employees are obligated to make contributions to the DBP. The DBP is sponsored by BNS and remains the obligation of BNS.

The PRB plan established by BNS covers employees in The Bahamas. Employees become eligible for membership in the PRB after satisfying the benefits eligibility age and service requirements. Prior to November 1, 2011, all rights and obligations of the post-retirement benefit plan were borne by BNS and the accrued post-retirement obligation as of that date is retained and recorded in the books of BNS. Commencing November 1, 2011 the Bank recognizes its proportionate share of post-retirement benefits as an expense annually which is included in the non-interest expenses in the statement of comprehensive income.

Under the GESOP, an employee may contribute 1% to 6% of their annual salary and the Bank matches half of the employee's contribution up to a cap of the equivalent of Twelve Hundred Canadian Dollars. Contributions made by the employee are immediately vested and contributions made by the Bank become vested after the completion of two years of

2. Basis of preparation and significant accounting policies *(continued)*

(s) Employee benefits *(continued)*

enrollment in the GESOP. Expenses for services rendered by the employees and related to the GESOP are recognized as an expense and included in the non-interest expenses: remuneration and benefits in the statement of comprehensive income.

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(t) Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements (the "reporting entity").

a) A person or a close member of that person's family is related to a reporting entity if that person:

   i) has significant influence over the reporting entity; or
   ii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

b) An entity is related to a reporting entity if any of the following conditions applies:

   i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
   ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
   iii) Both entities are joint ventures of the same third party.
   iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
   v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
   vi) The entity is controlled, or jointly controlled by a person identified in (a).
   vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Related parties include entities that the Bank controls or exercise significant influence and individuals who have the authority and responsibility for planning, directing and controlling the activities of the Bank in making financial and operating decisions. These include, but are not limited to, the ultimate parent, the parent, subsidiaries, affiliated companies, officers and directors of the Bank.

2. Basis of preparation and significant accounting policies *(continued)*

(u) Provisions

The Bank recognizes a provision when a present obligation, legal or constructive, as a result of a past event exists, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. A provision for restructuring is recognized when the Bank has approved a detailed restructuring plan, and the restructuring has commenced or has been announced to the impacted business or employees, and a detailed estimate of the costs has been determined.

Onerous contracts

A provision for onerous contracts is measured at the present value of the lower of the expected cost to end the contract and the expected net cost to continue with the contract. Before a provision is established, the Bank recognizes any impairment loss on any assets associated with the contract.

(v) Financial guarantees and loan commitments

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. Financial guarantee contracts, and loan commitments issued by the Bank are treated as contingent liabilities and not recognized in the statement of financial position until a payment under the guarantee has been made, or funds advanced under the loan commitment. At this time the transaction is treated as a loan and advance to customers.

(w) Taxes

There are no income taxes imposed on the Bank in the Commonwealth of The Bahamas; however, a Value Added Tax (VAT) of 7.5% (from November 1, 2017 to June 30, 2018) and 12% (from July 1, 2018 and onward) is billed on services rendered and paid on goods and services consumed. The difference between amounts billed and paid in connection with VAT is reflected in the statement of financial position and included in other liabilities as value added tax payable. Such amount is payable monthly in accordance with the Bank's filing requirements. The Bank is also required to pay a business license fee of 3% of total turnover.

3. Cash and cash equivalents, treasuries and balances with Central Bank

	2018 ($'000s)	2017 ($'000s)
Cash and cash equivalents	72,568	18,782
Deposit with Central Bank	84,673	169,416
Treasury Bills and Notes	209,655	111,567
Cash, treasuries and balances with Central Bank	**366,896**	**299,765**
Less: Mandatory reserve deposits held with Central Bank	37,815	36,845
Less: Treasury Bills and Notes with original maturities > 3 months	66,349	25,948
Add: Net change in fair value of Treasury Bills and Notes	945	381
Cash and cash equivalents	263,677	237,353

4. Due from banks

	2018 ($'000s)	2017 ($'000s)
Due from affiliated banks	415,571	422,612
Due from other banks	9,591	10,167
Due from banks	**425,162**	**432,779**
Less: Due from banks with original maturities > 3 months	18,197	31,767
Cash and cash equivalents	406,965	401,012

5. Other assets

	2018 ($'000s)	2017 ($'000s)
Accrued interest receivable	554	606
Other	2,565	2,156
	3,119	2,762

6. Investment securities

	2018 ($'000s)	2017 ($'000s)
Held-to-maturity:		
Bahamas Government Registered Stock	76,401	158,369
Bahamas Government Bonds	1,044	1,044
	77,445	159,413

6. Investment securities (*continued*)

Held-to-maturity investment securities:

- Bahamas Government Registered Stock are issued and guaranteed by the Government of The Bahamas. This Stock matures at various dates between November 2018 and September 2032 (2017: November 2017 and September 2032) and bears interest at rates ranging from 2.60% to 4.78% (2017: 2.60% to 4.78%) per annum.
- Bahamas Government Bonds are issued and guaranteed by the Government of The Bahamas. These Bonds mature in May 2025 (2017: May 2025) and bear interest at 4.75% (2017: 4.75%) per annum.

