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Financial Statements of

**SCOTIA INVESTMENTS**
**TRINIDAD AND TOBAGO LIMITED**

October 31, 2023

**SCOTIA INVESTMENTS TRINIDAD AND TOBAGO LIMITED**

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**Statement of Management's Responsibilities**
**Scotia Investments Trinidad and Tobago Limited**

Management is responsible for the following:

- Preparing and fairly presenting the accompanying financial statements of Scotia Investments Trinidad and Tobago Limited (the Company), which comprise the statement of financial position as at October 31, 2023, the statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information;

- Ensuring that the Company keeps proper accounting records;

- Selecting appropriate accounting policies and applying them in a consistent manner;

- Implementing, monitoring and evaluating the system of internal control that assures security of the Company's assets, detection/prevention of fraud, and the achievement of the Company's operational efficiencies;

- Ensuring that the system of internal control operated effectively during the reporting period;

- Producing reliable financial reporting that complies with laws and regulations, including the Companies Act; and

- Using reasonable and prudent judgement in the determination of estimates.

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

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

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

| | |
|---|---|
| Jarod Perryman<br>Director - Wealth | Reshard Mohammed<br>Chief Financial Officer |
| Date: December 11, 2023 | Date: December 11, 2023 |

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**INDEPENDENT AUDITORS' REPORT**

**To the Shareholder of**
**Scotia Investments Trinidad and Tobago Limited**

## Opinion

We have audited the accompanying financial statements of Scotia Investments Trinidad and Tobago Limited (the Company) which comprise the statement of financial position as at October 31, 2023, the statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising 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 Company, as at October 31, 2023, and its financial performance and its cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards).

## Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants* including International Independence Standards (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Trinidad and Tobago, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

KPMG

**INDEPENDENT AUDITORS' REPORT**

**To the Shareholder of**
**Scotia Investments Trinidad and Tobago Limited**

**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 Standards, 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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.

As part of an audit in accordance with ISAs, we exercise professional judgement 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.

**INDEPENDENT AUDITORS' REPORT**

**To the Shareholder of**
**Scotia Investments Trinidad and Tobago Limited**

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

- 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 Company'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 Company'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 Company 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

Chartered Accountants

Port of Spain
Trinidad and Tobago
December 11, 2023

**SCOTIA INVESTMENTS TRINIDAD AND TOBAGO LIMITED**

Statement of Financial Position

October 31, 2023
*($ thousands)*

| | Notes | 2023 | 2022 |
|---|---|---|---|
| | | **$** | **$** |
| **ASSETS** | | | |
| Cash and cash equivalents | 7 | 4,507 | 9,501 |
| Other receivables | 8 | 8,399 | 1,690 |
| Investment securities | 9 | 31,924 | 32,056 |
| Deferred tax asset | 10 | 8 | - |
| **Total assets** | | **44,838** | **43,247** |
| **LIABILITIES AND EQUITY** | | | |
| **LIABILITIES** | | | |
| Accounts payable and accrued liabilities | 11 | 3,829 | 2,784 |
| Current tax liability | | 1,293 | 1,279 |
| Deferred tax liability | 10 | - | 5 |
| **Total liabilities** | | **5,122** | **4,068** |
| **EQUITY** | | | |
| Stated capital | 13 | 30,000 | 30,000 |
| Statutory reserve fund | 14 | 4,492 | 3,432 |
| Investment revaluation reserve | | ( 34) | 19 |
| Retained earnings | | 5,258 | 5,728 |
| **Total equity** | | **39,716** | **39,179** |
| **Total liabilities and equity** | | **44,838** | **43,247** |

*The notes on pages 10 to 46 are an integral part of these financial statements.*

Steve Ragobar
Director

Alan Fitzwilliam
Director

**SCOTIA INVESTMENTS TRINIDAD AND TOBAGO LIMITED**

Statement of Profit or Loss

For the year ended October 31, 2023
*($ thousands)*

| | Notes | 2023 | 2022 |
|---|---|---|---|
| | | **$** | **$** |
| **REVENUE** | | | |
| Interest income calculated using the effective interest method | | 340 | 225 |
| Fees and commission income | 15 | 26,256 | 24,213 |
| Total revenue | | 26,596 | 24,438 |
| **EXPENSES** | | | |
| Salaries and staff benefits | | 1,632 | 1,295 |
| Premises and technology | | 564 | 544 |
| Communications and marketing | | - | 1 |
| Other expenses | 16 | 9,156 | 9,687 |
| Impairment losses on financial statements | 17.1 | - | 1 |
| Total expenses | | 11,352 | 11,528 |
| **Profit before taxation** | | 15,244 | 12,910 |
| Taxation | 10.1 | 4,654 | 3,957 |
| **PROFIT FOR THE YEAR** | | 10,590 | 8,953 |

*The notes on pages 10 to 46 are an integral part of these financial statements.*

