

**SCOTIA CARIBBEAN INCOME FUND INC.**

Financial Statements

March 31, 2017

**SCOTIA CARIBBEAN INCOME FUND INC.**

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## **Independent Auditors' Report to the Directors**

### ***Opinion***

We have audited the financial statements of Scotia Caribbean Income Fund Inc. (the "Fund"), which comprise the statement of financial position as at March 31, 2017, the statements of comprehensive income, changes in net assets attributable to holders of investment shares and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

### ***Basis for Opinion***

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

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

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

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

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



## Independent Auditors' Report to the Directors (continued)

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

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

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

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

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

KPMG

June 27, 2017

SCOTIA CARIBBEAN INCOME FUND INC.

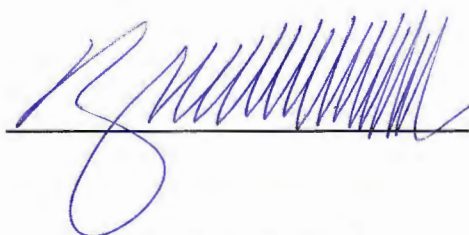
Statement of Financial Position

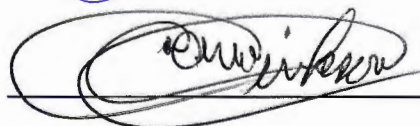
March 31, 2017

*(Expressed in United States Dollars)*

	Notes	2017	2016
<b>Assets</b>			
Cash and cash equivalents	4	\$ 8,920,695	10,253,911
Financial assets at fair value through profit or loss	5,16	105,161,457	83,072,401
Securities purchased under resale agreements	6,16	20,587,697	18,575,918
Other receivables	7	794,824	109,557
<b>Total Assets</b>		<u>135,464,673</u>	<u>112,011,787</u>
<b>Equity</b>			
Share capital	8	<u>1,000</u>	<u>1,000</u>
		<u>1,000</u>	<u>1,000</u>
<b>Liabilities</b>			
Balance due to brokers	9	6,024,670	1,686,367
Due to related parties	10	476,511	378,407
Accrued payables	11	<u>173,640</u>	<u>105,774</u>
<b>Total Liabilities (excluding net assets attributable to holders of investment shares)</b>		<u>6,674,821</u>	<u>2,170,548</u>
<b>Net assets attributable to holders of investment shares</b>	12	<u>\$ 128,788,852</u>	<u>109,840,239</u>

Authorised for issue by the Board of Directors and signed on its behalf by:

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

The notes on pages 7 to 29 are an integral part of these financial statements.

**SCOTIA CARIBBEAN INCOME FUND INC.**

## Statement of Comprehensive Income

For the year ended March 31, 2017

*(Expressed in United States Dollars)*

	Notes	2017	2016
Interest income	\$	5,515,970	4,398,328
Dividend income		-	63,451
Other income		77,332	25,087
Net realized gain on financial assets through profit or loss		816,194	63,074
Net change in unrealized gain/(loss) on financial assets at fair value through profit or loss		<u>475,009</u>	<u>(1,034,471)</u>
<b>Total revenue</b>		<u>6,884,505</u>	<u>3,515,469</u>
Fund manager fees	10,13	(1,890,301)	(1,533,648)
Administrator fees	13	(591,797)	(552,840)
Custodian fees	13	(25,276)	(33,594)
Other expenses		(45,226)	(40,634)
Audit fees		(16,954)	(21,134)
Legal fees		<u>(3,098)</u>	<u>(6,815)</u>
<b>Total operating expenses</b>		<u>(2,572,652)</u>	<u>(2,188,665)</u>
<b>Operating profit before finance costs</b>		<u>4,311,853</u>	<u>1,326,804</u>
Dividends to holders of investment shares		<u>(2,990,505)</u>	<u>(2,305,394)</u>
<b>Total finance costs</b>		<u>(2,990,505)</u>	<u>(2,305,394)</u>
<b>Increase/(decrease) in net assets attributable to holders of investment shares before income tax</b>		1,321,348	(978,590)
Income tax expense	14	<u>-</u>	<u>-</u>
<b>Increase/(decrease) in net assets attributable to holders of investment shares after income tax</b>		<u>\$ 1,321,348</u>	<u>(978,590)</u>