7. Loans and advances to customers

	2018 ($'000s)	2017 ($'000s)
Mortgages	861,136	836,485
Personal loans	169,529	174,298
Business & Government loans	302,148	279,727
Gross loans and advances to customers	1,332,813	1,290,510
Add: Accrued interest receivable	11,126	10,132
Less: Allowance for loan loss impairment	(41,668)	(42,786)
Loans and advances to customers, net	1,302,271	1,257,856

Analysis of gross loans and advances to customers:

	Mortgages ($'000s)	Personal ($'000s)	Business ($'000s)	Total ($'000s)
At October 31, 2018				
Performing loans	787,100	166,687	290,736	1,244,523
Non-performing loans	74,036	2,842	11,412	88,290
Gross loans and advances to customers	861,136	169,529	302,148	1,332,813

During the year, the Bank sold a portfolio of personal loans with a book value of approximately $85,106 (these assets were fully written off). This resulted in a gain of approximately $1,220 which is included within loan loss impairment in the Statement of Comprehensive Income.

	Mortgages ($'000s)	Personal ($'000s)	Business ($'000s)	Total ($'000s)
At October 31, 2017				
Performing loans	756,276	171,012	264,543	1,191,831
Non-performing loans	80,209	3,286	15,184	98,679
Gross loans and advances to customers	836,485	174,298	279,727	1,290,510

The amount of non-performing loans on which interest was not being accrued approximated $85,080 (2017 - $93,305). Interest income recognized on past due but non-impaired loans during the year ended October 31, 2018 was Nil (2017: $431).

7. Loans and advances to customers *(continued)*

Movement in the allowance for loan loss impairment:

	Specific risk Allowance ($'000s)	Inherent risk Allowance ($'000s)	General Provision ($'000s)	Total ($'000s)
Balance at October 31, 2016	7,231	73,483	13,948	94,662
Net increase/(decrease) in allowance	1,046	21,812	(1,583)	21,275
Write-offs	(4,004)	(69,147)	–	(73,151)
Balance at October 31, 2017	4,273	26,148	12,365	42,786
Net increase in allowance	1,093	13,158	637	14,888
Write-offs	(1,198)	(14,808)	–	(16,006)
Balance at October 31, 2018	4,168	24,498	13,002	41,668

In 2006, a general provision was established to comply with the provisions of guidelines for the management of credit risk issued by The Central Bank of The Bahamas ("the Central Bank"). The general provision as defined by the Central Bank is required to be at least 1% of a licensee's performing on and off balance sheet credit risk portfolio. With the adoption of IFRS 9 effective November 1, 2018 the Central Bank will no longer require the Bank to maintain a general provision because IFSR 9 requires provisioning of the credit risk portfolio from initial recognition.

Loan loss impairment included in the statement of comprehensive income:

	2018 ($'000s)	2017 ($'000s)
Net increase in allowance	14,888	21,275
Recoveries taken directly to the statement of comprehensive income	(3,951)	(5,578)
	10,937	15,697

8. Property and equipment

	Land ($'000s)	Buildings ($'000s)	Leasehold Improvements ($'000s)	Furniture & Equipment ($'000s)	Construction in Progress ($'000s)	Total ($'000s)
Cost						
Balance at October 31, 2016	2,127	19,723	20,955	21,330	114	64,249
Additions	–	10	6	955	154	1,125
Transfers	–	–	243	25	(268)	–
Disposals	–	–	–	(163)	–	(163)
Balance at October 31, 2017	2,127	19,733	21,204	22,147	–	65,211
Additions	–	80	122	946	469	1,617
Transfers	–	430	–	–	(430)	–
Disposals	(78)	(713)	–	(77)	–	(868)
Balance at October 31, 2018	2,049	19,530	21,326	23,016	39	65,960
Accumulated depreciation						
Balance at October 31, 2016	–	7,805	14,281	15,125	–	37,211
Charge for the period	–	374	843	1,446	–	2,663
Disposals	–	–	–	(121)	–	(121)
Balance at October 31, 2017	–	8,179	15,124	16,450	–	39,753
Charge for the period	–	383	802	1,342	–	2,527
Disposals	–	(427)	–	(71)	–	(498)
Balance at October 31, 2018	–	8,135	15,926	17,721	–	41,782
Net book value						
Balance at October 31, 2017	2,127	11,554	6,080	5,697	–	25,458
Balance at October 31, 2018	2,049	11,395	5,400	5,295	39	24,178

The Bank owns and occupies eight buildings in The Bahamas. Rental income, is earned from the rental of one (2017 - two) units in two of these buildings and is included in non-interest income (Note 15).

