

AMENDING

Scotiabank Europe plc

Directors' report, revised strategic report and revised
statutory financial statements

For the year ended 31 October 2016

Registered Number 00817692

Director's report, revised strategic report and revised statutory financial statements

<i>Contents</i>	<i>Page No.</i>
Directors' report	3
Revised Strategic report	5
Statement of directors' responsibilities	12
Independent auditor's report to the members of Scotiabank Europe plc	13
Revised statement of comprehensive income	15
Revised statement of financial position	16
Revised statement of cash flows	17
Revised statement of changes in equity	19
Notes to the revised financial statements	20

Directors' report

The directors present their annual report and the audited statutory financial statements of Scotiabank Europe plc (the "Company" or the "Bank") for the year ended 31 October 2016.

Principal activities

The Company is covered under the definition of an authorised person under The Financial Services and Markets Act 2000 and is authorised and regulated by the Financial Conduct Authority ("FCA") and the Prudential Regulatory Authority ("PRA").

The Company is a wholly owned subsidiary of The Bank of Nova Scotia (the "Parent") a Canadian financial institution. The Company markets and sells a range of banking products with its target market being large and mid-sized companies, as well as banks, investment banks, governments and supranational organisations together with asset managers. The Company generates revenue through the extension of credit to corporate clients, market-making and distribution of Government bonds, equity financing and base metals trading. Supporting this activity is the treasury department which prudently manages liquidity exposures and the asset and liability mismatches arising from the Company's activities. The Company has a branch in Paris whose purpose is to support the Fixed Income business activities in France.

The Company's main competitors are international banks and other financial institutions operating within the European lending and capital markets arena.

The financial instruments disclosures concerning principal risks are included in the Strategic report.

Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on pages 5 to 11. As the Company is not separately rated, it relies on funding lines made available from the Parent. The directors have satisfied themselves that there is no reason to believe that a material uncertainty exists that may cast significant doubt about the ability or willingness of the Parent to continue with the current financing arrangements. Having satisfied themselves on the financial security of the Company, the directors have a reasonable expectation that the Company will be able to continue in operational existence for a period of at least twelve months from the date the accounts are signed. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Proposed dividend

The directors have proposed a final ordinary dividend in respect of the current financial year of \$72.0 million (2015: \$74.5 million). This has not been included within creditors as it was not approved before the year end. Dividends paid during the year comprise a final dividend of \$74.5 million (2015: \$43.2 million) in respect of the previous year, together with an interim dividend in respect of the current year \$42.1 million (2015: \$41.7 million).

Directors

The directors who held office during the year were as follows:

ME Caplan	(Director / Chief Executive Officer) Mr Caplan resigned on 17 June 2016.
PM Cutts	(Non-Executive Director)
JG Kirwan	(Director / Chief Executive Officer) Mr Kirwan joined the Board on 20 June 2016.
JM Lloyd	(Director)
SM Lowe	(Director) Mr Lowe resigned on 15 September 2016.
PSW Smith	(Non-Executive Director / Board Chair)
KM Spooner	(Non-Executive Director)
RJ Wild	(Non-Executive Director) Mr Wild resigned on 15 September 2016.
FJR McDonald	(Non-Executive Director) Mr McDonald joined the Board on 15 September 2016.

All non-executive directors, except Board Chair, who held office during the year are independent.

In accordance with the Articles of Association, all the directors retire at the Annual General Meeting and, all being eligible, may offer themselves for re-election.

The Articles of the Company provide that the Company shall indemnify to any extent any person who is a director against all costs, charges, losses, expenses and liabilities incurred or to be incurred by the director in the execution and/or discharge of his/her duties. In addition the Parent purchases and maintains Directors and Officers Side A liability insurance which provides coverage to the directors and officers of its wholly owned subsidiaries. The Parent and its subsidiaries carry \$200 million in Directors and Officers Side A coverage, which is intended to function as third party coverage (2016-2017: \$200 million).

Employees

The Company recognises its social and statutory duty to employ disabled people and follows a policy in the UK of providing, wherever possible, the same employment opportunities for disabled people as for others. If employees become disabled every effort is made to ensure their employment continues, with appropriate training where necessary.

Policy on payment of creditors

The Company's policy, in relation to all of its suppliers, is to settle the terms of payment when agreeing the terms of the transaction and to abide by those terms. The Company does not follow any code or standard on payment practice but it is the Company's policy to pay all of its suppliers within 30 days of receipt of goods or services.

Charitable and political contributions

During the year the Company made charitable donations of \$12,367 (2015: \$6,792) to several registered charities. No payments were made to political parties (2015: Nil).

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in the office.

Disclosure of information to the auditor

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the Board



J Lloyd
Director

201 Bishopsgate
6th Floor
London
EC2M 3NS

14 December 2016

Revised strategic report

Revision by replacement

This revised strategic report for the year ended 31 October 2016 replaces the original strategic report for that year, which had been approved on 14 December 2016.

The strategic report has been prepared as at the date on which the original strategic report was approved by the Board of directors and not as at the date of the revision and accordingly does not deal with events between those dates.

The original strategic report failed to comply with the Companies Act 2006 in as much as the disclosure of profit before tax for the year was overstated due to an error in the Company's share of the transfer pricing residual profit split ("RPS") allocation instructed by its parent, The Bank of Nova Scotia ("BNS"). The RPS is applied to the Global Banking & Markets business segment of the BNS group, which the Company is part of. The effect of correcting this failure has been to reduce operating income and profit before tax by \$26 million. Consequential amendments have been made to the following disclosures within the strategic report and corresponding percentages and ratios have been revised accordingly, including: changes within the operating income analysis by business line (most significantly Fixed Income reduced by \$24 million, Base Metals reduced by \$3 million and Corporate Banking increased by \$1 million); other income reduced by \$26 million within the five year operating income and impairment analysis; and the tax expense reduced by \$7 million.

Business review

The results for the year are set out in the Statement of Comprehensive Income on page 15. The Company's strategy is:

"We will grow by enhancing our client focus and will leverage the strengths of our client relationships, our broad-based platform of products and services, and our people."

The Company's primary objectives are:

- Enhance customer focus through a new client segmentation process, identifying our key customers
- Strengthen our Customer Data and Analysis
- Focus on Strategic Sectors, principally Energy, Mining, Infrastructure (including Power and Utilities), and Financial Institutions
- Optimise our return on capital and use of funding, while investing in systems and operational improvements and enhancing our risk and balance sheet management; and
- Enhancing our Talent and Leadership by attracting and developing high caliber talent, and building a global leadership team with diverse perspectives

Development and performance of the business during the financial year

The Company returned a profit before tax of \$145.0 million for the year (2015: \$144.8 million). The Company achieved a post-tax return on average assets of 0.38% during the year (2015: 0.43%). The year-end balance sheet of \$25.0 billion had increased by \$4.0 billion compared to the previous year. The increase is mainly attributable to the Fixed Income business line as a result of stronger client partnerships, improved spreads and greater opportunities found within the UK market. However when comparing average assets between the two years the levels have reduced by \$3.0 billion due to a balance sheet optimisation initiative which was undertaken during the prior year. The increase in return on assets and the profit figure leaves the Board optimistic for the future of the business and its continued profitability in 2017.

During the year, a Brexit Working Group ("BWG") was formed comprising of senior management to examine the potential impact of the referendum on the Company. The purpose of the BWG is to:

- Review the implications of the business model in Europe, including the impact on the UK economy and the future of the European Union ("EU")
- Provide a contingency plan should the UK leave the EU; and
- Provide stakeholders with timely communications

Since the referendum in June 2016, the focus of the BWG has been on developing a plan for Brexit. The BWG remains in close contact with the PRA and continues to monitor and plan for potential outcomes. At present, the Company does not anticipate any significant or material change to the European business strategy until the way forward becomes clearer. There is no change on hiring EU citizens or change in status for existing employees who are working under EU freedom of movement rules. The Company will continue to implement all upcoming EU regulations.

Operating income

Operating income by business line is set out in the below table:

Operating Income Analysis				
(Excluding Provisions)				
Year	2016	%	2015	%
\$000				
Corporate Banking	117,390	50%	115,386	47%
Group Treasury	(6,116)	(3)%	4,820	2%
Prime Services & Derivatives	2,503	1%	1,037	0%
Institutional Equity	3,163	1%	4,596	2%
Fixed Income	86,541	37%	91,792	37%
Base metals	23,082	10%	21,469	9%
Advisory	8,632	4%	8,680	3%
Total	235,195	100%	247,780	100%

An analysis of the Company's revenues and loan loss provisions for the past five years is set out below:

Five Year Operating Income and Impairment Analysis					
Income \$000	2012	2013	2014	2015	2016
Net Interest Income	102,511	100,322	88,002	101,534	124,875
Other Income	26,759	135,522	134,929	146,246	110,320
Loan Loss Provisions	(2,511)	2,882	(6,961)	379	(11,295)

Corporate Banking

A significant contributor to the Company's revenue generation is the extension of credit to corporate clients. Generally, clients are either the parent or a subsidiary of large corporate groups or large infrastructure projects in targeted industry sectors in which the Parent has expertise. Opportunities are considered by taking into account the return from lending plus other product sales and comparing this to internal return requirements.

Credit exposure for working capital and general business purposes for corporates with a strong credit profile will generally be unsecured. Credit exposure for more specialist transactions in sectors such as aerospace, shipping and infrastructure will normally be secured. Acquisition facilities may be secured depending upon the anticipated level of credit risk for the new combined entity. Typically secured facilities are offered to entities with credit risk ratings that are generally lower than those to which working capital and general working facilities are provided.

The Corporate Banking business area comprise of four main business teams. Each operates as the primary point of contact for the client and proposes transactions to Global Risk Management ("GRM") for review and approval.

Financial Institutions ("FI")

The key responsibilities of the FI team in London are developing the loan product business in line with the Bank's global FI strategy, which currently focuses on Asset Managers and the Insurance sector, and coordinating primary coverage and relationship management duties for designated accounts to effectively deliver the Company to the client globally and across all product areas.

Diversified Industries, Mining and Shipping ("DMS")

The DMS team is responsible for managing the Company's relationships with corporate clients in Europe, the Middle East and Africa ("EMEA") whose operations are in the DMS industries. Core responsibility is for lending transactions, but the team also co-ordinates other product or geographical interaction on a global basis with these specific clients.

Infrastructure, Power and Utilities ("IP&U")

The IP&U team is responsible for leading identifying, marketing, negotiating and executing (with multi product deal teams) advisory (sell-side and buy-side equity and debt advisory), lending, derivatives, private placements, and capital market solutions opportunities in the IP&U market in EMEA.

Energy

EMEA Energy provides Corporate banking services across the Energy sector with a focus on Oil and Gas companies. Lending is mainly focused on unsecured revolving credit facilities to high investment grade multi-geographical counterparties operating across the entire energy spectrum; and structured finance to support upstream activities of Oil and Gas production and development companies that are often focused on specific geographic regions but in Organisation for Economic Co-operation and Development ("OECD") countries. Lending is secured and at the operating level ensuring all the asset values are captured within the security package and avoids subordination.

The principal objective of lending to Oil and Gas companies is to secure ancillary opportunities and provide investment banking and transactional banking services as well as generating fee income from advisory services related to the lending and merger and acquisition ("M&A") activities.

Financial commentary

During the year, the Company continued its disciplined lending approach. Loans and advances to customers increased by 8% year over year by \$340.7 million. This reflected the modest combined growth targets of the various industry teams as well as strengthening of the US dollar against other drawn currencies. During the year, the credit rating of the portfolio slightly reduced with 83% of the authorised portfolio being rated acceptable or better (2015: 85%). The revenues received on the corporate lending portfolio were marginally up at \$117.4 million and this sum accounted for 50% of the Company's revenues for the year.

The loan portfolio continues to be balanced within established concentrations of geographic and industry specialisation.

% Total Authorised Commitments Split by Country of Exposure as at 31 October		
	2016	2015
Europe	40	41
US	7	11
UK	24	24
Other	29	24

% Total Authorised Commitments Split by Credit Exposure as at 31 October		
	2016	2015
Good	34	34
Acceptable	50	51
Higher Risk	14	13
Unsatisfactory	2	2

In addition, the various portfolios are carefully managed and diversified with regard to maturity and credit exposure.

Specific provisions for impaired debts increased during the year to \$7.9 million from \$3.8 million. The Collective provision increased by \$7.2 million to a closing balance of \$27.7 million. There were no other bad debts written off during the year and therefore the impairment charge for the year amounted to \$11.3 million. Specific credit provisions are made upon careful review and consideration by management of each account and after receiving due advice and counsel from the Parent. The collective provision for bad and doubtful debts is made against loans and advances to cover incurred loan losses, which are present in any portfolio of loans and advances of this size although not specifically identified. The collective provision in this year's financial statements reflects the Directors' view of such losses in the portfolio given current lending levels, the credit cycle and the economic climate.

Group Treasury

The mandate of the Company's treasury operation is to prudently manage liquidity and asset and liability mismatches arising from the Company's trading activities. The treasury department trades in a number of authorised currencies and instruments designed to actively reduce the cost of financing of the Company.

Compared to 31 October 2015, non-trading debt securities held increased by \$291.1 million to a total of \$2,176.0 million. This holding reflects the Company's unencumbered High Quality Liquid Assets ("HQLA") held for liquidity planning purposes.

Treasury generated an operating deficit of \$6.1 million, down from an operating income of \$4.8 million in the prior year. Higher HQLA costs, a steepening of yields curves in the US and negative EUR rates have resulted in lower revenues within Treasury. Treasury is required to extend the maturity profile of the funding to ensure adherence to both regulatory and internal liquidity and cash management requirements. The revenues for this business line will continue to be challenging with the implementation of further regulatory requirements, a changing interest rate stance from the global central banks and continued reduced appetite for liquidity risk.

Prime Services & Derivatives and Institutional Equity

The equity business undertakes two business activities; matched book stock borrowing and lending activities and institutional equity sales.

For fiscal year 2016, revenues arising from stock borrowing and lending amounted to \$2.5 million, up from \$1.0 million in the previous year. The business continues to utilise the Company for a small percentage of its overall activities to allow it to enter into transactions with European entities.