**SCOTIA INVESTMENTS TRINIDAD AND TOBAGO LIMITED**

Statement of Other Comprehensive Income

For the year ended October 31, 2023
*($ thousands)*

| | 2023 | 2022 |
|---|---|---|
| | $ | $ |
| **PROFIT FOR THE YEAR** | 10,590 | 8,953 |
| **OTHER COMPREHENSIVE INCOME** | | |
| ***Items that are or may be reclassified subsequently to profit or loss*** | | |
| Movement in fair value reserve (FVOCI debt instruments): | | |
| Debt instruments at FVOCI- net change in fair value | ( 66) | ( 10) |
| Related tax | 13 | 5 |
| | ( 53) | ( 5) |
| **TOTAL COMPREHENSIVE INCOME** | 10,537 | 8,948 |

*The notes on pages 10 to 46 are an integral part of these financial statements.*

**SCOTIA INVESTMENTS TRINIDAD AND TOBAGO LIMITED**

Statement of Changes in Equity

For the year ended October 31, 2023
*($ thousands)*

| | Stated capital | Statutory reserve fund | Investment revaluation reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **Balance as at November 1, 2021** | 30,000 | 2,537 | 24 | 7,670 | 40,231 |
| Profit for the year | - | - | - | 8,953 | 8,953 |
| ***Other comprehensive income:*** | | | | | |
| Fair value reserve (FVOCI debt instruments): Debt instruments at FVOCI - net change in fair value | - | - | ( 5) | - | ( 5) |
| Total comprehensive income | - | - | ( 5) | 8,953 | 8,948 |
| ***Transactions with equity owners of SITTL:*** | | | | | |
| Dividends paid | - | - | - | (10,000) | (10,000) |
| Transfer to statutory reserve (Note 14) | - | 895 | - | ( 895) | - |
| | - | 895 | - | (10,895) | (10,000) |
| **Balance as at October 31, 2022** | **30,000** | **3,432** | **19** | **5,728** | **39,179** |
| Profit for the year | - | - | - | 10,590 | 10,590 |
| Fair value reserve (FVOCI debt instruments) Debt instruments at FVOCI - net change in fair value | - | - | (53) | - | ( 53) |
| Total comprehensive income | - | - | (53) | 10,590 | 10,537 |
| ***Transactions with equity owners of SITTL:*** | | | | | - |
| Dividends paid | - | - | - | (10,000) | (10,000) |
| Transfer to statutory reserve (Note 14) | - | 1,060 | - | ( 1,060) | - |
| | - | 1,060 | - | (11,060) | (10,000) |
| **Balance as at October 31, 2023** | **30,000** | **4,492** | **(34)** | **5,258** | **39,716** |

*The notes on pages 10 to 46 are an integral part of these financial statements.*

**SCOTIA INVESTMENTS TRINIDAD AND TOBAGO LIMITED**

Statement of Cash Flows

For the year ended October 31, 2023
*($ thousands)*

| | 2023 | 2022 |
|---|---|---|
| | $ | $ |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Profit before taxation | 15,244 | 12,910 |
| Adjustments to reconcile profit before taxation to net cash from operating activities: | | |
| Allowance for credit losses | - | 1 |
| Gain on disposal of investment | - | ( 460) |
| Changes in: | | |
| - Accounts payable and accrued liabilities | 1,038 | 2,210 |
| - Other receivables | ( 6,930) | ( 931) |
| Taxation paid | ( 4,640) | ( 3,654) |
| Interest received | 78 | 240 |
| **Net cash from operating activities** | 4,790 | 10,316 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from disposal of investment securities | 32,183 | 35,000 |
| Purchase of investment securities | (31,967) | (31,910) |
| **Net cash used in investing activities** | 216 | 3,090 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Dividends paid | (10,000) | (10,000) |
| **Net cash used in financing activities** | (10,000) | (10,000) |
| Net (decrease)/increase in cash and cash equivalents | ( 4,994) | 3,406 |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | 9,501 | 6,095 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | 4,507 | 9,501 |
| **CASH AND CASH EQUIVALENTS REPRESENTED BY:** | | |
| Cash at bank | 4,507 | 9,501 |

*The notes on pages 10 to 46 are an integral part of these financial statements.*

## 1. Incorporation and Business Activities

Scotia Investments Trinidad and Tobago Limited (SITTL) was incorporated in the Republic of Trinidad and Tobago, on August 23, 2007. On May 27, 2015, SITTL became a wholly owned subsidiary of Scotiabank Trinidad and Tobago Limited (Scotiabank). SITTL is licensed under the Financial Institutions Act, 2008 (FIA). SITTL's principal activity is the provision of asset management services. The address of its registered office is 56-58 Richmond Street, Port of Spain.

SITTL's ultimate parent company is The Bank of Nova Scotia, which is incorporated and domiciled in Canada.

On December 11, 2023, the Board of Directors of Scotia Investments Trinidad and Tobago Limited authorized the financial statements for issue.

## 2. Basis of Accounting

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

These financial statements have been prepared on the going concern basis.

## 3. Basis of Measurement

These financial statements are prepared on the historical cost basis modified for the inclusion of investments measured at fair value through other comprehensive income (FVOCI).