9. Deposits

	2018 ($'000s)	2017 ($'000s)
Customers	1,285,934	1,279,344
Affiliates	182,998	187,890
Overdraft on call accounts with other banks	3,996	5,838
Other banks	4,255	1,011
	1,477,183	1,474,083

10. Other liabilities

	2018 ($'000s)	2017 ($'000s)
Post-retirement benefit liability	23,656	19,092
Accrued charges	5,894	6,743
Other provisions	3,074	2,611
Accrued interest payable - customers	176	431
Accrued interest payable - affiliates	514	387
Other	9,642	6,521
	42,956	35,785

The Post Retirement Benefits Plan ("PRB") includes life insurance, medical, dental and vision benefits established by BNS that covers employees in The Bahamas. Employees become eligible for membership in the PRB after satisfying the benefits eligibility age and service requirements at time of retirement. As discussed in note 2 (s), prior to November 1, 2011, all rights and obligations of the post-retirement benefits plan were borne by BNS. Beginning November 1, 2011, the accrued post-retirement obligation is retained and recorded in the books of BNS and the Bank recognizes its proportionate share of post-retirement benefits costs as an expense during the period. For the year ended October 31, 2018, the Bank's post-retirement benefits expenses arising from the PRB were $4,564 (2017 – $3,522), which is included in non-interest income (remuneration, benefits and staff cost (note 16)) in the statement of comprehensive income. Included in other liabilities in the statement of financial position at October 31, 2018 is accrued post-retirement benefits expense of $23,656 (2017 – $19,902).

11. Derivative financial instruments

Occasionally the Bank enters into foreign exchange forwards with customers and/or affiliates. Foreign exchange forwards are agreements to buy or sell a specified amount of foreign currency at a future date and at an exchange rate which is fixed at inception of the contract.

The notional amounts of foreign exchange forwards outstanding as at October 31, 2018 was $5,841 (2017: $194) and represented forward contracts to sell foreign currency with a value date of November 1, 2018 (2017: November 1, 2017). Forward assets and liabilities are netted on the statement of financial position, and the carrying amounts at October 31, 2018 was Nil (2017: $1). The fair value of these forwards which would be recorded as assets or liabilities approximated the carrying amounts as at October 31, 2018 and October 31, 2017 respectively.

For the year ended October 31, 2018 the unrealized gain/loss recognized on foreign exchange forwards was Nil (2017: $1).

12. Share capital

	2018 ($'000s)	2017 ($'000s)
Authorized, issued and fully paid:		
25,000,000 ordinary shares of par value $1.00 each	25,000	25,000

Capital management

Overview

The Bank is committed to maintaining a strong capital base to support the risks associated with its business. Strong capital levels contribute to safety for the Bank's customers, fosters investor and market confidence, and allows the Bank to take advantage of growth opportunities as they arise and enhance shareholder returns through increased dividends. The Board of Directors monitors the Bank's capital requirements on a quarterly basis.

Regulatory requirements

The Bank's lead regulator, the Central Bank of The Bahamas, sets capital requirements for the Bank which are based on the framework of risk-based capital standards developed by the Basel committee, Bank for International Settlement (BIS). BIS standards require that banks maintain a minimum level of Tier I and Total capital ratios of 6% and 8% respectively. The Central Bank of The Bahamas has set these minimum requirements at 12.8% and 17%, respectively.

Regulatory capital

Total regulatory capital is the sum of Tier I and Tier II Capital, less certain regulatory adjustments. Tier I capital consists of Common Equity Tier I (CET1) and Additional Tier I (AT1) capital, which for the Bank is comprised of share capital, share premium, and retained earnings. The Bank's Tier II capital consists of general allowances for loan loss impairment.

As at October 31, 2018 Tier I and Total Capital ratios were 55.4% and 56.5%, respectively (2017: 45.2% and 46.0%, respectively).

The Bank has complied with all externally imposed capital requirements throughout the period, and there have been no material changes in the Bank's management of capital during the year.

13. Share premium

	2018 ($'000s)	2017 ($'000s)
25,000,000 shares issued at a premium of $1.60 each	40,000	40,000

14. Net interest income

	2018 ($'000s)	2017 ($'000s)
Interest income		
Loans and advances to customers	82,050	82,087
Investment securities	8,288	7,792
Due from banks		
Affiliates	7,434	3,334
Other	1	1
Total interest income	97,773	93,214
Interest expense		
Deposits		
Customers	906	850
Affiliates	4,111	3,125
Total interest expense	5,017	3,975
Net interest income	92,756	89,239

15. Non-interest income

	2018 ($'000s)	2017 ($'000s)
Services fees - deposits	16,276	14,828
Credit card fees	12,512	10,913
Non-trading foreign exchange fees	12,909	11,319
Credit fees	1,345	1,249
Other income	3,985	3,314
	47,027	41,623

16. Non-interest expenses

	2018 ($'000s)	2017 ($'000s)
Remuneration, benefits and staff costs	29,634	29,423
Business taxes	12,735	12,294
Premises & technology	11,316	11,108
Professional	1,299	1,412
Depreciation	2,527	2,663
Advertising & business development	1,821	1,982
Communications	3,146	2,238
Other	16,463	15,471
	78,941	76,591

Included within "Other" are expenses incurred for banking and support services provided by affiliates of $14,639 (2017: $13,113).