The primary business focus of the Institutional equity sales team is to distribute Canadian equities in the European market. The business had a reasonable year, reporting revenues of \$3.2 million (2015: \$4.6 million) with a team of three (2015: team of five). Orders from the European market helped carry several mining new issues in 2016.

Fixed Income

The Company's Fixed Income business line was established in 2010, as part of the expansion of the Parent's Global Fixed Income business, to act as market makers in government bond markets for the Company's clients, and to undertake repurchase/reverse repurchase transactions ("repos"). The Company is a registered primary dealer in Germany, France and the UK, and a recognised dealer in Belgium. The Company is a member of the London Clearing House for repo and derivative transactions. As an active market maker, the company has participated in 12 European countries in the secondary market, as well as being an underwriter of multiple debt issues during the year.

The business line has grown through the implementation of various growth and strategic initiatives over several years, with 2016 seeing the benefits of various initiatives coming to fruition, built around its core GBP & Origination businesses. In November 2015, the UK Debt Management Office ("DMO") appointed Scotiabank as a lead manager of its £3.25 billion syndication of 0 1/8% Index Linked Treasury Gilt 2046, doubling the size of its 30 year benchmark. There were 72 orders totalling £13 billion submitted. Significant progress continues to be made with UK institutional investors in cash, repo & derivatives markets, alongside a move towards trading more cleared rather than bi-lateral derivatives. The trading desk continues to allocate resources to service client needs, and activity in cross currency derivatives is an area that we continue to gain traction in, in line with the aim of servicing client needs.

The origination business continues to strengthen as the Company's distribution capabilities have grown with UK Investors, Central Banks, and Global Asset Managers now a core client base, notably providing cross sell opportunities across the Parent company. The portfolio of clients now counts some of the largest Pension Funds, Asset Managers, Central Banks and Sovereign Wealth Funds in the world as its clients. The Company was a bookrunner in Kingdom of Belgium's largest ever USD issue (\$3 billion) and was the only bank to lead both its last foreign currency benchmarks (the other being GBP in the previous year). Originating CAD business out of Europe remains a strong focus, leading to the Company being a bookrunner on four of the last five European Investment Bank ("EIB") CAD benchmarks. During the year the Company focussed its efforts in European markets on the UK, Germany, France and Belgium markets, alongside trading AAA Supranational markets, reducing to a negligible amount participation in peripheral markets.

Market conditions continue to remain difficult for participants, with the European Central Bank's quantitative easing ("QE") programmes draining liquidity. The UK's referendum vote to 'Leave' the EU in June, drove its currency almost 12% cheaper within days, and led to a collapse in bond yields. The Bank of England re-embarked upon its QE programme and indeed cut its overnight bank rate to just 0.25%. The ongoing onslaught of regulation, has prompted competitors to reassess not only the liquidity they provide, but indeed their strategic involvement in, European bond markets this year. By contrast however, the Company's market standing with investors and issuers continues to improve, with the business focussed on developing existing relationships for the Company, rather than adding new ones, and critically making a positive Profit after tax contribution to the Parent, upon which it expects to develop further in the coming year.

Base Metals

The Base Metals business line revenue for the year was \$23.1 million, up from \$21.5 million on the prior year. This reflects a year over year increase in underlying revenues of 7%. This improvement is due to the fact that 2015 results were negatively impacted by the mark to market movements in the inventory financing business as opposed to a slight positive movement in 2016.

The balance sheet value of the inventory financing book decreased significantly towards the end of the year. This was due to some specific customer factors and the fall in base metals prices. Growing the balance sheet value of this business is a key objective for 2016, together with a review of our client mix to ensure revenues are maximised.

Advisory

This business represents advisory income from M&A advice to clients in the Oil and Gas and Mining sectors. The year was extremely successful for the mining group returning revenues of \$8.2 million. This was a result of the sector being in recovery mode after the decrease in commodity prices.

The 2016 revenues for Oil and Gas were \$0.4 million which is below the 2016 budget. The revenues reflect the significant reduction in transaction activity in Oil and Gas M&As following the decline in oil prices, as well as delayed and failed closings. However, the team is well positioned for 2017 with \$3.3 million fees expected in December 2016 and three other mandates underway.

Total expenses

There has been a significant movement in overall expenses during the year. Personnel expenses have decreased by \$16.8 million and Other expenses by \$5.0 million year-on-year. The main driver behind the decrease is the post Brexit devaluation of Sterling as a significant proportion of the Company's expenses are denominated and paid in Sterling.

The Tax expense has increased by \$21.3 million year-on-year primarily due to an additional 8% banking surcharge which came into effect on 1 January 2016, as well as an increase in a withholding tax provision. The details of the provision can be found in Note 10.

Principal risks and uncertainties

The financial instruments disclosures concerning principal risks as required in the Directors' report are set out below.

The Company is firmly committed to the management of risk, recognising that sound internal risk management is essential to its prudent operation, particularly with the growing complexity, diversity and volatility of markets, facilitated by rapid advances in technology and communications. Risk management is given high priority throughout the Company and is integral to the management of the business.

Responsibility for risk management policies and limits, in the level of risks assumed, lies with the Board of directors. The Board charges management with developing, presenting, updating and implementing these policies, controls and limits. The structure is designed to provide assurance that no single event, or combination of events, will materially affect the well-being of the Company.

The Company's Board of directors, Audit Committee and Asset and Liability Committee assist in assessing market trends, economic and political developments, and providing global strategic direction for all aspects of risk management. Additionally, the Risk Committee of the Board provides a forum for in-depth review and analysis of the risks to which the Company is subject to.

The Company's risk management framework is applied on an enterprise-wide basis and consists of three elements; risk governance, risk appetite and risk management techniques which are underpinned by the Parent's strong risk culture. The risk appetite measures are integrated into decision making, monitoring and reporting processes, with early warning trigger levels set to drive any required corrective action before overall tolerance levels are reached.

Active, hands-on senior management plays a key role in the identification, evaluation and management of all risks. All credit and new product decisions require direct senior management approval and the loan portfolio is continuously reviewed with assistance from the Parent. Management is supported by a comprehensive structure of independent controls, analysis and reporting processes and periodic examination by the Parent's Internal Audit Department.

The Company has in place a number of limit controls and management information systems to facilitate effective management overview. All limits are approved by the Board of Directors and reviewed at least annually. Limit compliance reports are submitted to the Risk Committee.

The following basic elements of sound risk management are applied to all financial instruments, including derivatives:

- appropriate review by the Board of directors and senior management
- risk management processes which integrate product sectional risk limits
- sound measurement procedures and information systems
- continuous risk monitoring and frequent management reporting
- segregation of duties, comprehensive internal controls and internal audit procedures.

Disclosures relating to the Company's principal risks are detailed in Note 4 and in summary are as follows:

Credit risk Refer Note 4

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Both credit and counterparty risk are subject to a significant risk control structure, including the setting and monitoring of limits and management oversight.

Sovereign Risk Refer Note 4

The Company has established procedures to manage country risk. However, during the year there were periods of volatility in Eurozone bond markets coupled with political instability in a number of Eurozone countries.

Liquidity risk Refer Note 4

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has developed an Individual Liquidity Adequacy Assessment ("ILAA") document as required by the FCA, together with a suite of stress tests and limits the results of which are reviewed by senior management and the Company's Asset and Liability Committee on a regular basis.

Market risk Refer Note 4

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity prices and equity prices will affect the Company's income or the value of its holdings of financial instruments. As at 31 October 2016 the Company has exposure to foreign currency market risk, commodity market risk and interest rate market risk, such risks being subject to a comprehensive set of limit controls and management review.

Operational risk Refer Note 4

Operational risk is the risk of loss, whether direct or indirect, to which the Company is exposed due to inadequate or failed internal processes or systems, human error or external events. Operational risk includes legal and regulatory risk, business process and change risk, fiduciary or disclosure breaches, technology failure, financial crime and environmental risk. Operational risks are managed and controlled within the individual business lines and a wide variety of checks and balances to address operational risks have been developed as an important part of the Company's risk management culture.

By order of the Board



J Lloyd
Director

201 Bishopsgate
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EC2M 3NS

20 February 2017

Statement of directors' responsibilities in respect of the Directors' Report, Revised Strategic Report and the revised financial statements

The directors are responsible for preparing the revised Strategic Report, the Directors' Report and the revised financial statements in accordance with applicable law and regulations.

Under Section 454 of the Companies Act 2006 the directors have the authority to revise the financial statements, the strategic report and the directors' report if they do not comply with the Act. The revised financial statements must be amended in accordance with the Companies (Revision of Defective Accounts and Reports) Regulations 2008. These require that the revised financial statements show a true and fair view as if they were prepared and approved by the directors as at the date of the original financial statements and accordingly do not take account of events which have taken place after the date on which the original financial statements were approved.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Scotiabank Europe plc

We have audited the revised financial statements (the "revised financial statements") of Scotiabank Europe plc for the year ended 31 October 2016 set out on pages 15 to 72. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the EU. These revised financial statements replace the original financial statements approved by the directors on 14 December 2016.

The revised financial statements have been prepared under the Companies (Revision of Defective Accounts and Reports) Regulations 2008 ("the Regulations") and accordingly do not take account of events which have taken place after the date on which the original financial statements were approved.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and as required by paragraph 7 of the Regulations. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in such an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of directors' responsibilities set out on page 12, the directors are responsible for the preparation of the revised financial statements and for being satisfied that the revised financial statements give a true and fair view.

Our responsibility is to audit, and express an opinion on, the revised financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the revised financial statements sufficient to give reasonable assurance that the revised financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the revised financial statements.

In addition we read all the financial and non-financial information in the Directors' Report and the revised Strategic Report to identify material inconsistencies with the audited revised financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

The audit of the revised financial statements includes the performance of procedures to assess whether the revisions made by the directors are appropriate and have been properly made.

Opinion on financial statements

In our opinion:

- the revised financial statements give a true and fair view, seen as at the date the original financial statements were approved, of the state of the Company's affairs as at 31 October 2016 and of its profit for the year then ended;
- the revised financial statements have been properly prepared in accordance with IFRSs as adopted by the EU seen as at the date the original financial statements were approved;
- the revised financial statements have been prepared in accordance with the Companies Act 2006 as it has effect under the Regulations; and

- the original financial statements for the year ended 31 October 2016 failed to comply with the requirements of the Companies Act 2016 in the respects identified by the directors in the statement contained in Note 2 to the revised financial statements.

Emphasis of matter – revision of financial statements

In forming our opinion on the revised financial statements, which is not modified, we have considered the adequacy of the disclosures made on Note 2 to these revised financial statements concerning the need to revise the net trading income. The original financial statements were approved on 14 December 2016 and our previous report was signed on that date. We have not performed a subsequent events review for the period from the date of our previous report to the date of this report.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the revised Strategic Report and the Directors' Report for the financial year for which the revised financial statements are prepared is consistent with the revised financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the revised financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Nicholas Edmonds (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London, E14 5GL

20 February 2017

Scotiabank Europe plc

Revised statement of comprehensive income for the year ended 31 October 2016

	<i>Note</i>	2016 \$000	2015 \$000 (restated)
Interest income		169,859	156,277
Interest expense		(44,984)	(54,743)
Net interest income	7	124,875	101,534
Fee and commission income		39,905	31,427
Fee and commission expense		(8,601)	(7,440)
Net fees and commission		31,304	23,987
Net trading income		90,843	116,965
Net income from other financial instruments		1,371	4,042
Other operating income/(expense)		(13,198)	1,252
Operating income		235,195	247,780
Dividend income: Income from investment securities		23	71
Other income		1,782	2,882
Net credit impairment reversal/(loss)	17	(11,295)	379
Personnel expenses	8	(45,279)	(62,121)
Operating lease expenses	29	(2,515)	(2,569)
Depreciation	20	(698)	(3,144)
Other expenses	9	(32,229)	(38,494)
Profit before tax		144,984	144,784
Tax expense	10	(49,995)	(28,670)
Profit for the year		94,989	116,114
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Gains / (losses) on available-for-sale financial assets		(972)	(855)
Current tax expense / (credit) on gains and losses on available-for-sale financial assets		(20)	(97)
Deferred tax expense / (credit) on gains and losses on available-for-sale financial assets		272	196
Other comprehensive income for the year (net of tax)		(720)	(756)
Total comprehensive income for the year attributable to equity holders of the Bank		94,269	115,358

The 2016 results are all from continuing operations.

The notes on pages 20 to 72 form part of these statutory financial statements.

Scotiabank Europe plc

Revised statement of financial position as at 31 October 2016

	<i>Note</i>	31 October 2016 \$000	31 October 2015 \$000
Assets			
Cash and cash equivalents	11	292,958	61,603
Trading assets	12	3,511,775	4,883,540
Derivative assets held for risk management	14	29,644	14,288
Loans and advances to banks – others	15	1,201	1,515
Loans and advances to customers	16	4,810,976	4,379,558
Reverse repurchase agreements and other similar secured lending	13	12,976,902	8,223,192
Investment securities	18	2,235,168	1,951,559
Property and equipment	20	1,511	1,111
Deferred tax assets	21	1,191	2,943
Other assets	22	1,108,541	1,435,926
Total assets		24,969,867	20,955,235
Liabilities			
Trading liabilities	12	3,913,630	3,902,876
Derivative liabilities held for risk management	14	23,315	15,236
Deposits from banks – group companies	23	7,401,753	7,192,957
Deposits from banks – others	24	134,219	1
Deposits from customers	25	175,756	184,586
Repurchase agreements and other similar secured borrowing	19	11,109,758	7,710,660
Current tax liabilities		33,685	22,017
Other liabilities	26	354,971	81,960
Total liabilities		23,147,087	19,110,293
Equity			
Called up share capital	27	985,795	985,795
Reserves		543	1,263
Retained earnings		836,442	857,884
Total equity attributable to equity holders of the Bank		1,822,780	1,844,942
Total liabilities and equity		24,969,867	20,955,235

These statutory financial statements were approved by the Board of Directors on 20 February 2017 and were signed on its behalf by:


J Kirwan
Chief Executive Officer


J Lloyd
Director

The notes on pages 20 to 72 form part of these statutory financial statements.