*The notes on pages 7 to 29 are an integral part of these financial statements.*

**SCOTIA CARIBBEAN INCOME FUND INC.**

Statement of Changes in Net Assets Attributable to Holders of Investment Shares

For the year ended March 31, 2017

*(Expressed in United States Dollars)*

	<b>2017</b>	<b>2016</b>
<b>Balance as at April 1</b>	\$ 109,840,239	90,352,735
Increase/(decrease) in net assets attributable to holders of investment shares after income tax	<u>1,321,348</u>	<u>(978,590)</u>
Subscriptions of investment shares	111,161,587	89,374,145
Reinvestment of investment shares	34,835,425	29,039,588
Redemption of investment shares	2,591,824	2,030,875
	<u>(19,799,984)</u>	<u>(10,604,369)</u>
<b>Total subscriptions, reinvestments and redemptions by holders of investment shares during the year</b>	<u>17,627,265</u>	<u>20,466,094</u>
<b>Balance as at March 31</b>	<u>\$ 128,788,852</u>	<u>109,840,239</u>

*The notes on pages 7 to 29 are an integral part of these financial statements.*

**SCOTIA CARIBBEAN INCOME FUND INC.**

## Statement of Cash Flows

For the year ended March 31, 2017

*(Expressed in United States Dollars)*

	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities</b>		
Increase/(decrease) in net assets attributable to holders of investment shares after income tax	\$ 1,321,348	(978,590)
<b>Adjustments for:</b>		
Dividends paid to holders of investment shares	2,990,505	2,305,394
Net realized gain on financial assets at fair value through profit or loss	(816,194)	(63,074)
Net change in unrealized (gain)/loss on financial assets at fair value through profit or loss	(475,009)	1,034,471
	<u>3,020,650</u>	<u>2,298,201</u>
Interest received, net	515,269	881,320
Proceeds from sale of investments	24,211,777	41,141,325
Purchase of investments	(45,536,678)	(50,743,325)
Net non-interest payments for purchase and resale agreements	(2,000,000)	(10,395,462)
(Increase)/decrease in other receivables	(685,267)	197,230
Increase in due to related parties	98,104	73,192
Increase in balance due to brokers	4,338,303	1,686,367
Increase in accrued payables	67,866	7,961
<b>Net cash used in operating activities</b>	<u>(15,969,976)</u>	<u>(14,853,191)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issued shares	34,835,425	29,039,588
Proceeds from reinvested shares	2,591,824	2,030,875
Payments on redemption of investment shares	(19,799,984)	(10,604,369)
Dividends paid to holders of investment shares	(2,990,505)	(2,305,394)
<b>Net cash from financing activities</b>	<u>14,636,760</u>	<u>18,160,700</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	(1,333,216)	3,307,509
Cash and cash equivalents at beginning of year	<u>10,253,911</u>	<u>6,946,402</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 8,920,695</u>	<u>10,253,911</u>

*The notes on pages 7 to 29 are an integral part of these financial statements.*



## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements

March 31, 2017

*(Expressed in United States Dollars)*

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### 1. Reporting Entity

Scotia Caribbean Income Fund Inc. (the “Fund”) was incorporated on March 29, 2006 in Saint Lucia. The Fund is also licensed under the Saint Lucia International Mutual Fund Act as a public international mutual fund. On November 27, 2006 and on January 11, 2007; the Fund was registered under the Companies Act of Jamaica and Trinidad and Tobago, respectively. The Fund is registered under the Trinidad and Tobago Securities & Exchange Commission (SEC) as a reporting issuer. On September 7, 2009, the Fund was registered under the Companies Law of the Cayman Islands and on September 17, 2009, the Fund was registered under the Mutual Funds Law of the Cayman Islands.

The registered office of the Fund is located at 20 Micoud Street, Castries, Saint Lucia.