17. Lease commitments

The Bank leases a number of properties under operating leases. The lease terms typically range between three and twenty years, with an option for renewal after the initial term expires. Some of these leases have rental payment step up provisions, which are pre-agreed fixed amounts.

As at October 31 future minimum lease payments under non-cancellable operating leases are as follows:

	2018 ($'000s)	2017 ($'000s)
Less than one year	1,390	1,331
Between one and five years	3,350	3,596
More than five years	–	27
	4,740	4,954

The amount of operating lease expense recognized in the statement of comprehensive income for the year ended October 31, 2018 is $1,868 (2017: $1,739) and is included within non-interest expenses under the category of "Premises & technology" (Note 16).

18. Guarantees and lines of credit

In the normal course of business, various credit related arrangements are entered into to meet the needs of customers and earn income. These financial instruments are subject to the Bank's standard credit policies and procedures.

18. Guarantees and lines of credit *(continued)*

As of October 31, these credit related arrangements were as follows:

	2018 ($'000s)	2017 ($'000s)
Undrawn lines of credit and loan commitments	63,830	15,406
Guarantees and letters of credit	86,225	53,580
	150,055	68,986

19. Pension plan

The Bank's employees are members of the Scotiabank Pension Plan (the "SPP"), a defined benefit plan offered by BNS. Contributions to the plan are made by BNS on an ongoing basis, and the assets of the plan are held in a trust. The SPP is funded by payments from corporate headquarters taking into account recommendations of independent qualified actuaries. The most recent actuarial valuation of the plan was at November 1, 2017 and based on the valuation the plan was fully funded on a going concern basis. Additional information relating to this scheme can be found in the consolidated financial statements of BNS. The SPP was closed to the Bank's employees hired on or after November 1, 2017, newly hired employees will join a defined contribution plan. In addition, effective November 1, 2018 all employees will accrue future service in a defined contribution plan and the SPP is closed to future service accrual for Scotiabank (Bahamas) Limited.

20. Global employee share ownership plan

The Bank participates in the Global Employee Share Ownership Plan ("GESOP") of BNS, which allows employees of the Bank to contribute between 1% and 6% of their annual salary. The contributions are used to purchase shares in the ultimate parent company on the Toronto Stock Exchange at the prevailing market prices on a semi-monthly basis.

The Bank matches half of the employee's contribution up to a GESOP cap of the equivalent of CAD twelve hundred dollars. Contributions made by the employee are immediately vested and contributions made by the Bank become vested after the completion of two years of service.

For the year ended October 31, 2018, the Bank contributed $246 (2017 - $206) to this plan, which is included in non-interest expenses under "remuneration and benefits" (Note 16).

21. Related party balances and transactions

For the purpose of these financial statements related party balances and transactions are amounts due to/from, and transactions conducted with 'Affiliates'.

Transactions with key management personnel

Key management personnel have transacted with the Bank during the year as follows:

	2018 ($'000s)	2017 ($'000s)
Loans and advances	1,152	2,338
Deposit liabilities	(341)	(331)

21. Related party balances and transactions *(continued)*

Interest rates charged on balances outstanding are half of the rate that would be charged in an arm's length transaction for credit cards and at 5.5% per annum for mortgages. Most of the other sundry loans bear interest at the annual rate of 3.5% per annum. The interest earned on balances receivable from key management amounted to approximately $59 (2017: $120). The interest incurred on balances payable to key management amounted to approximately $1 (2017: $1). The mortgages granted are secured by the property of the respective borrowers.

No impairment losses or provisions have been recorded against balances outstanding during the period with key management personnel.

Key management personnel compensation is included within non-interest expenses under the category "remuneration and benefits" (Note 16) and for the year comprised:

	2018 ($'000s)	2017 ($'000s)
Short-term employee benefits	1,739	1,787
Global employee share option plan	13	10
	1,752	1,797

22. Financial risk management

The Bank has exposure to various types of risks from its use of financial instruments. The most important types of financial risk to which the Bank is exposed are credit risk, market risk, liquidity risk and operational risk.

The nature and extent of the financial instruments outstanding at the reporting date and the risk management policies employed by the Bank are discussed below.

The Bank's risk management policies are established to identify and analyze 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, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board of Directors ("the Board") has overall responsibility for the establishment and oversight of the Bank's risk management framework.

Committees

An integral part of the Bank's governance structure is the Senior Management team, which is appointed by the Managing Director in collaboration with the Executive Office business lines, and ratified by the Board. The Board has established the Credit Committee, and the Senior Management team has established the Asset and Liability Committee ("ALCO"), which are responsible for developing and monitoring the Bank's risk management policies in their specified areas.

22. Financial risk management *(continued)*

Committees (continued)

The Board oversees how management monitors compliance with the Bank's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Bank. The Board is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Board.

Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and banks and investment securities. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Credit disciplines are based on a division of authority, a centralized credit review system, a committee system for dealing with all major exposures, and periodic independent review by BNS.