Company registration number: 00817692

Scotiabank Europe plc

Revised statement of cash flows for the year ended 31 October 2016

	2016	2015
	\$000	\$000
Cash flows from operating activities		
Profit for the year	94,989	116,114
Adjustments for:		
Depreciation	698	3,144
Net credit impairment reversal/(loss)	11,295	(379)
Net foreign exchange gain/(loss)	401	422
Net interest income	(124,875)	(101,534)
Dividends received from investment securities	(23)	(71)
Tax expense	49,995	28,670
	32,480	46,366
Change in trading assets	1,371,765	1,180,368
Change in derivative assets held for risk management	(15,356)	22,035
Change in loans and advances to banks - others	314	53,849
Change in loans and advances to customers	(442,732)	(238,071)
Change in reverse repurchase agreements and other similar secured lending	(4,753,710)	6,997,868
Change in other assets	319,314	1,523,559
Change in trading liabilities	10,754	(3,229,429)
Change in derivative liabilities held for risk management	8,079	(5,002)
Change in deposits from banks - group companies	208,796	(1,861,344)
Change in deposits from banks – others	134,218	(77)
Change in deposits from customers – others	(8,830)	26,447
Change in repurchase agreements and other similar secured borrowing	3,399,098	(4,958,432)
Change in other liabilities	273,100	(69,688)
	537,290	(511,551)
Interest received	177,929	151,965
Dividends received	23	71
Interest paid	(45,073)	(70,461)
Tax paid	(32,401)	(24,246)
Net cash used in operating activities	637,768	(454,222)
Cash flows from investing activities		
Acquisition of investment securities	(299,079)	(12,031)
Proceeds from sale of investment securities	14,750	502,899
Net acquisition of property and equipment	(1,099)	(231)
Net cash used in investing activities	(285,428)	490,637

Scotiabank Europe plc

Revised statement of cash flows for the year ended 31 October 2016 (continued)

Cash flows from financing activities		
Dividends paid	(116,514)	(84,887)
Net cash used in financing activities	(116,514)	(84,887)
Net increase / (decrease) in cash and cash equivalents	235,826	(48,472)
Cash and cash equivalents at the beginning of the year	61,603	109,843
Effect of exchange rate fluctuations on cash and cash equivalents	(4,471)	232
Cash and cash equivalents at 31 October 2016	292,958	61,603

The notes on pages 20 to 72 form part of these statutory financial statements.

Scotiabank Europe plc
Revised statement of changes in equity

	Called up share capital \$000	Reserve s \$000	Retained earnings \$000	Total equity \$000
Balance as at 1 November 2015	985,795	1,263	857,884	1,844,942
Total comprehensive income				
Retained profit for the year	-	-	94,989	94,989
Other comprehensive income				
Realised gains and losses on available-for-sale financial assets (net of tax)	-	(672)	-	(672)
Unrealised gains and losses on available-for-sale financial assets (net of tax)	-	(48)	-	(48)
Total comprehensive income	985,795	543	952,873	1,939,211
Transactions with owners of the Bank				
Contributions and distributions				
Dividend paid on ordinary shares	-	-	(116,514)	(116,514)
Other movements	-	-	83	83
Total contributions and distributions	-	-	(116,431)	(116,431)
At 31 October 2016	985,795	543	836,442	1,822,780

	Called up share capital \$000	Reserve s \$000	Retained earnings \$000	Total equity \$000
Balance as at 1 November 2014	985,795	2,019	826,595	1,814,409
Total comprehensive income				
Retained profit for the year	-	-	116,114	116,114
Other comprehensive income				
Realised gains and losses on available-for-sale financial assets (net of tax)	-	(1,180)	-	(1,180)
Unrealised gains and losses on available-for-sale financial assets (net of tax)	-	424	-	424
Total comprehensive income	985,795	1,263	942,709	1,929,767
Transactions with owners of the Bank				
Contributions and distributions				
Dividend paid on ordinary shares	-	-	(84,887)	(84,887)
Other movements	-	-	62	62
Total contributions and distributions	-	-	(84,825)	(84,825)
At 31 October 2015	985,795	1,263	857,884	1,844,942

The Statement of Financial Position value for Reserves pertains to the revaluation gains or losses of financial instruments classified as available-for-sale assets.

The notes on pages 20 to 72 form part of these statutory financial statements.

Notes to the revised financial statements

1. Reporting entity

Scotiabank Europe plc ("the Company") is a company domiciled in the United Kingdom. The address of the Company's registered office is 201 Bishopsgate, 6th Floor, London EC2M 3NS.

The Company is covered under the definition of an authorised person under The Financial Services and Markets Act 2000 and is authorised and regulated by the FCA and the PRA.

The Company is a wholly owned subsidiary of The Bank of Nova Scotia (the "Parent") a Canadian financial institution. The Company markets and sells a range of banking products with its target market being large and mid-sized companies, as well as banks, investment banks, governments and asset managers. The Company generates revenue through the extension of credit to corporate clients, market-making and distribution of government bonds, equity-financing and base metals trading.

Supporting this activity is the treasury department which prudently manages liquidity exposures and the asset and liability mismatches arising from the Company's activities.

The Company's main competitors are international banks and other financial institutions operating within the European lending and capital markets arena.

2. Basis of preparation

Revision by replacement

These revised financial statements for the year ended 31 October 2016 replace the original financial statements for that year, which had been approved on 14 December 2016. These revised financial statements are now the statutory financial statements for the year.

The financial statements have been prepared as at the date on which the original financial statements were approved by the Board of directors and not as at the date of the revision and accordingly do not deal with events between those dates.

The original financial statements failed to comply with the Companies Act 2006 in as much as net trading income was overstated by \$26 million due to an error in the Company's share of the transfer pricing residual profit split ("RPS") allocation instructed by its parent, The Bank of Nova Scotia ("BNS"). The RPS is applied to the Global Banking & Markets business segment of the BNS group, which the Company is part of. The effect of correcting this failure has been to reduce operating income and other assets by \$26 million and, consequently, to reduce the tax expense and current tax liabilities by \$7 million, and profit for the year and retained earnings by \$19 million. Consequential amendments have been made to the statement of cash flows and the statement of changes in equity, and the following disclosures; note 4 financial risk management; note 6 financial assets and liabilities; note 10 tax expense; note 22 other assets; note 26 other liabilities; and note 29 related parties. Consequential amendments have also been made in the Strategic Report and this document is also revised (see page 5).

Statement of compliance

The financial statements have been prepared in accordance with IFRSs as adopted by the EU and with the Companies Act 2006.

Notes to the revised financial statements (continued)

Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. As the Company is not separately rated, it relies on funding lines made available from the Parent. The directors, have satisfied themselves that there is no reason to believe that a material uncertainty exists that may cast significant doubt about the ability or willingness of the Parent to continue with the current financing arrangements. Also, the current financial projections reflect that the Company will continue to be profitable and will remain in operational existence for a period of at least twelve months from the date the accounts are signed. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Functional and presentation currency

These financial statements are prepared in US Dollars which is the Company's functional currency.

Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at fair value: derivative financial instruments, financial instruments classified as fair value through the profit or loss or available for sale and liabilities for cash settled share based payments. Non-current assets held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

Use of estimates and judgements

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, 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.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 5.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

3. Significant accounting policies

The following accounting policies have been consistently applied to all periods presented in the financial statements.

Foreign currency

Monetary assets and liabilities in foreign currencies are translated into US Dollars at the rates of exchange prevailing at the Statement of Financial Position date. Any foreign currency exchange differences arising on translation are recognised under Other operating income/(expense) in the Statement of Comprehensive Income.

Income and expenses in foreign currencies have been translated into US Dollars using an approximation of the rates of exchange prevailing at the time of each transaction.

Non-monetary assets and liabilities in foreign currencies are translated into US Dollars at the historic rate.

Notes to the revised financial statements (continued)

Interest income and interest expense

Interest income and expense for all interest-bearing financial instruments are recognised in 'Interest income' and 'Interest expense' in the Statement of Comprehensive Income using the effective interest rates of the financial assets or financial liabilities to which they relate.

The effective interest rate is the rate that discounts estimated future cash receipts or payments earned or paid on the financial asset or financial liability through its expected life or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, cash flows are estimated considering all contractual terms of the financial instrument excluding future credit losses. The calculation includes all amounts paid or received that are an integral part of the effective interest rate, including fees and commissions income, transaction costs and all other premium or discounts.

Interest on impaired financial assets is calculated by applying the original effective interest rate of the financial asset to the carrying amount as reduced by any allowances for impairment.

Interest income and expense on those interest-bearing financial instruments that are held for trading and designated at fair value are recognised in Net trading income.

Fees and commissions

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate and presented as part of Net interest income.

Where a fee is charged to cover costs of a continuing service to a customer, the fee is recognised on an accruals basis as the service is provided. Such fees include commitment and guarantee fees.

Fees received in respect of equity underwriting transactions are recognised at the end of the underwriting period.

Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

Net income from other financial instruments at fair value through profit or loss

Net income from other financial instruments at fair value through profit or loss relates to gains and losses from fair value changes of non-trading derivatives held for risk management purposes that do not form part of qualifying hedge relationships. It includes all realised and unrealised fair value changes, dividends, interest and foreign exchange differences.

Dividends

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

Lease payments

Operating Lease

Payments made under operating leases are recognised in the Statement of Comprehensive Income on a straight line basis over the term of the lease. The Company incurs the lease expenses and recharges a portion of the expenses to Group companies operating in London. The Operating lease expenses on the Statement of Comprehensive Income are shown on a gross basis for the Company.

Notes to the revised financial statements (continued)

Lease Incentives

Lease incentives received are amortised on a straight line basis up until the end date of the lease, and are recognised in the Statement of Comprehensive Income as an integral part of the total lease expense.

Tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the Statement of Comprehensive Income.

Current tax is the expected tax expense or income on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax income in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been substantively enacted by the end of the reporting period. Deferred tax assets and liabilities should not be discounted.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for share-based payments, accelerated depreciation and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Financial assets and financial liabilities

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are those assets that are held for trading and are measured at fair value with changes in fair value recognised as part of the Net trading income in the Statement of Comprehensive Income.

A financial asset 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 is held for trading.

Financial assets at fair value through profit or loss include debt securities, equities, derivative financial assets and loans and advances to customers where they form part of trading book.

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 Company does not intend to sell immediately or in the near term.

Loans are classified as loans and advances and are initially recorded at fair value plus any attributable transaction costs and subsequently measured at amortised cost using the effective interest rate method, less impairment losses.

Notes to the revised financial statements (continued)

Held-to-maturity

Held-to-maturity debt securities that the Company's management has the intention and ability to hold to maturity are initially recognised at fair value plus any attributable transaction costs and subsequently measured at amortised cost using the effective interest rate method.

Available-for-sale

Available-for-sale investments are non-derivative instruments that are designated as available-for-sale or are not classified in any other category of financial assets.

Equities classified as available-for-sale assets are initially recognised at fair value plus any attributable transaction costs and changes therein are recognised directly in equity through other comprehensive income. When an equity is derecognised, the cumulative gain or loss in equity is transferred to the Statement of Comprehensive Income.

Debt securities classified as available-for-sale assets are initially recognised at fair value and changes therein are recognised directly in equity through other comprehensive income. When a debt security is derecognised, the cumulative gain or loss in equity is transferred to the Statement of Comprehensive Income.

The fair value of the equities and debt securities are determined by reference to their quoted market price or, if not available, a recognised valuation technique.

A financial asset classified as available-for-sale that would have met the definition of loans and advances may only be transferred from the available-for-sale classification where the Company has the intention and the ability to hold the asset for the foreseeable future or until maturity. When a financial asset is reclassified, the financial asset is reclassified at its fair value on the date of reclassification. The fair value of the financial asset on the date of reclassification becomes its new cost, or amortised cost as applicable.

Notes to the revised financial statements (continued)

Financial liabilities

Financial liabilities are measured either at amortised cost or fair value if designated as fair value through profit or loss.

Financial liabilities at fair value through profit or loss are those liabilities that are held for trading and are measured at fair value through profit or loss and not amortised cost.

Stock borrowing and lending

Securities borrowing and lending transactions are always secured, with the collateral taking the form of securities or cash received or advanced. The transfer of securities to counterparties and securities borrowed are not reflected in the Statement of Financial Position. Cash collateral received or advanced is recorded as a liability under "Repurchase agreements and other similar secured borrowing" or asset under "Reverse repurchase agreements and other similar secured lending" respectively.

Repurchase agreements and Reverse repurchase agreements

Securities which are sold subject to a commitment to repurchase them at a predetermined price ("repos") remain in the Statement of Financial Position and a liability is recorded under "Repurchase agreements and other similar secured borrowing" for the consideration received. Securities which are purchased subject to a commitment to sell ("reverse repos") are not recognised on the Statement of Financial Position and the consideration paid is recorded under "Reverse repurchase agreements and other similar secured lending". The difference between sale and repurchase price is treated as interest and recognised over the life of the agreement.

Offsetting

Assets and liabilities are offset and the net amount is reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents are measured at amortised cost and include balances held with central banks, Nostro accounts, Group operating accounts and Money Market placements with maturities less than three months.

Notes to the revised financial statements (continued)

Derivatives held for risk management purposes and hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets and liabilities.

The Company uses derivative financial instruments to facilitate client transactions and for hedging purposes. The Company uses forward foreign exchange, interest rate and other derivative products. Derivatives that are not held for trading or designated in a qualifying hedge relationship are fair valued through the Statement of Comprehensive Income.

On initial designation of the hedge, the Company formally documents the relationship between the hedging instruments and the hedging items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Company makes an assessment, both at the inception of the hedge relationship and an on-going basis, as to whether the hedging instruments are to be highly effective in offsetting the changes in fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80% - 125%.