## 4. Functional and Presentation Currency

Items included in these financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Except when otherwise indicated, these financial statements are presented in thousands of Trinidad and Tobago dollars which is SITTL's functional currency.

In comparison to the prior year financials where figures were presented in absolute values, the current year presentation has been rounded to reflect the nearest thousand.

## 5. Use of Accounting Estimates and Judgements

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

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

### *(a) Determining fair values with significant unobservable input*

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 6(c)(iii). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

### *(b) Identification and measurement of impairment*

At each reporting date, SITTL assesses whether there is objective evidence that financial assets are impaired by determining whether there has been a significant increase in credit risk.

## 6. Significant Accounting Policies

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

### *(a) Revenue recognition*

*Interest income: Effective Interest Rate*

Interest income is recognised in the statement of revenue and expenses using the effective interest method. The “effective interest rate” is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the gross carrying amount of the financial asset.

## 6. Significant Accounting Policies (continued)

### *(a) Revenue recognition (continued)*

*Interest income: Effective Interest Rate (continued)*

When calculating the effective interest rate for financial instruments, SITTL estimates future cash flows considering all contractual terms of the financial instrument, but not Expected Credit Losses (ECL).

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the transaction. Transaction costs include incremental costs that are directly attributable to the acquisition of a financial asset.

*Amortised cost and gross carrying amount*

The 'amortised cost' of a financial asset is the amount at which the financial asset is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

*Calculation of interest income*

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

The effective interest rate of a financial asset is calculated on initial recognition. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset and is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset, net of ECL allowance.

If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

## 6. Significant Accounting Policies (continued)

### *(a) Revenue recognition (continued)*

*Fee and commission income*

Fee and commission income which includes account service, portfolio management and management advisory fees are recognised as the related services are performed.

SITTL provides portfolio and asset management services to customers. Fees are calculated based on a fixed percentage of the value of the assets and are charged at various time intervals based on the investment agreement but at no time period exceeding twelve months.

Revenue from portfolio and asset management services is recognised over time as the service is provided.

### *(b) Foreign currency*

Transactions in foreign currencies are translated at the rate of exchange ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the reporting date. Resulting translation differences and profits and losses from trading activities are included in profit or loss.

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

Financial instruments carried on the statement of financial position include cash and cash equivalents, investment securities, other receivables and accounts payable. The standard treatment for recognition, derecognition, classification and measurement of SITTL's financial instruments is noted below in notes (i) – (vii), whilst additional information on specific categories of SITTL's financial instruments is discussed in Notes 6(d) - 6(f):

*(i) Recognition*

SITTL initially recognises financial assets and financial liabilities (including assets and liabilities designated at fair value through profit or loss (FVTPL)) on the trade date, which is the date on which SITTL becomes a party to the contractual provisions of the instrument.

## 6. Significant Accounting Policies (continued)

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

*(ii) Classification*

On initial recognition, a financial asset is classified as measured at amortised cost, FVOCI or FVTPL.

A financial asset is at amortised cost if it meets both of the following conditions and is not designated as at FVTPL;

- the assets are held within a business model, whose objective is to hold assets to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL;

- the assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

All other financial assets are classified as measured at FVTPL.

## 6. Significant Accounting Policies (continued)

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

(i) *Classification* (continued)

Business model assessment

SITTL makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

- How the performance of the portfolio is evaluated and reported to SITTL's management;

- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- How managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected and the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how SITTL's stated objective for managing the financial assets is achieved and how cash flows are realised.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the SITTL's continuing recognition of the assets.

## 6. Significant Accounting Policies (continued)

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

*(ii) Classification (continued)*

Business model assessment (continued)

Financial assets that are held-for-trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest.

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

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

Debt instruments measured at FVOCI

Debt instruments are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the assets' cash flows represent payments that are solely payments of principal and interest.

Subsequent to initial recognition, unrealised gains and losses on debt instruments measured at FVOCI are recorded in other comprehensive income (OCI). Foreign exchange gains and losses that relate to the amortised cost of the debt instrument are recognized in the profit or loss.

Premiums, discounts and related transaction costs are amortised over the expected life of the instrument to Interest income in profit or loss using the effective interest rate method.

## 6. Significant Accounting Policies (continued)

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

*(ii) Classification (continued)*

Debt instruments measured at FVOCI (continued)

Impairment on debt instruments measured at FVOCI is calculated using the expected credit loss approach. The accumulated credit losses on debt instruments measured at FVOCI do not reduce the carrying amount of the asset in the Statement of Financial Position, which remains at its fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI with a corresponding charge to Net impairment loss on financial assets in profit or loss. The accumulated allowance recognised in OCI is recycled to profit or loss upon derecognition of the debt instrument.

Financial liabilities

SITTL classifies its financial liabilities as measured at amortised cost.

*(iii) Fair value measurement*

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the SITTL has access at that date. The fair value of a liability reflects its non-performance risk.