Management of credit risk

The Bank uses a risk rating system to quantify and evaluate proposed credits in order to assist officers in understanding the risks inherent in credit proposals and, if they are acceptable, to ensure appropriate returns. In this analytical process, the Bank is particularly sensitive to risks posed to credit quality by environmental exposures.

Retail credits are assessed and authorized daily in branches within lending criteria established by the Bank. Computer driven scoring systems ensure credit policies are applied consistently and objectively. Consumer credit portfolios are reviewed monthly using statistical techniques.

Credit lines for off-balance sheet instruments such as foreign exchange contracts, letters of credit and guarantees are managed as an integral part of this same process.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Non-performing loans

A loan is classified as non-performing when payment is contractually 90 days in arrears or the total amount outstanding outside of contractual arrangements is equal to at least 90 days' worth of payments. Additionally, non-performing loans includes all loans against which a specific allowance has been established, or a write-off taken (except in the case of restructured assets).

Impaired loans

If a payment on a loan is contractually 90 days in arrears, the loan will be classified as impaired, unless the loan is fully secured for both principal and accrued interest, and management has determined the Bank will be able to recover all amounts due according to the contractual terms of the loan. Credit card loans with payments in arrears of 180 days are written off.

22. Financial risk management *(continued)*

Credit risk (continued)

Past due but not impaired loans

Past due but not impaired loans are non-performing loans for which contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate based on the stage of collection of amounts owed to the Bank, and where the estimated net realizable value of security held is sufficient to recover the payment of outstanding principal and accrued interest.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Restructured loans remain coded as such, but are returned to neither past due or impaired category after the prescribed period of satisfactory performance. For the year ended October 31, 2018 the Bank restructured loans of approximately $9,977 (2017: $6,667).

Allowances for impairment

The Bank establishes an allowance for impairment loss on financial assets carried at amortized cost that represents its estimate of incurred losses in its loan portfolio. Further information about allowances for credit losses is described in note 2.

Write off policy

The Bank writes off a loan and any related allowances for impairment losses when it determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that the proceeds from collateral will not be sufficient to pay back the entire exposure.

The table below analyses gross loans and advances to customers by credit quality and currency:

	BSD ($'000s)	USD ($'000s)	Total ($'000s)
At October 31, 2018			
Neither past due or impaired	1,001,235	189,414	1,190,649
Past due but not impaired	60,694	529	61,223
Impaired	79,195	1,745	80,940
	1,141,125	191,688	1,332,812
At October 31, 2017			
Neither past due or impaired	942,934	195,157	1,138,091
Past due but not impaired	63,493	2,014	65,507
Impaired	85,622	1,290	86,912
	1,092,049	198,461	1,290,510

The following table is an analysis of gross loans and advances to customers by credit quality and category:

22. Financial risk management *(continued)*

Credit risk (continued)

	Mortgages ($'000s)	Personal ($'000s)	Business ($'000s)	Total ($'000s)
At October 31, 2018				
Neither past due or impaired	761,112	149,582	279,955	1,190,649
Past due but not impaired	42,553	11,006	7,664	61,223
Impaired	57,472	8,940	14,529	80,941
	861,137	169,528	302,148	1,332,813

	Mortgages ($'000s)	Personal ($'000s)	Business ($'000s)	Total ($'000s)
At October 31, 2017				
Neither past due or impaired	730,916	153,495	253,680	1,138,091
Past due but not impaired	43,544	12,499	9,464	65,507
Impaired	62,026	8,302	16,584	86,912
	836,486	174,296	279,728	1,290,510

The following table shows the distribution of gross loans and advances to customers that are past due but not impaired:

	Mortgages ($'000s)	Personal ($'000s)	Business ($'000s)	Total ($'000s)
At October 31, 2018				
30-60 days	25,413	8,459	3,609	37,481
61-90 days	17,410	2,547	4,055	24,012
	42,823	11,006	7,664	61,493
At October 31, 2017				
30-60 days	23,934	9,463	3,484	36,881
61-90 days	19,611	3,036	5,979	28,626
	43,545	12,499	9,463	65,507

The Bank holds collateral against loans and advances to customers and undrawn commitments and letters of credit in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Management estimates the fair value of collateral held against loans and advances to customers was $1,409,334 as at October 31, 2018 (2017: $1,366,655). Collateral generally is not held over amounts due from banks, treasuries, and investment securities, and no such collateral was held at October 31, 2018 and 2017.

The Bank's policy is to pursue timely realization of the collateral in an orderly manner. The Bank generally does not use the non-cash collateral for its own operations.

22. Financial risk management *(continued)*

Credit risk (continued)

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the reporting date by sector is as follows:

	Guarantees and lines of credit		Gross loans and advances to customers	
	2018 ($'000s)	2017 ($'000s)	2018 ($'000s)	2017 ($'000s)
Personal	24,310	7,810	1,071,854	1,047,974
Distribution	86,221	53,370	50,189	69,980
Government	6,250	–	18,758	25,000
Energy	10,003	–	90,846	68,449
Public corporations	1,500	–	38,647	34,756
Construction	631	804	9,617	5,222
Professional & other services	2,272	2,081	20,944	14,147
Manufacturing	7,521	625	1,703	1,651
Tourism	2,383	2,160	241	3,911
Transport	888	379	4,525	2,593
Private financial institutions	726	385	7,328	942
Fisheries	27	–	94	168
Entertainment & catering	161	196	480	420
Agriculture	–	30	189	48
Other	7,162	1,146	17,398	15,249
	150,055	68,986	1,332,813	1,290,510

Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's or issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. The management of the individual elements of market risks (i.e. interest rate and currency risk) is as follows.