In a fair value hedge, changes in the fair value of a derivative hedging instrument designated are recognised in Statement of Comprehensive Income. The hedged item also is stated at fair value in respect of the risk being hedged; the gain or loss attributable to hedged risk is recognised in Statement of Comprehensive Income. For a derivative instrument to be designated in a hedge relationship the transaction must be reasonably expected to match or eliminate a significant proportion of the risk inherent in the assets, liabilities, other positions or cash flows being hedged and which results from potential movements in interest rates, exchange rates and market values. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. When a fair value hedge is discontinued, any cumulative adjustment to the hedged item is amortised using effective interest rate basis to the Statement of Comprehensive Income. If a designated hedge is no longer effective, the associated derivative instrument is subsequently carried at fair value without any offset from the hedged item.

Impairment of financial assets

Loans and advances and doubtful debts

Loans are designated as non-performing as soon as management has doubts as to the ultimate collectability of principal or interest or when contractual payments of principal or interest are 90 days overdue. When a loan is designated as non-performing, an individual impairment is raised if required. There are two basic types of provisions, individual impairment and collective provision.

Individual impairment

For all loans that are considered individually significant, the Company assesses on a case-by-case basis at each Statement of Financial Position date whether there is any objective evidence that a loan is impaired. For those loans where objective evidence of impairment exists, individual impairments are recognised. Loan impairment is recognised when, in management's opinion, there is no longer reasonable assurance that interest and principal payments will be made on a timely basis. Impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate, and comparing the resultant present value with the loan's current carrying amount. Any loss is charged in the Statement of Comprehensive Income.

Objective evidence that loans and advances 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 Company on terms that the Company 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 issuers in the Company, or economic conditions that correlate with defaults in the Company.

Notes to the revised financial statements (continued)

Collective provisions

Collective provisions are made in relation to losses, which although not specifically identified, exist in the loan portfolio based upon objective evidence at the Statement of Financial Position date. Provisions are charged directly to the Statement of Comprehensive Income.

Individually assessed loans for which no evidence of loss has been identified are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This arises from impairment at the Statement of Financial Position date which will only be individually identified in the future.

The collective impairment allowance is determined after taking into account:

- Historical loss experience in portfolios of similar credit risk characteristics (for example, by industry sector or loan grade);
- The estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual loan; and
- Management's judgement as to whether current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

Loans written off

The amount of loan write off is assessed on a case by case basis with appropriate advice and counsel sought from the Parent. Full or partial write-offs of loans and advances are generally recorded when management believes there is no realistic prospect of a full recovery or interest and principal payments being made on a timely basis.

Held-to-maturity

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in Statement of Comprehensive Income and reflected in an allowance account against loans and advances.

Available-for-sale

In the case of equity instruments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its original cost is objective evidence of impairment. In the case of debt instruments classified as available-for-sale investment securities, impairment is assessed based on the same criteria as impairment of loans. When a decline in value of available-for-sale debt or equity instrument is due to impairment, the carrying value of the security continues to reflect fair value. Losses arising from impairment are reclassified from accumulated Other comprehensive income and included in Net credit impairment reversal/(loss) in the Statement of Comprehensive Income.

Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risk and rewards of ownership of the financial asset are transferred or does not retain control of the financial asset.

Notes to the revised financial statements (continued)

If the terms of the financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and the new financial asset is recognised at fair value.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are extinguished.

Property and equipment

Non-monetary assets, for example items of property and equipment are measured at historic cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Depreciation for fixtures and fittings and information technology is calculated to amortise the cost over the expected useful lives of four years on a straight line basis. Depreciation for leasehold improvements is calculated using the straight line method until the first review date of the lease.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

Inventory

Inventory of base metals commodities are measured at fair value less costs to sell and are recorded under Other assets on the Statement of Financial Position. Any changes in fair value are recognised as part of Net trading income in Statement of Comprehensive Income.

Employee benefits

Pension costs, as calculated by actuarial valuation methods, are amortised over the expected service lives of employees.

Defined contribution plans

The Parent operates a defined contribution pension scheme. The amount charged to the Statement of Comprehensive Income represents the contributions payable to the scheme for the Company in respect of the accounting period.

Defined benefit plans

The Company also participates in a group wide pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company. The Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as permitted by IAS 19 'Employee Benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the Statement of Comprehensive Income represents the contributions payable to the scheme for the Company in respect of the accounting period.

Notes to the revised financial statements (continued)

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company 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.

Share-based payment transactions

The Company has two types of share incentive plans, the Stock Appreciation Rights ("SARs") and Restricted Share Unit Plan ("RSU") in respect of services received from certain eligible employees. Cash amounts are awarded in the two plans and use notional units that are valued on the share price of the Parent. The cost of the employee services received in respect of the notional units is recognised in the Statement of Comprehensive Income (Personnel expenses) and in the Statement of Financial Position (Other liabilities) over the period that the services are received, which is the vesting period. These are considered to be cash settled share-based payment transactions and accordingly the liability is revalued at each Statement of Financial Position date and settlement date with any changes to fair value being recognised in the Statement of Comprehensive Income. Please refer to Note 8 for further details of the two share incentive plans.

In addition, under the Global Banking and Markets Incentive Plan, a portion of the bonus awarded to certain employees (which is accrued and expensed in the year to which it relates) is allocated in the form of Deferred Performance Plan ("DPP") units, with the remainder paid out in cash. These units are subsequently paid, in cash, to qualifying employees over each of the following three years. Changes in the values of the units, which arise from fluctuations in the market price of the Parent's common shares as well as based on performance compared to the performance measures, are expensed in the same manner as the Company's other stock-based compensation plans in salaries and employee benefit expense in the Statement of Comprehensive Income.

Embedded derivatives

A number of base metals inventory financing transactions include an early termination clause which is akin to an embedded forward contract which is accounted for as an embedded derivative. As per IAS 39 'Financial instruments: Recognition and Measurement', an embedded derivative should be separated from the host contract and accounted for as a separate derivative if all three conditions are met: a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and c) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the Statement of Comprehensive Income.

Segmental reporting

The Company does not have debt or equity instruments which are traded in a public market or files, or is in the process of filing, its consolidated financial instruments with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market. Therefore, the Company is exempt from making disclosures under IFRS 8 'Operating Segments'.

Dividends

The proposed dividends are not recognised as a liability, and are deducted from equity in the following financial year once approved by the Company's Board.

Notes to the revised financial statements (continued)

Provisions

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

Future accounting developments

The Company actively monitors developments and changes in standards issued by the International Accounting Standards Board ("IASB"). At 1 November 2015, a number of standards and interpretations, and amendments thereto, had been issued by the IASB, which are not effective for the Company's financial statements as at 31 October 2016. In addition to the projects to complete financial instrument accounting, the IASB is continuing to work on projects on revenue recognition and lease accounting will represent widespread and significant changes to accounting requirements.

Standards and interpretations issued by the IASB and endorsed by the EU

Standards effective from 1 November 2018

In May 2014, the IASB and Financial Accounting Standards Board ("FASB") issued a converged standard on revenue from contracts with customers. The new standard outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes revenue recognition guidance which currently found across several standards and interpretations within IFRS.

IFRS 15 'Revenue from Contracts with Customers' introduces a control-based model as compared to the existing revenue standard which is primarily focused on risks and rewards. Entities will apply a five-step model to determine when to recognise revenue, and at what amount. The model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised: overtime, in a manner that depicts the entity's performance; or at a point in time, when control of the goods or services is transferred to the customer.

The standard scopes out contracts that are considered to be lease contracts, insurance contracts and financial instruments, and as such will be applicable only in cases where the Company provides services and earns fee and commission revenues. The standard is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted.

On 12 April 2016, the IASB issued amendments to IFRS 15. The amendments provide additional clarification on the identification of a performance obligation in a contract, determining the principal and agent in agreement, and determining whether licensing revenues should be recognised at a point in time or over a specific period. The amendments also provide additional practical expedients upon transition to IFRS 15.

The amendments are clarifying in nature and will therefore be taken into consideration during the implementation of IFRS 15. The Company intends to adopt the standard from 1 November 2018 to be consistent with the Parent. The standard was endorsed by the EU on 22 September 2016.

The Company is in the process of assessing the impact of this standard on the financial statements.

Notes to the revised financial statements (continued)

Standards and interpretations issued by the IASB but not endorsed by the EU

Standards effective from 1 November 2018

On 24 July 2014, the IASB issued the final standard on financial instruments, IFRS 9 'Financial Instruments'. The new standard includes revised guidance on the classification and measurement of financial assets, including impairment, and supplements the new hedge accounting principles published in 2013. It carries forward from IAS 39, without substantive amendment, the requirements on recognition and derecognition.

The standard is effective for annual periods beginning on or after 1 January 2018. The Company intends to adopt the standard from 1 November 2017 to be consistent with the Parent. The Parent is required by the Canadian regulator, Office of the Superintendent of Financial Institutions ("OSFI"), to early adopt the standard.

The key amendments prescribed by the standard are as follows:

Classification and measurement

The classification and measurement of financial assets will depend on the entity's business model for their management and their contractual cash flow characteristics and result in financial assets being at amortised cost, fair value through other comprehensive income or fair value through profit or loss. In many instances, the classification and measurement outcomes will be similar to IAS 39, although differences will arise, for example, since IFRS 9 does not apply embedded derivative accounting to financial assets and equity securities will be measured at fair value through profit or loss or, in limited circumstances, at fair value through other comprehensive income. The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in population of financial assets measured at amortised cost or fair value compared with IAS 39. The classification of financial liabilities is essentially unchanged, except that, for certain liabilities measured at fair value, gains or losses relating to changes in the entity's own credit risk are to be included in other comprehensive income.

Impairment

The impairment requirements apply to financial assets measured at amortised cost and fair value through other comprehensive income, and lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ("ECL") resulting from default events that are possible within the next 12 months ("12 month ECL"). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ("lifetime ECL"). The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the probability of default occurring over the remaining life of the financial instrument, rather than by considering an increase in ECL. The assessment of credit risk, as well as the estimation of ECL, are required to be unbiased, probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12 month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

Notes to the revised financial statements (continued)

The new requirements will be applied retrospectively by adjusting the opening balance sheet for the transition impact at 1 November 2017 with no requirement to restate comparative periods. The impact of IFRS 9 on the Company's financial results at the time of adoption is dependent on prevailing market conditions at that time, as well as future forecasts of macro-economic factors and forward looking information. The Company is in the process of assessing the impact of this standard on the financial statements.

Governance and project management

The adoption of IFRS 9 is a significant initiative for the Company. The project to implement the standard commenced in 2014 and is being driven by the Parent and involves substantial finance, risk management and technology resources. The project is managed through a governance structure that includes an Executive Steering Committee ("EC") comprised of senior levels of management from risk management, finance, technology and the business units. Periodic reporting on the progress against plan is provided to the EC and Parent's senior management.

To date, as per the plan, the Parent's efforts have largely been focused on updating accounting policies to address key aspects of the standard, developing risk models and associated methodologies, and conducting training sessions to impacted internal stakeholders. The Parent will complete the development and validation of the impairment models for the calculation of ECL in 2017 to support a parallel run during 2017. The Parent will update accounting policy manuals, internal control documents, implement changes to business and financial reporting processes and systems, and enhance the Parent's existing governance process to support the high quality implementation of the standard by 1 November 2017.

Standards effective from 1 November 2019

On 13 January 2016, the IASB issued IFRS 16 'Leases', which replaces IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

Under IFRS 16, a lessee is required to recognise an asset for the right to use the leased item and a liability for the present value of its future lease payments. Right of use assets are either presented separately from other assets in the financial position or disclosed separately in the notes. Similarly, lease liabilities are either presented separately from other liabilities in the Statement of financial position or disclosed separately in the notes. A lessee may elect not to apply the recognition requirements in IFRS 16 to short term leases (12 months or less) and leases with low value of the underlying asset. The most significant effect of the new requirements will be an increase in lease assets and financial liabilities. IFRS 16 will result in operating leases being recorded on the Company's balance sheet. This will gross up the balance sheet, add to risk-weighted assets and impact the leverage ratio.

The standard is effective for annual periods beginning on or after 1 January 2019 with early adoption permitted.

The Company is in the process of assessing the impact of this standard on the financial statements.

Notes to the revised financial statements (continued)

4. Financial risk management

a. Risks from financial instruments

The Company has exposure to the following risks from financial instruments:

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

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

Risk management framework

The Company is firmly committed to the management of risk, recognising that sound internal risk management is essential to its prudent operation, particularly with the growing complexity, diversity and volatility of markets, facilitated by rapid advances in technology and communications. Risk management is given high priority throughout the Company and is integral to the management of the business.

Responsibility for risk management policies and limits, in the level of risks assumed, lies with the Board of Directors. The Board charges management with developing, presenting, updating and implementing these policies, controls and limits. The structure is designed to provide assurance that no single event, or combination of events, will materially affect the well-being of the Company.

The Company's risk management framework is applied on an enterprise-wide basis and consists of three elements; risk governance, risk appetite and risk management techniques which are underpinned by the Parent's strong risk culture. The risk appetite measures are integrated into decision making, monitoring and reporting processes, with early warnings trigger levels set to drive any required corrective action before overall tolerance levels are reached.

The Company's Board of Directors, Asset & Liability Committee and Audit Committee which monitors compliance with risk management, assist in assessing market trends, economic and political developments, and providing global strategic direction for all aspects of risk management. Additionally, a Risk Committee of the Board provides a forum for in-depth review and analysis of the risks to which the Company is subject.

Active, hands-on senior management plays a key role in the identification, evaluation and management of all risks. All credit and new product decisions require direct senior management approval and the loan portfolio is continuously reviewed with assistance from the Parent. Management is supported by a structure of independent controls, analysis and reporting processes and periodic examination by the Parent's Audit Department.

The Company has in place a number of limit controls and management information systems to facilitate effective management overview.

The following basic elements of sound risk management are applied to all financial instruments, including derivatives:

- appropriate review by the Board of Directors and senior management
- risk management processes which integrate product sectoral risk limits
- sound measurement procedures and information systems
- continuous risk monitoring and frequent management reporting
- segregation of duties, comprehensive internal controls and internal audit procedures.

Notes to the revised financial statements (continued)

Risks from financial instruments (continued)

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers and investment securities.