When available, SITTL measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then SITTL uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

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

## 6. Significant Accounting Policies (continued)

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

*(iv) Derecognition*

*Financial assets*

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income (OCI) is recognised in profit or loss.

*Financial liabilities*

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

*(v) Amortised cost measurement*

Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

*(vi) Modifications of financial assets and financial liabilities*

*Financial assets*

If the terms of a financial asset are modified, SITTL evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different the original financial asset is derecognised and a new financial asset is recognised at fair value.

## 6. Significant Accounting Policies (continued)

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

If the cash flows of the modified asset earned at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset.

*Financial liabilities*

SITTL derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

*(vii) Offsetting*

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

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

### *(d) Impairment of financial assets*

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

- Amortised cost financial assets; and
- Debt securities classified as at FVOCI.

## 6. Significant Accounting Policies (continued)

### *(d) Impairment of financial assets (continued)*

*(i) Expected credit loss impairment model*

SITTL's allowance for credit losses calculations are outputs of models with a number of underlying assumptions and interdependencies. The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception.

The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

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

- Stage 1 – Where there has not been a significant increase in credit risk (SIR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

- Stage 2 – When a financial instrument experiences a SIR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.

- Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

## 6. Significant Accounting Policies (continued)

### *(d) Impairment of financial assets (continued)*

*(ii) Measurement of expected credit loss (ECL)*

ECL is a probability-weighted estimate of credit losses.

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

Details of these statistical parameters/inputs are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life if the facility has not been previously derecognized and is still in the portfolio.

- EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

*(iii) Forward-looking information*

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

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

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

*(iv) Macroeconomic factors*

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

*(v) Multiple forward-looking scenarios*

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

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

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

At each reporting date, SITTL assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers quantitative and qualitative information, and the impact of forward-looking macroeconomic factors.

## 6. Significant Accounting Policies (continued)

### *(d) Impairment of financial assets (continued)*

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

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

*(vii) Expected life*

When measuring expected credit loss, SITTL considers the maximum contractual period over which SITTL is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment, and extension and rollover options.

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

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the financial assets.

- Debt instruments measured at fair value through other comprehensive income: no allowance is recognized in the Statement of Financial Position because the carrying value of these assets is their fair value. However, the allowance determined is presented in the accumulated other comprehensive income.

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

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

*(ix) Definition of default*

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

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

SITTL considers that default has occurred and classifies the financial asset as impaired when it is more than 90 days past due unless reasonable and supportable information demonstrates that a more lagging default criterion is appropriate.

*(x) Write-off policy*

SITTL writes off an impaired financial asset (and the related impairment allowance), either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, write-off is generally after receipt of any proceeds from the realization of security. In subsequent periods, any recoveries of amounts previously written off are credited to the provision for credit losses in profit or loss.

***(e) Cash and cash equivalents***

Cash and cash equivalents comprise cash in hand, deposits with banks and related companies and short-term highly liquid investments with maturities of three months or less when purchased, including treasury bills and other bills eligible for rediscounting with the Central Bank of Trinidad and Tobago.

## 6. Significant Accounting Policies (continued)

### *(e) Cash and cash equivalents (continued)*

Cash and cash equivalents are carried at amortised cost in the statement of financial position. The carrying value approximates the fair value due to its highly liquid nature and the fact that it is readily converted to known amounts of cash in hand and is subject to insignificant risk of change in value.

### *(f) Investment securities*

Investment securities includes debt securities measured at FVOCI and debt securities measured at amortised cost.

Debt securities measured at amortised cost are initially measured at fair value plus incremental direct transaction costs and subsequently at their amortised cost using the effective interest method.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses

When debt securities measured at FVOCI are derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

### *(g) Taxation*

Income tax expense comprises current and deferred tax charges. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in OCI. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the higher of tax rate enacted by the reporting date and business levy, green fund levy and any adjustment of tax payable for previous years.

Deferred tax is recognised on temporary differences arising between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities which affect neither accounting nor taxable income (loss).

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

***(g) Taxation (continued)***

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

Net deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

***(h) Pension plan***

SITTL's parent company, Scotiabank, accounts for the group's defined benefit plan, as it holds the residual interest in the multi-employer plan. SITT recognises contributions to the plan as expenses.

***(i) Employee benefits***

Employee benefits are all forms of consideration given by the SITTL in exchange for service rendered by employees. These include current or short-term benefits such as salaries, bonuses, National Insurance Scheme contributions, annual leave, and non-monetary benefits such as medical care and loans. Employee benefits that are earned as a result of past or current service are recognised as short-term employee benefits and charged as an expense.

***(j) Assets under administration***

Assets under administration as at October 31, 2023 totaled $8,719 (2022: $9,955). These assets are not beneficially owned by SITTL and are not recognised in the statement of financial position.

***(k) Assets under management***

Assets under management as at October 31, 2023 totaled $4,567,042 (2022: $4,283,756). These assets that are not beneficially owned by SITTL and are not recognised in the statement of financial position.