Interest rate risk

Interest rate risk arises when there is a mismatch between positions which are subject to interest rate adjustment within a specified period. It is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate gap is the difference between the amount of assets and liabilities on which interest rates are reset during a particular period of time. When assets exceed liabilities within a particular re-pricing bucket, the Bank has an asset sensitive position, and any increase/decrease in market rates would result in a net interest margin increase/decrease respectively.

Interest rate risk is generally managed through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Middle Office Treasury in its day-to-day monitoring activities.

The following is a summary of the Bank's interest rate gap position by re-pricing buckets on rate sensitive assets and liabilities.

22. Financial risk management *(continued)*

Interest rate risk (continued)

At October 31, 2018	Up to 1 Month ($'000s)	1 – 3 Months ($'000s)	3 – 12 Months ($'000s)	1 – 5 Years ($'000s)	5 Years & Over ($'000s)	Total ($'000s)
Assets						
Treasuries	71,055	72,251	66,349	–	–	209,655
Due from banks	329,004	76,373	7,722	–	–	413,099
Investment securities	77,445	–	–	–	–	77,445
Loans and advances to customers	981,353	92,792	107,322	61,512	1,544	1,244,523
	1,458,857	241,416	181,393	61,512	1,544	1,944,722
Liabilities						
Deposits						
Customer deposits	177,897	81,411	262,656	749,524	–	1,271,488
Deposits from affiliates	64,026	112,450	–	–	–	176,476
	241,923	193,861	262,656	749,524	–	1,447,964
Net position	1,216,934	47,555	(81,263)	(688,012)	1,544	496,758

At October 31, 2017	Up to 1 Month ($'000s)	1 – 3 Months ($'000s)	3 – 12 Months ($'000s)	1 – 5 Years ($'000s)	5 Years & Over ($'000s)	Total ($'000s)
Assets						
Treasuries	53,619	32,000	25,948	–	–	111,567
Due from banks	276,171	116,304	8,378	–	–	400,853
Investment securities	148,813	–	10,600	–	–	159,413
Loans and advances to customers	899,126	91,290	110,384	76,036	1,540	1,178,376
	1,377,729	239,594	155,310	76,036	1,540	1,850,208
Liabilities						
Deposits						
Customer deposits	233,033	91,100	250,353	677,964	–	1,252,450
Deposits from affiliates	68,090	114,650	–	–	–	182,740
	301,123	205,750	250,353	677,964	–	1,435,190
Net position	1,076,606	33,844	(95,043)	(601,928)	1,540	415,018

Sensitivity of Interest Rate Risk

The changes in the interest rates as noted below are based on recently observed market movements. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant. If interest rates decrease, net interest profits will decrease and equity will decrease. If interest rates increase, net interest profits will increase and equity will increase.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis

22. Financial risk management *(continued)*

Interest rate risk (continued)

Sensitivity of Interest Rate Risk (continued)

include a 100 basis point (bps) parallel fall or rise in all yield curves worldwide and a 50 bps rise or fall in the greater than 12-month portion of all yield curves.

An analysis of the Bank's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant balance sheet position, is as follows:

	2018 ($'000s)	2017 ($'000s)
	Increase/Decrease by 100bps	Increase/Decrease by 100bps
Effect on net income and equity	$12,030	$10,880

Interest rate movements affect reported equity by changes in retained earnings arising from increases or decreases in net interest income.

Overall non-trading interest rate risk positions are managed by Front Office Treasury which uses treasury bills, investment securities, loans and advances to banks, deposits from affiliates and banks to manage the overall position arising from the Bank's non-trading activities.

As at October 31, the average rates of interest, which approximate the effective yields of these assets and liabilities, were as follows:

	2018	2017
Assets		
Cash, treasuries and balances with Central Bank	1.69%	1.96%
Due from banks	1.61%	1.05%
Investment securities	3.97%	3.18%
Loans and advances to customers	6.20%	6.36%
Liabilities		
Customers deposits	0.07%	0.08%
Deposits from affiliates	2.19%	1.66%
Deposits from other banks	0.00%	0.00%

Currency risk

The Bank is exposed to fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets exposure limits by currency and in total for both overnight and intra-day positions, which are monitored on a daily basis. The table below summarizes the Bank's exposure to foreign currency exchange rate risk at the reporting date. The table below includes the Bank's assets and liabilities at carrying amounts, categorized by currency. "Other" includes the Canadian dollar (CAD), Euro (EUR) and Pound Sterling (GBP).