The Company uses a risk rating system to quantify and evaluate the risk of proposed credits and to achieve an appropriate return for assuming risks. In assessing the credit proposals, the Company is sensitive to the risks posed to credit quality by environmental issues. Relationship Managers undertake continuous portfolio review, so that the Company remains aware of counterparties' risk profiles. This analysis can include a review of at least three years previous historical financial data, future projections, industry reviews, broker reports and proprietary credit analysis techniques. In addition, the Company obtains advice and counsel from its Parent on all substantial issues. Letters of credit, guarantees and credit risk arising from off balance sheet instruments are managed by the same process. The Board of Directors reviews the credit portfolio annually and the new credit exposures at least quarterly. Settlement and any other credit risks are restricted through product limits and counterparty netting agreements and the Company has weightings in specific industry sectors for corporate lending to improve risk control.

Exposure to credit risk

The maximum exposure to credit risk at the Statement of Financial Position date was \$29,065,282,000 (2015: \$25,198,268,000) being the total of the carrying amount of financial on balance sheet assets \$24,969,867,000 (2015: \$20,955,235,000) and off balance sheet assets of \$4,095,415,000 (2015: \$4,243,033,000).

As at 31 October 2016, the collateral received by the Company against total assets was \$16,621,475,000 (2015: \$11,688,910,000) reducing the exposure to credit risk to \$12,470,363,000 (2015: \$13,509,358,000).

The following table reflects the fair value of collateral received by product type by the Company:

Product	2016 \$000	2015 \$000
Aircraft	76,377	77,600
Inventory	918,934	387,864
Land and buildings	106,324	217,571
Marketable securities	13,852,706	9,319,597
Property, plant and equipment	117,884	11,050
Ship mortgages	1,253,754	1,208,228
Others	295,496	467,000
Total	16,621,475	11,688,910

Notes to the revised financial statements (continued)

Risks from financial instruments (continued)

The maximum exposure to credit risk for customer assets at the Statement of Financial Position date by geographic area and by industry is set out below:

As at 31 October 2016:

	United Kingdom \$000	European Union \$000	Rest of the World \$000	Total \$000
Accommodation, Food and Beverage Service Industries	-	-	-	-
Business Services	7,517	-	7,909	15,426
Communications	7,650	54,871	76,095	138,616
Construction	-	32,781	41,555	74,336
Finance and Insurance	11,130,382	1,499,072	1,629,061	14,258,515
Government, Educational, Health and Social Services	1,957,992	2,315,073	970,320	5,243,385
Manufacturing	-	90,824	243,479	334,303
Mining	55,908	237,989	972,848	1,266,745
Transportation and Storage	225,540	352,590	980,988	1,559,118
Wholesale and Retail	19,651	104,475	313,218	437,344
Other Service Industries	117,296	17,446	-	134,742
Real Estate	8,510	-	423,230	431,740
Total customers assets	13,530,446	4,705,121	5,658,703	23,894,270

As at 31 October 2015:

	United Kingdom \$000	European Union \$000	Rest of the World \$000	Total \$000
Accommodation, Food and Beverage Service Industries	-	-	32,147	32,147
Business Services	3,788	-	360	4,148
Communications	20,875	228,501	-	249,376
Construction	54,347	32,889	142,119	229,355
Finance and Insurance	7,637,319	793,919	1,544,298	9,975,536
Government, Educational, Health and Social Services	2,232,390	2,924,844	751,102	5,908,336
Manufacturing	71,510	14,673	160,701	246,884
Mining	106,907	195,548	537,145	839,600
Transportation and Storage	229,457	270,471	964,799	1,464,727
Wholesale and Retail	5,116	166,622	210,948	382,686
Other Service Industries	132,756	74,046	-	206,802
Real Estate	-	-	-	-
Total customers assets	10,494,465	4,701,513	4,343,619	19,539,597

Note 1 – United Kingdom includes: Great Britain, Guernsey, Isle of Man and Jersey

Note 2 – European Union includes: Austria, Belgium, Bulgaria, Croatia, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia

Notes to the revised financial statements (continued)

Risks from financial instruments (continued)

Credit quality of financial assets and impaired losses

The following tables set out an analysis of categories of financial assets split by credit rating. Loans and advances to customers and Investment securities are classified by internal credit grading and the remainder of the Statement of Financial Position categorised by the external Moody's rating. The banding reflects management's segmentation of the credit risk grades.

	2016					Total \$000
	Good \$000	Acceptable \$000	Higher Risk \$000	Unacceptable \$000	Unrated \$000	
Cash and cash equivalents	288,080	-	-	-	4,878	292,958
Trading assets	3,149,114	93,121	-	-	269,540	3,511,775
Derivative assets held for risk management	15,986	-	-	-	13,658	29,644
Loans and advances to banks – others	1,201	-	-	-	-	1,201
Loans and advances to customers	1,598,199	2,158,191	808,167	183,500	98,565	4,846,622
Reverse repurchase agreements and other similar secured lending	1,583,952	22,594	-	-	11,370,356	12,976,902
Investment securities	2,233,245	-	-	-	1,923	2,235,168
Total	8,869,777	2,273,906	808,167	183,500	11,758,920	23,894,270

	2015					Total \$000
	Good \$000	Acceptable \$000	Higher Risk \$000	Unacceptable \$000	Unrated \$000	
Cash and cash equivalents	55,440	-	-	-	6,163	61,603
Trading assets	3,740,858	500,827	787	-	641,068	4,883,540
Derivative assets held for risk management	1,918	-	-	-	12,370	14,288
Loans and advances to banks – others	1,515	-	-	-	-	1,515
Loans and advances to customers	1,288,304	2,132,337	763,198	122,432	97,629	4,403,900
Reverse repurchase agreements and other similar secured lending	2,080,268	10,820	-	-	6,132,104	8,223,192
Investment securities	1,934,129	-	-	-	17,430	1,951,559
Total	9,102,432	2,643,984	763,985	122,432	6,906,764	19,539,597

The balances classified as unrated in the Loans and advances to customers and Securities purchased under resale agreement categories are predominately with a central clearing counterparty.

Notes to the revised financial statements (continued)

Risks from financial instruments (continued)

The internal credit gradings are based on the probability of default measure. The Company uses statistical modelling techniques throughout its business in its credit rating systems. These systems assist the Company in frontline credit decisions on new commitments and in managing the portfolio of existing exposures. They enable a coherent approach to risk measurement across all credit exposures. For all customers, the Company assesses the credit quality of borrowers and other counterparties and assigns them an internal risk rating. The Company credit rating system contains 23 grades, representing the best estimate of credit risk for a counterparty based on current economic conditions.

The table below summarises how external rating grades relate to the categories of credit quality selected for the financial statements.

Risk Class	Moody's Equivalent
Good	A3 to Aaa
Acceptable	Ba1 to Baa1
Higher Risk	B3 to Ba2
Unacceptable	Caa

The aging of customer assets at Statement of Financial Position date was:

	Gross Value	Impairment	Gross Value	Impairment
	31 October 2016	31 October 2016	31 October 2015	31 October 2015
	\$000	\$000	\$000	\$000
Not past due	23,856,794	-	19,525,812	-
More than 120 days past due	37,476	7,946	13,785	3,871
Total	23,894,270	7,946	19,539,597	3,871

Notes to the revised financial statements (continued)

Risks from financial instruments (continued)

Past due but not impaired financial assets

Past due but not impaired financial assets, other than those carried at fair value through profit or loss, are those for which contractual interest or principal payments are past due, but the Company believes that impairment is not appropriate on the basis of the level of collateral available and / or the stage of collection of amounts owed to the Company.

Collateral

The Company routinely obtains collateral and security and ensures that any collateral held is sufficiently liquid, legally effective, enforceable and regularly reassessed.

In the normal course of business, the Company receives collateral on certain transactions to reduce its exposure to counterparty credit risk. The Company is not permitted to sell or repledge the collateral it receives under terms that are customary to standard lending activities.

In the normal course of business, securities and other assets are pledged to secure an obligation or participate in clearing or settlement systems. Asset pledging transactions are conducted under terms that are common and customary to standard derivative, securities borrowing and lending and other lending activities.

Collateral and security can be an important mitigant of credit risk. The Company uses two methods of credit mitigation; direct and indirect.

The main direct credit risk mitigation is the taking of security or collateral, such as:

- Aircraft
- Debentures
- Insurance
- Inventory
- Land and buildings
- Marketable securities
- Property, plant and equipment
- Ship mortgages
- Assignment of loans
- Other current or non-current assets e.g. licences/patents/trademarks.

The frequency of valuation depends on the class of asset. A margin requiring excess collateral value to the loan value, with triggers requiring the collateral to be increased when breached, will generally be required. Credit risk mitigation may also be achieved through the taking of guarantees and indemnities from third parties.

Indirect credit risk mitigants will generally be embedded in the individual structure of the transaction to minimise the impact of an external event on the obligor. For example the requirement for the obligor to hedge interest rates and input material prices or insure receivables.

Notes to the revised financial statements (continued)

Risks from financial instruments (continued)

Sovereign Risk

The Company has established procedures to manage country risk. During the year there continued to be periods of volatility in Eurozone bond markets.

This volatility did have some impact on the Company's revenues; the Company's position in selected Eurozone countries as at the end of the year is set out in the below table.

31 October 2016 (\$000)	Italy	Spain	Other EU countries	Total
Debt Securities	105	92,937	1,379,549	1,472,591
Short Debt Securities Held	(192)	-	(1,338,605)	(1,338,797)
Total	(87)	92,937	40,944	133,794

31 October 2015 (\$000)	Italy	Spain	Other EU countries	Total
Debt Securities	407,898	84,697	1,747,353	2,239,948
Short Debt Securities Held	(156,514)	(166)	(1,715,320)	(1,872,000)
Total	251,384	84,531	32,033	367,948

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

Liquidity risk arises from fluctuations in cash flows. The management intends that the Company is able to honour all of its financial commitments as they fall due using the liquidity risk management process. The Company has developed an ILAA document as required by the PRA. The Company has also developed a suite of stress tests and limits, the results of which are reviewed by senior management on a regular basis. In addition, the Asset & Liability Committee and the Risk Committee, review the Company's liquidity position periodically. The Company has access to a variety of deposit sources including group funding. Regular reviews are conducted of these funding sources and requirements by senior management.

Notes to the revised financial statements (continued)

Risks from financial instruments (continued)

The following are the contractual maturities of financial liabilities including interest:

31 October 2016

	Carrying amount	Contractual flows	Less than 3 months	Greater than 3 months but less than 1 year	1 to 2 years	2 to 5 years	5 years and over
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Financial liabilities							
Trading liabilities	3,913,630	3,913,630	399,964	690,979	47,273	637,383	2,138,031
Derivative liabilities held for risk management	23,315	23,315	2,054	6,816	535	3,946	9,964
Deposits from banks – group companies	7,401,753	7,411,824	2,992,976	4,418,848	-	-	-
Deposits from banks – others	134,219	134,219	134,219	-	-	-	-
Deposits from customers	175,756	175,678	175,678	-	-	-	-
Repurchase agreements and other similar secured lending	11,109,758	11,106,824	10,843,037	263,787	-	-	-
Outflows	22,758,431	22,765,490	14,547,928	5,380,430	47,808	641,329	2,147,995

31 October 2015

	Carrying amount	Contractual flows	Less than 3 months	Greater than 3 months but less than 1 year	1 to 2 years	2 to 5 years	5 years and over
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Financial liabilities							
Trading liabilities	3,902,876	3,902,876	565,298	75,028	330,382	725,076	2,207,092
Derivative liabilities held for risk management	15,236	15,236	863	-	1,032	4,078	9,263
Deposits from banks – group companies	7,192,957	7,198,453	1,316,624	5,881,829	-	-	-
Deposits from banks – others	1	1	1	-	-	-	-
Deposits from customers	184,586	184,576	184,576	-	-	-	-
Repurchase agreements and other similar secured lending	7,710,660	7,717,529	6,485,357	1,232,172	-	-	-
Outflows	19,006,316	19,018,671	8,552,719	7,189,029	331,414	729,154	2,216,355

Trading liabilities and derivatives have been allocated a liquidity outflow based on the contractual maturity of the instrument. However, as trading liabilities the likelihood is that the cash outflow will be prior to the contractual maturity.

Notes to the revised financial statements (continued)

Risks from financial instruments (continued)

Market risks

Market risk is the risk of loss from changes in market prices and rates (including interest rates, credit spreads, equity prices, foreign exchange rates and commodity prices), the correlations among them, and their levels of volatility.

Value at Risk ("VaR") is a method of measuring market risk based upon a common confidence interval and time horizon. It is a statistical estimate of expected potential loss that is derived by translating the riskiness of any financial instrument into a common standard. The Company calculates VaR daily using a 99% confidence level, and a one-day holding period for its trading portfolios. This means that about once in every 100 days, the trading positions are expected to lose more than the VaR estimate. The Company calculates general market risk using historical simulation based on 300 days of market data.

Market risk arising from the Company's trading activities is managed in accordance with Board-approved policies, and aggregate VaR and stress testing limits. The quality of the Company's VaR is validated by regular back testing analysis, in which the VaR is compared to theoretical and actual Statement of Comprehensive Income results. A VaR at the 99% confidence interval is an indication of the probability that losses will exceed the VaR if positions remain unchanged during the next business day. Trading positions are, however, managed dynamically and as a result actual profit/loss back testing exceptions are uncommon.

A summary of the VaR position of the Company's trading at 31 October and during the year is as follows:

	31 October 2016	Average 2016	Maximum 2016	Minimum 2016
	\$000	\$000	\$000	\$000
Overall	2,512	1,684	3,964	767
	31 October 2015	Average 2015	Maximum 2015	Minimum 2015
	\$000	\$000	\$000	\$000
Overall	1,676	2,854	4,181	1,504

Foreign currency risk

Currency risk arises as a result of the Company having financial assets and liabilities denominated in a number of foreign currencies. Currency transactions are matched where possible in order to eliminate currency exposures.

The Company does not have material exposure to foreign currency risk. The assets are funded in the same currency and therefore the movements in foreign exchange rates will impact the assets and liabilities equally.