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

***(l) Accounts receivable***

Accounts receivable are amounts due from customers for services rendered in the ordinary course of business. They are carried at original invoice amount less allowance made for impairment. Refer to accounting policy 6(d) for impairment of accounts receivable.

***(m) Accounts and other payables***

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Accounts payable are initially recognised at fair value and subsequently at amortised cost using the effective interest method.

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

The following amended standards which became effective in the current financial reporting period did not have a significant impact on SITTL's financial statements.

Effective November 1, 2022

- Onerous Contracts Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements to IFRS Standards 2018-2020
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Reference to the Conceptual Framework (Amendments to IFRS 3)

***(o) New revised and amended standards not yet effective***

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2024. SITTL has not early-adopted any of them and therefore they have not been applied in preparing these financial statements. The new standards and amendments listed below are those that are most likely to have an impact on SITTL's performance, financial position or disclosures.

## 6. Significant Accounting Policies (continued)

### *(o) New revised and amended standards not yet effective (continued)*

- Amendments to IAS 1 *Presentation of Financial Statements,* will apply retrospectively for annual reporting periods beginning on or after January 1, 2024. The amendments promote consistency in application and clarify the requirements on determining if a liability is current or non-current.

  The key amendments to IAS 1 include:

  (i) requiring companies to disclose their material accounting policies rather than their significant accounting policies;
  (ii) clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
  (iii) clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

- Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* are effective for periods beginning on or after January 1, 2023, with early adoption permitted. The amendments introduce a new definition for accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty.

  The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

  Developing an accounting estimate includes both:

  (i) selecting a measurement technique (estimation or valuation technique)
  (ii) choosing the inputs to be used when applying the chosen measurement technique

  The effects of changes in such inputs or measurement techniques are changes in accounting estimates.

- Amendments to IAS 12 *Income Taxes* are effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted. The amendments clarify how companies should account for deferred tax on certain transactions – e.g. leases and decommissioning provisions.

*($ thousands)*

## 6. Significant Accounting Policies (continued)

### *(o) New revised and amended standards not yet effective (continued)*

- Amendments to IFRS 16 *Leases* will apply retrospectively for annual reporting periods beginning on or after January 1, 2024. The amendments impact how a seller-lessee accounts for variable lease payments that arise in a sale-and-leaseback transaction. The amendments introduce a new accounting model for variable payments and will require seller-lessees to reassess and potentially restate sale-and-leaseback transactions entered into since 2019. The amendments confirm the following:

  (i) On initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction.

  (ii) After initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognises no gain or loss relating to the right of use it retains.

  Management is in the process of assessing the impact of the amended standards listed above on the financial statements when they are adopted.

### *(p) Dividends*

Dividends attributable to equity holders of the Company that are proposed and declared after the reporting date are not shown as a liability on the statement of financial position but are disclosed as a note to financial statements.

## 7. Cash and Cash Equivalents

| | **2023** | **2022** |
|---|---|---|
| | **$** | **$** |
| Interest bearing account | 4,507 | 9,501 |
| Allowance for credit losses (note 17.1) | - | - |
| | 4,507 | 9,501 |

*($ thousands)*

## 8. Other Receivables

| | 2023 | 2022 |
|---|---|---|
| | $ | $ |
| Accrued interest | 1 | 1 |
| Asset management fees | 8,397 | 1,688 |
| Other recoverables | 1 | 1 |
| | 8,399 | 1,690 |

## 9. Investment Securities

| | 2023 | 2022 |
|---|---|---|
| | $ | $ |
| **Debt instruments measured at FVOCI** | | |
| Government debt securities | 31,923 | 32,057 |
| Allowance for credit losses (note 17.1) | 1 | ( 1) |
| | 31,924 | 32,056 |

## 10. Taxation

### *10.1 Provision for taxation*

| | 2023 | 2022 |
|---|---|---|
| | $ | $ |
| Current tax | 4,573 | 3,884 |
| Green Fund levy | 81 | 73 |
| Total provision for taxation | 4,654 | 3,957 |

*($ thousands)*

## 10. Taxation (continued)

### *10.2 Reconciliation of provision for taxation*

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

| | **2023** | **%** | **2022** | **%** |
|---|---|---|---|---|
| | **$** | | **$** | |
| Profit before taxation | 15,244 | | 12,910 | |
| Computed tax using applicable tax rate at 30% | 4,573 | 30 | 3,873 | 30 |
| Tax effect of non-taxable income | - | - | 11 | - |
| Green Fund levy | 81 | - | 73 | - |
| | 4,654 | 30 | 3,957 | 30 |

### *10.3 Deferred taxation*

The deferred tax asset and deferred tax liabilities in the statement of financial position are attributable to the following:

| | **November 1, 2022** | **Amounts Recognised in OCI** | **October 31, 2023** |
|---|---|---|---|
| | **$** | **$** | **$** |
| **2023** | | | |
| **Deferred tax asset** | | | |
| Allowance for credit losses | 8 | 5 | 13 |
| **Deferred tax liability** | | | |
| Fair value remeasurement of debt instruments at FVOCI | (13) | 8 | ( 5) |
| Net balance at end of year | ( 5) | 13 | 8 |