22. Financial risk management *(continued)*

Currency risk (continued)

At October 31, 2018	BSD ($'000s)	USD ($'000s)	Other ($'000s)	Total ($'000s)
Assets				
Cash, treasuries and balances with Central Bank	322,018	9,217	389	331,624
Due from banks	–	404,517	20,645	425,162
Investment securities	77,445	–	–	77,445
Loans and advances to customers, net	1,112,140	190,131	–	1,302,271
Other assets	18,188	23,964	9,566	51,718
Total assets	1,529,791	627,829	30,600	2,188,220
Liabilities				
Deposits	906,828	544,592	25,763	1,477,183
Other liabilities	48,182	4,579	3,522	56,283
Total liabilities	955,010	549,171	29,285	1,533,466
Net position	574,781	78,658	1,315	654,754
Credit commitments	44,325	105,628	102	150,055

At October 31, 2017	BSD ($'000s)	USD ($'000s)	Other ($'000s)	Total ($'000s)
Assets				
Cash, treasuries and balances with Central Bank	299,885	7,717	280	307,882
Due from banks	324	402,350	30,105	432,779
Investment securities	159,413	–	–	159,413
Loans and advances to customers, net	1,061,253	196,603	–	1,257,856
Other assets	12,828	371	7,707	20,906
Total assets	1,533,703	607,041	38,092	2,178,836
Liabilities				
Deposits	912,170	528,347	33,566	1,474,083
Other liabilities	48,604	10,154	3,288	62,046
Total liabilities	960,774	538,501	36,854	1,536,129
Net position	572,930	68,540	1,238	642,707
Credit commitments	18,370	50,510	106	68,986

Sensitivity to Foreign Exchange Risk

As at October 31, 2018 the Bahamian Dollar (BSD) is pegged to the United States Dollar (USD) at the rate 1:1 (2017: 1:1). As at October 31, 2018 the Bank has a net long position in CAD and GBP, and a net short position in EUR. The table below reflects the net impact on profits and equity from a weakening/strengthening of these currencies:

22. Financial risk management *(continued)*

Currency risk (continued)

Sensitivity to Foreign Exchange Risk (continued)

This analysis assumes that all other variables remain constant.

	2018 ($'000)	**2017 ($'000)**
	Increase/Decrease by 20%	Increase/Decrease by 20%
Effect on net income and equity	$263	$248

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled in cash or another financial asset.

Management of Liquidity Risk

The liquidity risk management process ensures that the Bank is able to honor all of its financial commitments as they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Treasury department manages liquidity for the bank. Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank.

The liquidity requirements of business units are met through short-term loans from Treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

The Bank is subject to a liquidity reserve limit imposed by the local regulator. Front Office Treasury is responsible for managing the Bank's overall liquidity within the regulatory limit. Middle Office Treasury monitors compliance with local regulatory limits on a daily basis.

All liquidity policies and procedures are subject to review and approval by ALCO. Daily Treasury reports cover the liquidity position of the Bank, and a summary report, including any exceptions and remedial actions taken, is submitted daily to senior management, and reported monthly to ALCO.

The Bank relies on deposits from customers, affiliates and other banks as its primary sources of funding. These deposits generally have shorter maturities and a large proportion of them are repayable on demand. The short-term nature of these deposits increases the Bank's liquidity risk and the Bank actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

22. Financial risk management *(continued)*

Liquidity risk (continued)

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment securities for which there is an active and liquid market less any deposits from banks, other borrowings and commitments maturing within the next month.

A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the Bank's lead regulator, the Central Bank of The Bahamas.

The Bank has complied with all externally imposed liquidity requirements throughout the year. The table below analyses the Bank's assets and liabilities at carrying amounts, categorized by maturity groupings based on the remaining period to the contractual maturity date:

At October 31, 2018	Less than 3 months ($'000s)	Between 3 and 12 months ($'000s)	Between 1 and 5 years ($'000s)	More than 5 years ($'000s)	Total ($'000s)
Assets					
Cash, treasuries and balances with Central Bank	291,875	39,749	–	–	331,624
Due from banks	418,944	6,218	–	–	425,162
Investment securities	1,374	45,566	11,990	18,515	77,445
Loans and advances to customers, net	151,837	23,723	272,396	854,315	1,302,271
Other assets	51,718	–	–	–	51,178
Total assets	915,748	115,256	284,386	872,830	2,188,220
Liabilities					
Deposits	1,381,231	76,475	19,477	–	1,477,183
Other liabilities	27,754	4,873	23,656	–	56,283
Total liabilities	1,408,985	81,348	43,133	–	1,533,466
Net Liquidity gap	(493,237)	33,908	241,253	872,830	654,754

At October 31, 2017	Less than 3 Months ($'000s)	Between 3 and 12 Months ($'000s)	Between 1 and 5 years ($'000s)	More than 5 years ($'000s)	Total ($'000s)
Assets					
Cash, treasuries and balances with Central Bank	281,934	25,948	–	–	307,882
Due from banks	425,455	7,324	–	–	432,779
Investment securities	–	67,297	73,135	18,981	159,413
Loans and advances to customers, net	156,388	60,312	211,926	829,230	1,257,856
Other assets	20,906	–	–	–	20,906
Total assets	884,683	160,881	285,061	848,211	2,178,836