Interest rate risk

Interest rate risk arises when there is a mismatch between positions, which are subject to interest rate adjustments within a specific period. In the Company's funding/lending activities fluctuations in interest rates are reflected in interest margins and earnings. Where there are significant mismatches of interest rate risk or where the Company enters into any fixed rate note loan obligations, appropriate hedging techniques are employed to manage the interest rate exposure at all times to limit this risk. The Company utilises swaps when required by particular customer transactions, but hedges its position using a back to back contract with its Parent in order to mitigate any exposures from these transactions.

Notes to the revised financial statements (continued)

Risks from financial instruments (continued)

Sensitivity analysis

A change of 1% in interest rates at the Statement of Financial Position date would have increased / (decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the Statement of Financial Position date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect of financial instruments with variable interest rates, financial instruments at fair value through profit or loss or available-for-sale with fixed interest rates and the fixed rate element of interest rate swaps. The analysis is performed on the same basis for 31 October 2015.

	31 October 2016	31 October 2015
	\$000	\$000
Profit or loss (net of tax)		
Increase	2,410	2,162
Decrease	(2,410)	(2,162)

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, human behaviour and systems, or from external events. Operational risks are managed and controlled within the individual business lines and a wide variety of checks and balances to address operational risks have been developed as an important part of the Company's risk management culture. They include adoption of the overall, group-wide standards and policies established by the Parent to ensure proper risk analysis and control, including risk management policies, a rigorous planning process, regular organisational review, thorough enforcement of the Company's Guidelines on Business Conduct, and clearly defined and documented approval authorities. The Company maintains an operational loss report which is presented at the quarterly Operational Risk meeting. The Company is also subject to a documented compliance programme, the elements of which are regulatory awareness, regulatory risk assessment, compliance monitoring and reporting. As well, regular audits by The Bank of Nova Scotia Audit Department, an experienced independent audit department from the Parent, include comprehensive reviews of the design and operation of internal control systems in all business and support groups, new products and systems, and the reliability and integrity of data processing operations. The Audit Committee approves an annual audit scope and plan, and reviews all subsequent reports and management responses to ensure appropriate corrective action is taken.

Notes to the revised financial statements (continued)

b. Capital management

The Company has a capital management process in place to measure and monitor its available capital and assess its adequacy. The primary objective of this management process is to ensure that the Company complies with externally imposed capital requirements, maintains capital ratios to support the development of the business and to cover risks inherent in its activities.

The Capital Requirements Directive IV ("CRDIV") framework is based upon three "pillars":

- Pillar 1: minimum capital requirements for credit, market, operational risks, Credit Valuation Adjustment ("CVA"), and leverage ratios
- Pillar 2: supervisory review – establishing a constructive dialogue between a firm and the regulator on the risks, the risk management and capital requirements of the Company. As part of this requirement the Company produced an Internal Capital Adequacy Assessment Process document ("ICAAP") which was approved by the Board of Directors and submitted to PRA
- Pillar 3: market discipline – requirements on public disclosure intended to give the market a stronger role in ensuring that firms hold an appropriate level of capital.

Under CRDIV rules, an institution must maintain the following capital ratios which are based on a ratio of capital to aggregate risk-weighted assets:

- Common Equity Tier 1 capital ratio greater than 4.5%
- Tier 1 capital ratio greater than 6%; and
- Total Capital ratio greater than 8%

The Company's Regulatory Capital resources comprise two tiers. Tier 1 capital principally comprises permanent share capital representing shareholder funds, retained earnings, and accumulated other comprehensive income as well as Tier 1 deductions. This is supplemented by the Tier 2 capital which mainly comprises of collective provisions.

The capital resources requirements reflect the credit, market and other risks of the Company as set out by the European Banking Authority ("EBA"). The Company regularly files calculations of its capital position with the PRA which have always shown that its capital position was in surplus.

As well as the regulatory limits the Company is required to operate within more prudent internal limits that are set as part of the Risk Appetite Framework. The Company has operated within both internal and external limits throughout the financial year. Reports detailing the capital position of the Company are circulated to Senior Management on a daily basis and to the Board on a quarterly basis.

The Company prepares Capital and Risk Management Pillar 3 disclosures and makes them publically available on the Parent's website (<http://www.scotiabank.com/ca/en/0,,5466,00.html>).

Notes to the revised financial statements (continued)

Capital management (continued)

The unaudited table below summarises the composition of the Company's total regulatory capital:

	31 October 2016	31 October 2015
	\$000	\$000
Ordinary share capital	985,795	985,795
Retained earnings	836,442	857,884
Accumulated other comprehensive income	543	1,263
Proposed dividends	(71,990)	(74,464)
Deferred tax deduction	-	(582)
Value adjustments due to the requirements of prudential valuation	(9,742)	(10,718)
Tier 1 capital	1,741,048	1,759,178
Collective provision	27,700	20,471
Tier 2 capital	27,700	20,471
Total regulatory capital	1,768,748	1,779,649

Notes to the revised financial statements (continued)

5. Use of estimates and judgements

a. Key sources of estimation uncertainty

i. Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment.

Individual impairment

For all loans that are considered individually significant, the Company assesses on a case-by-case basis at each Statement of Financial Position date whether there is any objective evidence that a loan is impaired. For those loans where objective evidence of impairment exists, individual impairments are recognised. Loan impairment is recognised when, in management's opinion, there is no longer reasonable assurance that interest and principal payments will be made on a timely basis. Impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate, and comparing the resultant present value with the loan's current carrying amount. Any loss is charged in the Statement of Comprehensive Income.

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 Company on terms that the Company 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 issuers in the Company, or economic conditions that correlate with defaults in the Company.

A change of 1% in the value of estimated recovery will result in a \$79,463 (2015: \$38,710) change in value of impairment.

Collective provisions

Collective provisions are made in relation to losses, which although not specifically identified, exist in the loan portfolio based upon objective evidence at the Statement of Financial Position date. Provisions are charged directly to the Statement of Comprehensive Income.

Individually assessed loans for which no evidence of loss has been identified are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This arises from impairment at the Statement of Financial Position date which will only be individually identified in the future.

The collective impairment allowance is determined after taking into account:

- Historical loss experience in portfolios of similar credit risk characteristics (for example, by industry sector or loan grade);
- The estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual loan; and
- Management's judgement as to whether current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

A change of 1% in the value of estimated recovery will result in a \$277,000 (2015: \$204,710) change in value of impairment.

Notes to the revised financial statements (continued)

ii. Hedges

Qualifying hedge relationships

In designating financial instruments in qualifying hedge relationships, the Company has determined that it expects the hedges to be highly effective over the period of the hedge relationship.

b. Critical accounting judgements in applying the Company's accounting policies

Fair value hierarchy

IFRS 13 – 'Fair Value Measurement' applies to IFRSs that require or permit fair value measurements or disclosures and provides a single IFRS framework for measuring fair value and requires disclosures about fair value measurement. The standard seems to increase consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. The hierarchy categorises the inputs used in valuation techniques into three levels. The hierarchy gives the highest priority to (unadjusted) quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. If the inputs used to measure fair value are categorised into different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the level of the lowest level input that is significant to the entire measurement (based on the application of judgement).

- Level 1 inputs are quoted prices (i.e. unadjusted) in active markets for identical assets or liabilities that the entity can assess at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 inputs are unobservable inputs for the asset or liability (i.e. not based on observable market data).

The valuation techniques have not changed during the year.

Notes to the revised financial statements (continued)

Fair value hierarchy (continued)

The following table outlines the fair value hierarchy of instruments carried at fair value.

2016	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
Assets				
Debt securities	2,336,983	760,551	-	3,097,534
Equities and other variable yield instruments	-	-	1,923	1,923
Derivatives	-	443,885	-	443,885
Loans and advances to customers	-	16,332	-	16,332
	<u>2,336,983</u>	<u>1,220,768</u>	<u>1,923</u>	<u>3,559,674</u>
Liabilities				
Short debt securities held	2,540,839	980,186	-	3,521,025
Derivatives	-	415,920	-	415,920
Total	<u>2,540,839</u>	<u>1,396,106</u>	<u>-</u>	<u>3,936,945</u>
 2015	 Level 1 \$000	 Level 2 \$000	 Level 3 \$000	 Total \$000
Assets				
Debt securities	5,355,841	528,744	-	5,884,585
Equities and other variable yield instruments	-	-	4,829	4,829
Derivatives	-	898,158	-	898,158
Loans and advances to customers	-	13,143	-	13,143
	<u>5,355,841</u>	<u>1,440,045</u>	<u>4,829</u>	<u>6,800,715</u>
Liabilities				
Short debt securities held	2,926,157	305,858	-	3,232,015
Derivatives	-	686,097	-	686,097
Total	<u>2,926,157</u>	<u>991,955</u>	<u>-</u>	<u>3,918,112</u>

As at 31 October 2016, the instruments disclosed under Level 3 include London Metal Exchange ("LME") Class B shares held for base metals clearing member status on the LME only. The shares are held at historical cost due to low historical transactions to support a market value adjustment. There has been no change in shares owned or valuation year-on-year. The shares are not held for investment purposes.

In the current year, the Company sold an investment in a Leverage Buy Out ("LBO") fund which was classified as Level 3 in the previous year.

Notes to the revised financial statements (continued)

Fair value hierarchy (continued)

The following table outlines the fair value hierarchy of instruments not carried at fair value.

2016	Carrying value		Fair value		Total
		Level 1	Level 2	Level 3	
	\$000	\$000	\$000	\$000	\$000
Assets					
Cash and cash equivalents	292,958	-	292,958	-	292,958
Loans and advances to banks – others	1,201	-	-	1,201	1,201
Loans and advances to customers	4,794,643	-	-	4,796,220	4,796,220
Reverse repurchase agreements and other similar secured lending	12,976,902	-	12,976,902	-	12,976,902
Investment securities	57,199	-	57,199	-	57,199
Total	18,122,903	-	13,327,059	4,797,421	18,124,480
Liabilities					
Deposits from banks – group companies	7,401,753	-	7,401,753	-	7,401,753
Deposits from banks – others	134,219	-	134,219	-	134,219
Deposits from customers	175,756	-	175,755	-	175,755
Repurchase agreements and other similar secured borrowing	11,109,758	-	11,109,758	-	11,109,758
Total	18,821,486	-	18,821,485	-	18,821,485

2015	Carrying value		Fair value		Total
		Level 1	Level 2	Level 3	
	\$000	\$000	\$000	\$000	\$000
Assets					
Cash and cash equivalents	61,603	-	61,603	-	61,603
Loans and advances to banks – others	1,515	-	-	1,515	1,515
Loans and advances to customers	4,366,415	-	-	4,368,990	4,368,990
Reverse repurchase agreements and other similar secured lending	8,223,192	-	8,223,192	-	8,223,192
Investment securities	61,814	-	61,814	-	61,814
Total	12,714,539	-	8,346,609	4,370,505	12,717,114
Liabilities					
Deposits from banks – group companies	7,192,957	-	7,192,957	-	7,192,957
Deposits from banks – others	1	-	1	-	1
Deposits from customers	184,586	-	184,576	-	184,576
Repurchase agreements and other similar secured borrowing	7,710,660	-	7,710,660	-	7,710,660
Total	15,088,204	-	15,088,194	-	15,088,194

Notes to the revised financial statements (continued)

6. Financial assets and liabilities

Accounting classifications and fair values

The fair values for each class of financial assets and financial liabilities together with their carrying amounts shown in the Statement of Financial Position are as follows:

31 October 2016	Available- for-sale	Fair value through Statement of Comprehensive Income held for trading	Held to maturity instruments	Financial instruments at amortised cost	Total carrying value	Fair value
	\$000	\$000	\$000	\$000	\$000	\$000
Cash and cash equivalents	-	-	-	292,958	292,958	292,958
Trading assets	-	3,511,775	-	-	3,511,775	3,511,775
Derivative assets held for risk management	-	29,644	-	-	29,644	29,644
Loans and advances to banks – others	-	-	-	1,201	1,201	1,201
Loans and advances to customers	-	16,332	-	4,794,644	4,810,976	4,812,552
Reverse repurchase agreements and other similar secured lending	-	-	-	12,976,902	12,976,902	12,976,902
Investment securities	2,177,969	-	-	57,199	2,235,168	2,235,168
Other assets	-	772,964	-	338,279	1,111,243	1,111,243
Total	2,177,969	4,330,715	-	18,461,183	24,969,867	24,971,443
Trading liabilities	-	3,913,630	-	-	3,913,630	3,913,630
Derivative liabilities held for risk management	-	23,315	-	-	23,315	23,315
Deposits from banks – group companies	-	-	-	7,401,753	7,401,753	7,401,753
Deposits from banks – others	-	-	-	134,219	134,219	134,219
Deposits from customers	-	-	-	175,756	175,756	175,755
Repurchase agreements and other similar secured lending	-	-	-	11,109,758	11,109,758	11,109,758
Other liabilities	-	-	-	388,656	388,656	388,656
Total	-	3,936,945	-	19,210,142	23,147,087	23,147,086

Notes to the revised financial statements (continued)

31 October 2015	Available- for-sale	Fair value through Statement of Comprehensive Income held for trading	Held to maturity instruments	Financial instruments at amortised cost	Total carrying value	Fair value
	\$000	\$000	\$000	\$000	\$000	\$000
Cash and cash equivalents	-	-	-	61,603	61,603	61,603
Trading assets	-	4,883,540	-	-	4,883,540	4,883,540
Derivative assets held for risk management	-	14,288	-	-	14,288	14,288
Loans and advances to banks – others	-	-	-	1,515	1,515	1,515
Loans and advances to customers	-	13,143	-	4,366,415	4,379,558	4,382,133
Reverse repurchase agreements and other similar secured lending	-	-	-	8,223,192	8,223,192	8,223,192
Investment securities	1,889,745	-	-	61,814	1,951,559	1,951,559
Other assets	-	1,285,028	-	154,952	1,439,980	1,439,980
Total	1,889,745	6,195,999	-	12,869,491	20,955,235	20,957,810
Trading liabilities	-	3,902,876	-	-	3,902,876	3,902,876
Derivative liabilities held for risk management	-	15,236	-	-	15,236	15,236
Deposits from banks – group companies	-	-	-	7,192,957	7,192,957	7,192,957
Deposits from banks – others	-	-	-	1	1	1
Deposits from customers	-	-	-	184,586	184,586	184,576
Repurchase agreements and other similar secured lending	-	-	-	7,710,660	7,710,660	7,710,660
Other liabilities	-	-	-	103,977	103,977	103,977
Total	-	3,918,112	-	15,192,181	19,110,293	19,110,283

Determining fair values – Loans and advances

The estimated fair value of loans reflects changes in the general level of interest rates that have occurred since the loans were originated. The particular valuation methods are as follows:

- For floating rate loans, potential adjustments for credit spread changes are considered when estimating fair values but are immaterial. Therefore, fair value is assumed to be equal to book value.
- For all other loans, fair value is determined by discounting the expected future cash flows of these loans at market rates for loans with similar terms and risks.