*($ thousands)*

## 10. Taxation (continued)

### *10.3 Deferred taxation (continued)*

| | November 1, 2021 | Amounts Recognised in OCI | October 31, 2022 |
|---|---|---|---|
| | $ | $ | $ |
| **2022** | | | |
| **Deferred tax asset** | | | |
| Allowance for credit losses | 2 | 6 | 8 |
| **Deferred tax liability** | | | |
| Fair value remeasurement of debt instruments at FVOCI | (12) | - | (12) |
| Net balance at end of year | (10) | 6 | ( 4) |

## 11. Accounts payable and accrued liabilities

| | 2023 | 2022 |
|---|---|---|
| | $ | $ |
| Accrued remuneration | 542 | 147 |
| Accounts payable | 162 | 162 |
| Accrued charges | 3,125 | 2,475 |
| | 3,829 | 2,784 |

## 12. Related Party Balances and Transactions

A party is related to SITTL if:

(a) The party is a subsidiary or an associate of SITTL;

(b) The party is, directly or indirectly, either under common control or subject to significant influence with SITTL, or has significant influence over or joint control of SITTL;

**12. Related Party Balances and Transactions (continued)**

(c) The party is a close family member of a person who is part of key management personnel or who controls SITTL;

(d) The party is controlled or significantly influenced by a member of key management personnel or by a person who controls SITTL;

(e) The party is a joint venture in which SITTL is a venture partner;

(f) The party is a member of SITTL's key management personnel;

(g) The party is a post-employment benefit plan for SITTL's employees;

(h) The party, or any member of a group of which it is a part, provides key management personnel services to SITTL.

Related party transactions with the parent company include the payment of dividends. Related party transactions comprise the receipt of management fees in relation to managed investment portfolio, pension plan and mutual fund plans. There were no other balances due from related entities, outside of those balances set out in this note.

Banking and other transactions which were entered into during the financial year were within in the normal course of business and were conducted at market rates.

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

- Data processing and information technology support
- Technical and management services
- Operations support
- Transaction processing support
- Assets under administration
- Assets under management

| | 2023 | 2022 |
|---|---|---|
| | $ | $ |
| **Outstanding Balances** | | |
| **Other Receivables** | | |
| Bank of Nova Scotia and its related entities | 8,360 | 1,689 |

*($ thousands)*

## 12. Related Party Balances and Transactions (continued)

| | 2023 | 2022 |
|---|---|---|
| | **$** | **$** |
| **Other Payables** | | |
| Bank of Nova Scotia and its related entities | 1,743 | 2,295 |
| **Cash and cash equivalents** | | |
| Bank of Nova Scotia and its related entities | 4,507 | 9,501 |
| **Total interest and other income** | | |
| Bank of Nova Scotia and its related entities | 26,261 | 24,715 |
| **Total expenses** | | |
| Directors' fees, key management personnel | 156 | 139 |
| Bank of Nova Scotia and its related entities | 603 | 473 |
| | 759 | 612 |
| **Off Balance Sheet:** Assets under management | 4,567,042 | 4,283,756 |

## 13. Stated Capital

| | 2023 | 2022 |
|---|---|---|
| | **$** | **$** |
| ***Authorised*** | | |
| Authorised capital consists of an unlimited number of ordinary shares | | |
| ***Issued and fully paid*** | | |
| 2023: 3 (2022: 3) Ordinary shares of no-par value | 30,000 | 30,000 |

*($ thousands)*

## 14. Statutory Reserve Fund

In accordance with the Financial Institutions Act, 2008, SITTL is required to transfer at the end of each financial year no less than ten percent of its net income after taxation to a Statutory Reserve Fund until the amount standing to the credit of the Statutory Reserve Fund is not less than its paid-up capital.

The balance in the statutory reserve fund is as follows:

| | 2023 | 2022 |
|---|---|---|
| | $ | $ |
| Balance, beginning of year | 3,432 | 2,537 |
| Amount transferred | 1,060 | 895 |
| Balance, end of year | 4,492 | 3,432 |

## 15. Fees and Commission Income

| | 2023 | 2022 |
|---|---|---|
| | $ | $ |
| Management fees | 26,253 | 24,212 |
| Other income | 3 | 1 |
| | 26,256 | 24,213 |

Management fees include fees earned by the Company in relation to management of Scotiabank Trinidad and Tobago mutual funds and pension plans and the Scotialife Trinidad and Tobago investment portfolio.

*($ thousands)*

## 16. Other Expenses

| | 2023 | 2022 |
|---|---|---|
| | $ | $ |
| Mutual fund trailer fees | 6,794 | 6,859 |
| Management expense absorption cost | 93 | 978 |
| Advertising | 553 | 823 |
| Support services | 603 | 473 |
| Professional fees | 371 | 294 |
| Supervisory fees | 100 | 132 |
| Miscellaneous expenses | 642 | 128 |
| | 9,156 | 9,687 |

Mutual fund trailer fees are trailing commissions paid by SITTL to the branches of Scotiabank TT in relation to fund sales volumes.