22. Financial risk management *(continued)*

Liquidity risk (continued)

Exposure to liquidity risk (continued)

At October 31, 2017	Less than 3 Months ($'000s)	Between 3 and 12 Months ($'000s)	Between 1 and 5 years ($'000s)	More than 5 years ($'000s)	Total ($'000s)
Liabilities					
Deposits	1,382,060	78,088	13,935	–	1,474,083
Other liabilities	36,675	4,282	21,089	–	62,046
Total liabilities	1,418,735	82,370	35,024	–	1,536,129
Net Liquidity gap	(534,052)	78,511	250,037	848,211	642,707

Whenever practical, loans are matched against deposits with the same maturity. However, due to strong market preference of investors for short term deposits, it is sometimes difficult to find matched funding for assets that exceed one year. Management assumes that there will be a continuous preference for short-term deposits and manages the liquidity risk that arises from the mismatch accordingly. ALCO reviews the maturity analysis report on a monthly basis.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank'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 behavior. Operational risks arise from all of the Bank's operations.

The Bank manages this risk by maintaining a comprehensive system of internal control and internal audit including organizational and procedural controls. The system of internal control includes written communication of the Bank's policies and procedures governing corporate conduct and risk management; comprehensive business planning; effective segregation of duties; delegation of authority, personal accountability and compliance with regulatory and other legal requirements, which are regularly updated. These controls and audits are designed to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit.

23. Fair value of financial instruments

Fair value amounts represent estimates of the consideration that would be agreed upon between knowledgeable willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. All of the Bank's financial instruments are carried at historical cost (with the exception of available for sale investment securities), and are not adjusted to reflect increases or decreases in fair value due to market fluctuations including those due to interest rate changes.

23. Fair value of financial instruments *(continued)*

For the Bank's financial instruments as presented in the table below, fair values have been estimated as follows:

Cash and balances with Central Bank, amounts due from banks, and other assets & other liabilities are deemed to approximate their carrying values, because of their short term nature and/or because interest rates earned approximate rates otherwise available to the Bank for similar facilities.

Treasuries, comprised of treasury bills and treasury notes, were fair valued using the average closing bid price(s) for these instruments as provided by the Central Bank of the Bahamas.

Investment securities, comprised of Bahamas government registered stock, were fair valued using the latest market prices for these instruments as issued by the Central Bank of The Bahamas.

Loans and advances to customers were fair valued by discounting the estimated future cash flows expected to be received using average market interest rates.

Deposits were fair valued by using discounted cash flow techniques using average market interest rates.

The table below shows the carrying amounts and fair values of financial instrument where fair value is not deemed to approximate their carrying values, including their levels in the fair value hierarchy into which the fair value measurement is categorized:

23. Fair value of financial instruments *(continued)*

Fair value hierarchy (continued)

	Carrying Amount				Fair Value			
	Held to Maturity	Loans and Receivables ($'000s)	Available-for-sale ($'000s)	Total ($'000s)	Level 1 ($'000s)	Level 2 ($'000s)	Level 3 ($'000s)	Total ($'000s)
Financial Assets								
At October 31, 2018								
Treasuries (note 3)	–	–	209,655	209,655	–	209,655	–	209,655
Investment securities (note 6)	77,445	–	–	77,445	–	77,877	–	77,877
Loans and advances to customers	–	1,302,271	–	1,302,271	–	–	1,289,666	1,289,666
Financial Liabilities								
At October 31, 2018								
Deposits	–	1,477,183	–	1,477,183	–	–	1,476,973	1,476,973

	Carrying Amount				Fair Value			
	Held to Maturity	Loans and Receivables ($'000s)	Available-for-sale ($'000s)	Total ($'000s)	Level 1 ($'000s)	Level 2 ($'000s)	Level 3 ($'000s)	Total ($'000s)
Financial Assets								
At October 31, 2017								
Treasuries (note 3)	–	–	111,567	111,567	–	111,567	–	111,567
Investment securities (note 6)	159,413	–	–	159,413	–	159,953	–	159,953
Loans and advances to customers	–	1,257,856	–	1,257,856	–	–	1,240,709	1,240,709
Financial Liabilities								
At October 31, 2017								
Deposits	–	1,474,083	–	–	–	–	1,473,870	1,473,870

Significant transfers can occur between the fair value hierarchy levels when additional or new information regarding valuation inputs and their refinement and observability become available.

24. Dividends

On January 18, 2018 the Directors declared dividends of $38,574 for the year ended October 31, 2017, which was paid during the 2018 financial year.

On January 19, 2017 the Directors declared dividends of $30,776 for the year ended October 31, 2016, which was paid during the 2017 financial year.

25. Subsequent events

On January 17, 2019 the Directors declared an interim dividend of $49,905 representing the net income for the 2018 financial year. These dividends are not reflected within the financial statements for the year ended October 31, 2018.