Notes to the revised financial statements (continued)

Determining fair values – Deposits

The estimated fair value of deposits reflects changes in the general level of interest rates that have occurred since the deposits were originated. The particular valuation methods are as follows:

- For floating rate deposits, fair value is assumed to be equal to book value.
- For all other deposits, fair value is determined by discounting the expected future cash flows of these deposits at market rates for deposits with similar terms and risks.

Determining fair values of other financial instruments

Cash and cash equivalents, short term receivables, repos and reverse repos, and other financial liabilities carrying amount as shown in the Statement of Financial Position is a reasonable approximation of fair value as they are short term in nature.

Fair value hedges

The Company's fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate long-term financial instruments due to movements in market interest rates. For qualifying fair value hedges, all changes in fair value of the derivative and in the fair value of the item in relation to the risk being hedged are recognised in the Statement of Comprehensive Income.

Loans and advances to customers in a qualifying fair value interest rate hedging relationship

	31 October 2016 \$000	31 October 2015 \$000
Market value of loans and advances to customers in a qualifying fair value interest rate hedging relationship	184,869	150,435

Fair value of derivatives designated as fair value hedges

	31 October 2016		31 October 2015
	Assets \$000	Liabilities \$000	Assets \$000 Liabilities \$000
Instrument type:			
Interest rate	-	1,125	- 1,999
Total	-	1,125	- 1,999

Gains or losses arising from the change in fair value of fair value hedges

	2016 \$000	2015 \$000
Gains / (losses)		
- On hedging instruments	(671)	(421)
- On hedged items attributable to the hedged risk	381	375

Notes to the revised financial statements (continued)

7. Net interest income

	31 October 2016	31 October 2015
	\$000	\$000
Interest income arising from Investment securities	3,922	1,598
Other interest and similar income	165,937	154,679
Interest expense	(44,984)	(54,743)
Total	124,875	101,534

Notes to the revised financial statements (continued)

8. Personnel expenses

The Company does not directly employ staff. There are a number of front office staff that are seconded to the Company and the details of these are recorded below.

	31 October 2016	31 October 2015
Chief Executive Officer	1	1
Average number of front office persons;	120	124
Total	121	125

In addition to the front office staff set out above, back office and finance staff members are all employed by the Parent. The cost of back office and finance support is charged by way of management recharges.

	31 October 2016	31 October 2015
	\$000	\$000
Front office staff costs include:		
Wages and salaries	35,540	46,428
Social security costs	4,647	7,243
Other pension costs	2,023	2,341
Cash settled share based payment transactions	908	2,068
Other employee benefits	2,161	4,041
Total	45,279	62,121

Pension

The Bank of Nova Scotia Group, of which the Company is a member, operates both a defined benefit and a defined contribution pension scheme. The Defined Benefit Scheme was closed to new entrants effective October 2005 and will be closed to future service accruals effective 1 November 2016.

Defined Benefit Scheme

The assets of the defined benefit scheme are held in separate trustee-administered funds.

Total Company contributions for the year were \$795,635 (2015: \$932,411). As at 31 October 2016 there were no outstanding or prepaid contributions (2015: Nil). The cost of pension provision is assessed in accordance with the advice of a qualified actuary using the projected unit method. The latest formal valuation was carried out at 1 November 2014.

The last valuation at 1 November 2014 revealed a funding level of 85%, representing a deficit of \$36.3 million at that date. The market value of the scheme's assets was \$200.1 million. It has been agreed that this deficit will be eliminated over a 4 year period commencing 30 November 2015. In the year to 31 October 2016, the Parent paid \$9.2 million to remove part of this deficit. The remaining deficit identified at 1 November 2014 will be removed through the payment of contributions of \$4.2 million by 30 November 2016, 2017 and 2018. In addition, a sum of \$50,870 per month has been agreed to be paid to meet the scheme's administrative expenses, including scheme levies.

The key assumptions underlying the 2014 valuation are those relating to the rate of return on investments and inflation, which are 3.75% per annum and 3.45% per annum respectively.

Notes to the revised financial statements (continued)

As the Company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by IAS 19 'Employee Benefits', the scheme is accounted for by the Company as if the scheme was a defined contribution scheme.

Sufficient information is not available to enable the company to identify its share of the scheme assets and liabilities because:

- Some members have worked for more than one company within the group. The group structure has changed over time for various reasons including restructuring, acquisitions and disposals.
- For funding purposes, employers within the group share actuarial risks. The determination of cash contributions does not separately identify assets and liabilities for individual participating companies and all employers pay the same contribution rate in respect of accruing benefits.

The allocation of assets and liabilities relating to non-active members is not possible as historical information is not available (or not readily available).

Defined Contribution Scheme

UK employees joining the Company after October 2005 participate only in the Defined Contribution Scheme. Effective 1 November 2016, all employees previously in the Defined Benefit Scheme joined the Defined Contribution Scheme for future service. Total Company contributions for the year were: \$985,891 (2015: \$1,220,932). As at 31 October 2016 there were no outstanding or prepaid contributions (2015: Nil).

Share-based compensation

The Company has two types of share incentive plans, the Stock Appreciation Rights ("SARs") and Restricted Share Unit Plan ("RSU") in respect of services received from certain eligible employees. Cash amounts are awarded in the two plans and use notional units that are valued on the share price of the Parent, The Bank of Nova Scotia. The share price of the Bank of Nova Scotia as at 31 October 2016 was \$53.78 (2015: \$47.00).

Stock Appreciation Rights

SARs are awarded to selected employees and when exercised, the Company pays the appreciation amount in cash equal to the rise in the market price of the Parent's common shares since the grant date. SARs awards are subject to performance criteria of the Parent measured over a three year period. As at the 31 October 2016 details of the plan are as follows:

	2016 Notional units	2015 Notional units
Outstanding at beginning of year	22,444	22,444
Granted	-	-
Exercised	(18,336)	-
Forfeited	-	-
Vested	-	-
Outstanding at end of year	<u>4,108</u>	<u>22,444</u>

The current year charge for SARs is \$97,731 (2015: \$110,377).

Notes to the revised financial statements (continued)

Restricted Share Unit Plan

RSUs are awarded to selected employees which vest over a period of three years, at which time the units are paid, in cash, to the employee.

	2016	2015
	Notional	Notional
	units	units
Outstanding at beginning of year	3,539	3,569
Granted	1,124	3,581
Dividend accrued	149	197
Exercised	-	-
Forfeited	-	-
Vested	(2,262)	(3,808)
Outstanding at end of year	<u>2,550</u>	<u>3,539</u>

The current year charge for RSUs is \$809,916 (2015: \$2,178,409).

9. Other expenses

	31 October 2016	31 October 2015
	\$000	\$000
<i>Auditor remuneration</i>		
Audit of these financial statements	311	409
Audit related assurance services	12	16
Other assurance services	35	88
Total	<u>358</u>	<u>513</u>

Notes to the revised financial statements (continued)

10. Tax expense

a) Tax recognised in profit or loss

	31 October 2016	31 October 2015
	\$000	\$000
Current tax expense		
UK tax – current year	27,835	28,390
UK tax – banking surcharge	9,338	-
UK tax – prior year	(51)	(399)
Foreign tax – current year	11,460	254
Foreign tax – prior year	62	179
Current tax expense / (credit) in Statement of comprehensive income	48,644	28,424
Deferred tax:		
Origination and reversal of temporary differences	1,329	1,462
Adjustment for prior periods	8	(139)
Rate changes	14	(1,077)
Deferred tax expense / (credit) in Statement of comprehensive income	1,351	246
Tax expense from continuing operations	49,995	28,670

Tax recognised in other comprehensive income

	31 October 2016			31 October 2015		
	Before tax	Tax expense/(credit)	Net of tax	Before tax	Tax expense/(credit)	Net of tax
	\$000	\$000	\$000	\$000	\$000	\$000
Available-for-sale financial assets – Deferred tax	(1,009)	(272)	(737)	(1,327)	(196)	(1,131)
Available-for-sale financial assets – Current tax	37	20	17	472	97	375
Total	(972)	(252)	(720)	(855)	(99)	(756)

Notes to the revised financial statements (continued)

b) Factors affecting tax charge

The effective UK corporation tax for the period is 34.48% (2015: 19.81%). The tax assessed for the year is higher than the combined standard corporation tax rate (26.67%) in the UK (2015: 20.41%).

The differences are explained below:

	31 October 2016	31 October 2015
	\$000	\$000
Profit on ordinary activities before taxation	144,984	144,784
Tax using the Company's domestic main tax rate of 20.00% (FY15: 20.41%)	28,996	29,550
Banking surcharge	9,338	-
Effect of tax rate changes	355	(1,077)
Non-deductible expenses	104	555
Non-taxable income	(184)	(793)
Partnerships	-	421
Provision for foreign tax	11,283	433
Adjustment for prior periods	19	(538)
Unutilised foreign tax credits	-	119
Forex difference on opening balances of deferred tax	84	-
Total tax expense from continuing operations	49,995	28,670
 Effective Tax Rate	 34.48%	 19.81%

The statutory corporation tax rate for the current accounting period is 20%. The overall tax expense this year includes the 8% banking surcharge applied to taxable profits which was introduced by the Finance Bill 2015 and effective from 1 January 2016. The prorated banking surcharge for the Company's accounting period is 6.67%. The overall statutory tax rate is therefore is 26.67%.

The main corporation tax rate will reduce from 20% to 19% from 1 April 2017 and will further reduce to 17% from 1 April 2020.

Notes to the revised financial statements (continued)

Provisions

The Company is exposed to the risk of changes to tax legislation in various countries in which it operates. It is also exposed to different interpretations of tax regulations between the tax authorities and the Company. In the ordinary course of business, the Company may have tax positions under discussion with or review by tax authorities, or which are otherwise considered to involve uncertainty. During 2014, management concluded that it was probable that a European tax authority will reclaim withholding tax refunds from the Company in relation to the trades executed by it in prior years. Accordingly, a provision of \$8.0 million at exchange rate was recognised as the best estimate of the anticipated liability.

During the current accounting period, the Company increased the provision to \$19.2 million (€17.5 million). This amount represents the current best estimate of the maximum liability on the historical reclaims.

c) Country by country reporting

The below is disclosed following the requirement of Article 89 of the EU Directive 2013/36/EU otherwise known as CRDIV.

Mandatory requirements	Jurisdiction	
	United Kingdom	France
<i>List of entities</i>	Scotiabank Europe plc ("the Company")	Scotiabank Europe plc, Paris Branch ("the Branch")
<i>Average number of employees</i>	Nil* (2015: Nil*)	Nil* (2015: Nil*)
<i>Turnover</i>	\$232.2 million (2015: \$244.7 million)	\$3.0 million (2015: \$3.1 million)
<i>Profit before tax</i>	\$144.0 million (2015: \$144.0 million)	\$1.0 million (2015: \$0.8 million)
<i>Corporation tax charge</i>	\$38.5 million (2015: \$28.1 million)	\$0.2 million (2015: \$0.3 million)
<i>Corporation tax paid</i>	\$32.0 million (2015: \$24.1 million)	\$0.5 million (2015: \$0.1 million)
<i>Public subsidies received</i>	Nil (2015: Nil)	Nil (2015: Nil)
<i>Description of activities</i>	The Company is a wholly owned subsidiary of The Bank of Nova Scotia, a Canadian financial institution. The Company markets and sells a range of banking products with its target market being large and mid-sized companies, as well as banks, investment banks, governments and asset managers. The Company generates revenue through the extension of credit to corporate clients, market-making and distribution of government bonds, equity financing and base metals trading. Additionally, the Company also participates in the sub-underwriting of equity rights issues.	The Branch carries out sales activities in Fixed Income products, including secondary market trading in government bonds, repos and derivatives. The Branch also acts as a distributor of French government debt as part of the Company's role as a primary dealer in France.
<i>Address</i>	201 Bishopsgate, 6 th Floor, London EC2M 3NS, United Kingdom	112-114 Avenue Kléber, Paris 75116, France

*The staff members are all employed by the Parent.

Notes to the revised financial statements (continued)

11. Cash and cash equivalents

	31 October 2016 \$000	31 October 2015 \$000
Nostro accounts	207,074	32,494
Group accounts	85,884	29,109
Total	292,958	61,603

12. Trading assets and liabilities

Trading assets

	31 October 2016 \$000	31 October 2015 \$000
Government bonds	2,974,812	3,833,787
Corporate bonds	122,722	165,881
	3,097,534	3,999,668
Derivative assets:		
Foreign exchange	1,296	1,036
Commodity	302,512	744,104
Interest rate	110,433	138,732
	414,241	883,872
Total	3,511,775	4,883,540

Trading liabilities

	31 October 2016 \$000	31 October 2015 \$000
Short sold position – debt	3,521,025	3,232,015
	3,521,025	3,232,015
Derivative liabilities:		
Foreign exchange	2,532	2,407
Commodity	279,640	529,721
Interest rate	110,433	138,733
	392,605	670,861
Total	3,913,630	3,902,876

Notes to the revised financial statements (continued)

13. Reverse repurchase agreements and other similar secured lending

	31 October 2016 \$000	31 October 2015 \$000
Open maturity	2,465,119	2,240,469
Repayable on demand	5,795,629	318,573
Repayable in not more than three months	2,326,463	3,379,088
Repayable in more than three months but less than one year	2,389,691	2,285,062
Total	12,976,902	8,223,192

14. Derivatives held for risk management

	31 October 2016		31 October 2015	
	Derivative assets Positive fair value \$000	Derivative liabilities Negative fair value \$000	Derivative Assets Positive fair value \$000	Derivative Liabilities Negative fair value \$000
Instrument type:				
Foreign exchange	15,964	7,897	1,918	862
Interest rate	13,680	15,418	12,370	14,374
Total	29,644	23,315	14,288	15,236

Other derivatives held for risk management

The Company uses other derivatives, not designated in a qualifying hedge relationship, to manage its exposure to foreign currency and interest rate risks. The instruments used are interest rate swaps and foreign exchange transactions.