The management expense absorption cost relates to expenses absorbed by the Fund Manager at its sole discretion, at any time. Such expenses may include, but are not limited to, administrative costs (including but not limited to the cost of printing and distributing periodic reports and statements), auditing expenses, legal expenses, insurance, licensing, accounting, fees and disbursements of transfer agents, registrars, custodians, sub-custodians and escrow agents and the annual registration fees payable in Trinidad and Tobago.

## 17. Financial Risk Management

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

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

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

## 17. Financial Risk Management (continued)

Risk management framework

SITTL utilises the risk management framework used by Scotiabank Trinidad and Tobago Limited which is as follows:

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

SITTL's risk management policies are established to identify and analyse the risks faced by SITTL, to set appropriate risk limits and controls, and to monitor risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. SITTL, through its training and management standards and procedures, aim to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations. The Audit Committee is responsible for monitoring compliance with SITTL's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by SITTL.

The Audit Committee is assisted in these functions by the Internal Audit function. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

### 17.1 Credit risk

Credit risk is the risk of financial loss resulting from the failure of a borrower or counterparty to honor its financial or contractual obligations to SITTL. Credit risk is created in SITTL's investment activities where counterparties have repayment, or other obligations to SITTL.

SITTL's credit processes include:

- A centralised credit review system that is independent of the customer relationship function.
- Senior management which considers all major risk exposures; and
- An independent review by the Internal Audit Department.
- Furthermore, SITTL's management conducts a full financial review for each investment at least annually, so that they remain fully aware of investments' risk profiles.

*($ thousands)*

## 17. Financial Risk Management (continued)

### 17.1 Credit risk (continued)

There were no changes in the management of credit risk compared with prior year.

SITTL's maximum exposure to credit risk is detailed below:

| | **2023** | **2022** |
|---|---|---|
| | **$** | **$** |
| Cash resources | 4,507 | 9,501 |
| Investment securities | | |
| - Debt instruments measured at FVOCI | 31,924 | 32,056 |
| Other receivables | 8,399 | 1,690 |
| | 44,830 | 43,247 |

- ECL on stage 1 investments moved from 1 to NIL at the end of the financial year.

### 17.2 Market risk

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

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

There were no changes in the management of market risk compared with prior year.

*($ thousands)*

## 17. Financial Risk Management (continued)

### 17.2 Market risk (continued)

*17.2.1 Currency risk*

SITTL has no significant foreign exchange exposure since assets are funded by liabilities in the same currency. Foreign currency transactions have not required the use of interest rate swaps, foreign currency options and other derivative instruments.

**Concentration of Assets and Liabilities**

SITTL has the following currency positions:

| | 2023 | | |
|---|---|---|---|
| | **TT $** | **US $** | **Total $** |
| **Financial Assets** | | | |
| Cash resources | 4,480 | 27 | 4,507 |
| Investment securities | 31,924 | - | 31,924 |
| Other receivables | 8,399 | - | 8,399 |
| **Total financial assets** | 44,803 | 27 | 44,830 |
| **Financial Liabilities** | | | |
| Accounts payable and accrued liabilities | 3,802 | 27 | 3,829 |
| **Total financial liabilities** | 3,802 | 27 | 3,829 |
| **Net Balance Sheet position** | **41,001** | **-** | **41,001** |

*($ thousands)*

## 17. Financial Risk Management (continued)

### 17.2 Market risk (continued)

*17.2.1 Currency risk (continued)*

**Concentration of Assets and Liabilities** (continued)

| | 2022 | | |
|---|---|---|---|
| | **TT** | **US** | **Total** |
| | **$** | **$** | **$** |
| **Financial Assets** | | | |
| Cash resources | 9,474 | 27 | 9,501 |
| Investment securities | 32,056 | - | 32,056 |
| Other receivables | 1,690 | - | 1,690 |
| **Total financial assets** | 43,220 | 27 | 43,247 |
| **Financial Liabilities** | | | |
| Accounts payable and accrued liabilities | 2,757 | 27 | 2,784 |
| **Total financial liabilities** | 2,757 | 27 | 2,784 |
| **Net Balance Sheet position** | **40,463** | **-** | **40,463** |

*17.2.2 Interest rate risk*

There is no significant interest rate risk exposure to SITTL as the instruments held during the year are of a short-term nature with a fixed interest rate subject to minimal market fluctuations.

*17.2.3 Liquidity rate risk*

There is no significant liquidity risk exposure to SITTL. Financial liabilities are due within the normal operating cycle, which is less than 12 months.

## 17. Financial Risk Management (continued)

### 17.3 Capital management

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

- SITTL's compliance capital requirements as set by the Central Bank of Trinidad and Tobago
- Ensure SITTL's ability to continue as a going concern;
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by SITTL's management. SITTL employs techniques derived from the guidelines developed by the Basel Committee on Banking Supervision as implemented by the Central Bank of Trinidad and Tobago (CBTT). The required information is filed with the regulatory authority on a monthly basis.

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

*Tier 1 capital*. Tier 1 capital comprises shareholder equity and retained earnings and is a measure of SITTL's financial position. Deductions such as losses incurred in the current year of operations, whether audited or unaudited and whether or not publicly disclosed are made from Tier 1.

*Tier 2 capital.* Tier 2 capital comprises revaluation reserves created by the revaluation of investments.

The Basel II framework expands the rules for minimum capital requirements established under Basel I by incorporating the credit risk of assets to determine regulatory capital ratios. It consists of three pillars:

- *Capital adequacy requirements.* Takes into consideration operational risks in addition to credit risks associated with risk-weighted assets.
- *Supervisory review*. Mandates periodic assessments of internal capital adequacy in accordance with the institution's risk profile.
- *Market discipline.* Ensures market discipline by obligation to disclose relevant market information.

*($ thousands)*

## 17. Financial Risk Management (continued)

### 17.3 Capital management (continued)

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

| | 2023 | 2022 |
|---|---|---|
| | **$** | **$** |
| **Equity** | | |
| Tier 1 regulatory capital | 39,750 | 39,160 |
| Tier 2 regulatory capital | ( 60) | 20 |
| Qualifying capital | 39,690 | 39,180 |
| **Risk-weighted assets:** | | |
| On Balance Sheet | 41,991 | 27,081 |
| Total Regulatory capital to risk-weighted assets | 94.66% | 144.60% |
| Minimum regulatory capital | 10% | 10% |

### 17.4 Operational risk

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

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

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

## 18. Fair Value of Financial Assets and Liabilities

The fair value of financial instruments are based on the valuation methods and assumptions set out in the significant accounting policies Note 6(c).

### *(a) Valuation models*

SITTL measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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

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

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

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

There were no transfers between levels during the year.

## 18. Fair Value of Financial Assets and Liabilities (continued)

### *(b) Financial instruments not measured at fair value*

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

The fair values of these financial assets and financial liabilities have been determined to approximate their carrying value on the following basis:

(a) Cash resources

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

(b) Other receivables

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

(c) Accounts payable and accrued liabilities

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

These financial assets and liabilities have been classified as Level 2.

### *(c) Financial instruments measured at fair value – Fair value hierarchy*

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

| | 2023 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | **$** | **$** | **$** | **$** |
| **Assets** | | | | |
| Investment securities | - | 31,924 | - | 31,924 |

*($ thousands)*

## 18. Fair Value of Financial Assets and Liabilities (continued)

### *(c) Financial instruments measured at fair value – Fair value hierarchy*

| | 2022 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | **$** | **$** | **$** | **$** |
| **Assets** | | | | |
| Investment securities | - | 32,056 | - | 32,056 |

Level 2 instruments are valued using discounted cash flow model. The model considers key inputs from observable yield curves at the end of the reporting period.

## 19. Reconciliation of The Items in The Statement of Financial Position to The Categories of Financial Instruments as Defined by IFRS 9

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

| | 2023 | | | | |
|---|---|---|---|---|---|
| | **FVTPL** | **FVOCI Debt** | **FVOCI Equity** | **Amortised Cost** | **Total** |
| | **$** | **$** | **$** | **$** | **$** |
| **Assets** | | | | | |
| Cash and cash equivalents | - | - | - | 4,507 | 4,507 |
| Other receivables | - | - | - | 8,399 | 8,399 |
| Investment securities | - | 31,924 | - | - | 31,924 |
| **Total financial assets** | - | 31,924 | - | 12,906 | 44,830 |
| **Liabilities** | | | | | |
| Accounts payable and accrued liabilities | - | - | - | 3,829 | 3,829 |
| **Total financial liabilities** | - | - | - | 3,829 | 3,829 |

*($ thousands)*

## 19. Reconciliation of the Items in The Statement of Financial Position to the Categories of Financial Instruments as Defined by IFRS 9 (continued)

| | 2022 | | | | |
|---|---|---|---|---|---|
| | **FVTPL** | **FVOCI Debt** | **FVOCI Equity** | **Amortised Cost** | **Total** |
| | **$** | **$** | **$** | **$** | **$** |
| **Assets** | | | | | |
| Cash and cash equivalents | - | - | - | 9,501 | 9,501 |
| Other receivables | - | - | - | 1,690 | 1,690 |
| Investment securities | - | 32,056 | - | - | 32,056 |
| **Total financial assets** | - | 32,056 | - | 11,191 | 43,247 |
| **Liabilities** | | | | | |
| Accounts payable and accrued liabilities | - | - | - | 2,784 | 2,784 |
| **Total financial liabilities** | - | - | - | 2,784 | 2,784 |

## 20. Events after the Reporting Date

There are no events occurring after the reporting date and before the date of approval of the financial statements by the Board of Directors that require adjustments to or disclosure in these financial statements.