Notes to the revised financial statements (continued)

15. Loans and advances to banks – others

	31 October 2016	31 October 2015
	\$000	\$000
Repayable on demand	1,201	1,515
Total	1,201	1,515

16. Loans and advances to customers

	31 October 2016	31 October 2015
	\$000	\$000
Loans and advances to customers – held at amortised cost	4,794,644	4,366,415
Loans and advances to customers – held at fair value	16,332	13,143
Total	4,810,976	4,379,558

Loans and advances to customers

	31 October 2016	31 October 2015
	\$000	\$000
Repayable on demand or at short notice	171,740	84,861
Repayable in not more than three months	139,788	96,525
Repayable in more than three months but less than one year	895,465	796,579
Repayable in more than one year but less than five years	3,317,432	3,032,085
Repayable in more than five years	322,197	393,850
	4,846,622	4,403,900
Collective impairment (see Note 17)	(27,700)	(20,471)
Individual impairment	(7,946)	(3,871)
Total	4,810,976	4,379,558

Notes to the revised financial statements (continued)

Forbearance and restructured loans

In certain circumstances, and typically where a customer demonstrates an inability to meet its contractually agreed repayment obligations, the Company may renegotiate the terms of those loans with the customer. Where such renegotiated terms are not consistent with those readily available in the market or where concessions are granted which would otherwise not be readily available, the loans are considered to be subject to forbearance and are disclosed as "Loans subject to forbearance" and are set out below. Loans that are renegotiated in circumstances where the customer would otherwise be able to readily refinance the loan in the market are not included within this disclosure.

Forbearance strategies are employed by the Company in order to assist customers who are considered to be in temporary financial distress but would otherwise be able to meet their financial obligations should those obligations be subject to amended repayment terms. Forbearance can include debt restructuring, such as a new repayment schedule, payment deferrals and tenure extensions. Due to the increased risk profile of loans subject to forbearance it is typical for the applicable interest margin to be increased and / or a restructuring fee applied.

Where a customer is experiencing financial distress and the Company has commenced negotiations with the customer with a view to amending the terms of an existing loan, that loan is considered to fall within "Loans in the process of restructuring" and is also disclosed below. These loans may or may not be considered to be impaired, depending on circumstance, and may or may not be subject to an individual impairment provision.

	31 October 2016	31 October 2015
	\$000	\$000
Loans subject to forbearance	109,138	11,922
Loans in the process of restructuring	59,037	13,781
Total	168,175	25,703

Notes to the revised financial statements (continued)

17. Allowance for impairment

	Individual \$000	Collective \$000	Total \$000
Balance as at 1 November 2015	3,871	20,471	24,342
Amounts written off	-	-	-
Recoveries of advances written off in previous year	9	-	9
Charge to the Statement of Comprehensive Income	4,066	7,229	11,295
Balance as at 31 October 2016	7,946	27,700	35,646
	Individual \$000	Collective \$000	Total \$000
Balance as at 1 November 2014	-	25,571	25,571
Amounts written off	-	-	-
Recoveries of advances written off in previous year	36	-	36
Charge to the Statement of Comprehensive Income	3,835	(4,214)	(379)
Other movements	-	(886)	(886)
Balance as at 31 October 2015	3,871	20,471	24,342

The table below sets out the gross values and net values, after the impact of specific provisions, of all loans that are deemed to be non performing:

	31 October 2016 \$000	31 October 2015 \$000
Gross – non performing	12,948	3,871
Net of individual impairments	5,001	-

18. Investment securities

	31 October 2016 \$000	31 October 2015 \$000
Investment securities measured at amortised cost:		
Asset-backed securities (unlisted)*	57,199	49,212
Bills discounted (unlisted)	-	12,602
Available-for-sale investment securities:		
Leverage buy-out funds (unlisted)	-	2,396
Government bonds (listed)	2,176,046	1,884,917
Asset-backed securities (listed)	-	-
Equities (unlisted)	1,923	2,432
Total	2,235,168	1,951,559

*This represents the Company's investments in Special Purpose Vehicle ("SPV") units which are carried at amortised cost.

Notes to the revised financial statements (continued)

19. Repurchase agreements and other similar secured borrowing

	31 October 2016 \$000	31 October 2015 \$000
Open maturity	4,054,668	1,400,477
Repayable on demand	4,491,306	1,582,072
Repayable in not more than three months	2,300,781	3,496,483
Repayable in more than three months but less than one year	263,003	1,231,628
Total	11,109,758	7,710,660

Transfer of financial assets

The Company enters into transactions in the normal course of business by which it transfers recognised financial assets directly to third parties. Such financial assets are debt securities held by counterparties under repurchase agreements and do not qualify for derecognition. The following tables analyse the carrying amount of such financial assets as at 31 October that did not qualify for derecognition and their associated financial liabilities:

	2016		2015	
	Carrying amount of transferred assets \$000	Carrying amount of associated liabilities \$000	Carrying amount of transferred assets \$000	Carrying amount of associated liabilities \$000
Nature of transaction				
Repurchase agreements	2,434,789	2,521,067	3,317,580	3,318,812
Total	2,434,789	2,521,067	3,317,580	3,318,812

Notes to the revised financial statements (continued)

20. Property and equipment

	Leasehold Improvements \$000	Fixtures & Fittings \$000	Information Technology \$000	Total \$000
Cost				
At beginning of year	11,695	2,060	5,025	18,780
Additions	222	8	868	1,098
Disposals	-	-	-	-
At end of year	11,917	2,068	5,893	19,878
Depreciation and diminution in value				
At beginning of year	11,039	1,906	4,724	17,669
Charge for year	389	73	236	698
At end of year	11,428	1,979	4,960	18,367
Net book value				
At 31 October 2016	489	89	933	1,511
At 31 October 2015	656	154	301	1,111
	Leasehold Improvements \$000	Fixtures & Fittings \$000	Information Technology \$000	Total \$000
Cost				
At beginning of year	11,695	2,060	4,795	18,550
Additions	-	-	230	230
Disposals	-	-	-	-
At end of year	11,695	2,060	5,025	18,780
Depreciation and diminution in value				
At beginning of year	8,566	1,682	4,277	14,525
Charge for year	2,473	224	447	3,144
At end of year	11,039	1,906	4,724	17,669
Net book value				
At 31 October 2015	656	154	301	1,111
At 31 October 2014	3,129	378	518	4,025

Notes to the revised financial statements (continued)

21. Deferred tax assets and liabilities

The deferred tax asset is attributable to the following:

	31 October 2016	31 October 2015
	\$000	\$000
Property, plant and equipment	1,534	1,787
Available-for-sale financial assets	-	(272)
Provisions	458	1,513
Shared-based payment transactions	-	44
Others	(801)	(129)
Total	1,191	2,943

The main corporation tax rate will reduce from 20% to 19% from 1 April 2017 and will further reduce to 17% from 1 April 2020. A banking surcharge of 8% on total taxable profits, effective from 1 January 2016, was also introduced as part of the Finance Bill 2015.

Deferred tax assets and liabilities at 31 October 2016 have therefore been calculated using an average tax rate to apply in the next five financial years of 26.78%, as we would expect the majority of deferred tax balances to unwind within five years.

22. Other assets

	31 October 2016	31 October 2015
	\$000	\$000
Accounts receivable and prepayments	247,731	39,869
Accrued income	43,218	51,655
Restricted deposits with central banks	12,149	12,657
Base metals inventory	772,964	1,285,028
Others	32,479	46,717
Total	1,108,541	1,435,926

Restricted deposits with central banks are not available for the use in the Company's day-to-day operations.

Notes to the revised financial statements (continued)

23. Deposits from banks – group companies

	31 October 2016	31 October 2015
	\$000	\$000
Repayable on demand	5,588	258,726
Repayable in not more than three months	2,983,519	1,057,702
Repayable in more than three months but less than one year	4,412,646	5,876,529
Total	7,401,753	7,192,957

24. Deposits from banks – others

	31 October 2016	31 October 2015
	\$000	\$000
Repayable on demand	134,219	1
Total	134,219	1

25. Deposits from customers

	31 October 2016	31 October 2015
	\$000	\$000
Repayable on demand	174,506	172,688
Repayable in not more than three months	1,250	11,898
Total	175,756	184,586

Notes to the revised financial statements (continued)

26. Other liabilities

	31 October 2016 \$000	31 October 2015 \$000
Employee cost accruals:		
Share-based payments	113	162
Cash bonuses	18,268	26,738
Leasehold incentive	1,106	1,553
Creditors and accruals	300,752	53,334
Re-structuring provision	572	-
Others	34,160	173
Total	354,971	81,960

Leasehold incentive in the above table has a maturity profile of over one year.

27. Share capital

Called up share capital

	31 October 2016	31 October 2015
Authorised		
Ordinary shares of \$1.5963 each	1,000,000,000	1,000,000,000

	31 October 2016		31 October 2015
	No. of shares	Value \$000	No. of shares Value \$000
Allotted, called up and fully paid			
Ordinary shares of \$1.5963 each	617,550,000	985,795	617,550,000 985,795
	617,550,000	985,795	617,550,000 985,795

Notes to the revised financial statements (continued)

Dividends

The aggregate amount of dividends comprises:

	2016 \$000	2015 \$000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	74,464	43,237
Interim dividends paid in respect of the current year	42,050	41,650
Total	116,514	84,887

The aggregate amount of dividends proposed and not recognised as liabilities as at the year-end is \$72.0 million (2015: \$74.5 million).

Dividends paid out per share are:

	2016 \$ cents	2015 \$ cents
Ordinary shares	18.87	13.75

28. Off-balance sheet items

Contingent liabilities and commitments are credit-related instruments, which include acceptances, letters of credit, guarantees and underwriting commitments to extend credit. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client defaults.

	31 October 2016 \$000	31 October 2015 \$000
Contingent liabilities:		
Guarantees and letters of credit	4,808	6,725
Commitments:		
Agreed further credit facilities	4,090,607	4,158,618
Undrawn commitment to limited partnership investment funds	-	8,650
Underwriting commitments	-	69,040
Total	4,095,415	4,243,033

Notes to the revised financial statements (continued)

29. Related parties

Parent and ultimate controlling party

The immediate and ultimate Parent company is The Bank of Nova Scotia ("BNS"), which is incorporated in Canada. The copies of the group accounts of The Bank of Nova Scotia are available from Public & Corporate Affairs, Scotia Plaza, 44 King Street West, Toronto, Ontario, M5H 1H1, Canada; and the Company's official website (<http://www.scotiabank.com>).

The financial results of the Company are included in the BNS Group accounts. Related party transactions are made on terms that are equivalent to those that prevail arm's length transactions.

Transactions with related parties

The amounts outstanding with related parties are as follows:

Included within:	31 October 2016 \$000	31 October 2015 \$000
Cash and cash equivalents	85,899	29,109
Trading assets	43,715	96,469
Derivative assets held for risk management	15,986	1,917
Reverse repurchase agreements and other similar secured lending	2,201,686	1,777,697
Other assets	12,512	1,494
Total assets pertaining to related parties	2,359,798	1,906,686
Trading liabilities	142,858	184,399
Derivative liabilities held for risk management	22,689	14,298
Deposits from banks – group companies	7,398,519	7,192,957
Repurchase agreements and other similar secured borrowing	2,993,891	2,883,885
Other liabilities	26,772	27,275
Total liabilities pertaining to related parties	10,584,729	10,302,814
Included within:	31 October 2016 \$000	31 October 2015 \$000 (restated)
Interest income	21,717	15,447
Interest expense	(45,246)	(37,925)
Fee and commission income	906	-
Fee and commission expense	(200)	(435)
Net trading income	50,607	71,347
Net income from other financial instruments	163	19
Other income	1,555	2,849
Personnel expenses	(45,279)	(62,121)
Operating lease expenses	(1,276)	(1,329)
Depreciation	(280)	(1,520)
Other expenses	(13,764)	(17,452)

Operating lease expenses and Depreciation

The operating lease of the premises is in the name of the Company. The Company incurs the lease and depreciation expenses and recharges a portion of the expenses to Group companies operating in London. The Operating lease expenses and Depreciation on the Statement of comprehensive income are shown on a gross basis for the Company. The prior year numbers have been restated accordingly.

Notes to the revised financial statements (continued)

Transactions with key management personnel

The directors' remuneration during the year is as follows:

	31 October 2016	31 October 2015
	£000	£000
Directors' remuneration	1,223	1,193
Amounts receivable under long term incentive schemes	204	344
Company contributions to pension schemes	58	45
Compensation for loss of office	582	-
Total	2,067	1,582

The emoluments of the highest paid director in respect of time spent on the Company were £864,340 (2015: £677,500). The highest paid director was not a member of a defined benefit pension scheme in either 2016 or 2015.

	31 October 2016	31 October 2015
	Number	Number
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	2	2
Defined contribution schemes	1	1
The number of directors who exercised share options was	0	0
The number of directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes was	3	3

The key management personnel (defined as the directors) compensation for the year comprised:

	31 October 2016	31 October 2015
	£000	£000
Short-term employee benefits	1,223	1,193
Post-employment benefits	58	45
Other long-term benefits	202	199
Share-based payment transactions	2	145
Compensation for loss of office	582	-
Total	2,067	1,582

Notes to the revised financial statements (continued)

30. Lease commitments

The Company leases office premises under an operating lease. The operating lease rentals are payable as follows:

	31 October 2016	31 October 2015
	\$000	\$000
Less than one year	2,313	2,478
Between one and five years	11,100	11,894
More than five years	11,331	15,115
Total	24,744	29,487

31. Post balance sheet events

There are no post balance sheet events.