The Fund’s investment objective is to provide a regular stream of income and modest capital gains by investing primarily in US dollar denominated fixed income securities issued or guaranteed by governments or government sponsored agencies of a country in the Caribbean region, as well as money market and longer term fixed income securities issued by non-government issuers in accordance with the Investment Policy below. The Fund may also invest in other income generating securities, which may include dividend paying shares.

The investment activities of the Fund are managed by Scotia Asset Management (St. Lucia) Inc. (the “Fund Manager”). The custodian activities are performed by State Street Bank and Trust Company Ltd (the “Custodian”), which is an independent entity and is not a related party to the Fund Administrator or the Fund Manager. The Fund administrator is ADCO Inc. (the “Fund Administrator”), a company incorporated in Saint Lucia. The Fund Administrator has appointed State Street Cayman Trust Company Ltd., a trust company duly organised under the laws of the Cayman Islands as Fund Sub-Administrator. The Fund has no employees. The distributors of the Fund are Scotia Investments Jamaica Limited (SIJL) and Scotia Investments Trinidad & Tobago (SITT).

### 2. Basis of Preparation

#### (a) *Statement of compliance*

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and interpretations adopted by the International Accounting Standards Board.

The financial statements were authorised for issue by the Directors on June 27, 2017.

#### (b) *Basis of measurement*

The financial statements are prepared on a fair value basis in respect of financial assets and financial liabilities that are measured at fair value through profit or loss. Other financial assets and financial liabilities are stated at amortised cost or redemption amount.

#### (c) *Functional currency*

The financial statements are presented in United States Dollar (“US\$”), which is the functional currency of the Fund. All financial information presented in US\$ has been rounded to the nearest dollar.

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2017

*(Expressed in United States Dollars)*

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### **2. Basis of Preparation (Cont'd)**

#### *(d) Use of estimates and judgements*

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of, and disclosures relating to, assets, liabilities, contingent assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are readily apparent from other sources. Actual amounts could differ from those estimates.

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

There are no significant assumptions and judgements applied in these financial statements giving rise to a risk of material adjustment in the next financial year.

### **3. Significant Accounting Policies**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

#### *(a) Foreign currency transactions*

Transactions in foreign currencies are translated to the Fund's functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Foreign currency differences arising on retranslation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

'Functional currency' is the currency of the primary economic environment in which the Fund operates. If indicators of the primary economic environment are mixed, then management uses its judgment to determine the functional currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. The majority of the Fund's investments and transactions are denominated in United States dollars. Accordingly, management has determined that the functional currency of the Fund is United States dollars.

#### *(b) Financial assets and financial liabilities:*

##### *(i) Recognition and initial measurement*

Financial assets and liabilities at fair value through profit or loss are recognised initially on the trade date at which the Fund becomes party to the contractual provisions of the instrument. Other financial assets and liabilities are recognised on the date they are originated.

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2017

*(Expressed in United States Dollars)*

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### 3. Significant Accounting Policies (Cont'd)

#### (b) Financial assets and financial liabilities (Cont'd):

##### (i) Recognition and initial measurement (Cont'd)

Financial assets and liabilities at fair value through profit or loss are recognised initially at fair value, with transaction costs recognised in profit or loss. Financial assets and liabilities not at fair value through profit or loss are measured initially at fair value, plus transaction costs that are directly attributable to their acquisition or issue.

##### (ii) Classification

The Fund has classified financial assets and liabilities into the following categories:

Financial assets at fair value through profit or loss:

- Designated as at fair value through profit or loss – debt securities

Financial assets at amortised cost:

- Loans and receivables – cash and cash equivalents, other receivables and securities purchased under resale agreements.

Financial liabilities measured at cost:

- Other liabilities – due to related parties, balance due to brokers and accrued payables.

##### (iii) Amortised cost measurement

- The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the amount recognized and the maturity amount, minus any reduction for impairment.

##### (iv) Fair value measurement

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

When available, the Fund measures the fair value of an instrument using the quoted prices in an 'active' market for that instrument. A market is regarded as active if the transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The Fund measures instruments quoted in an active market at a mid-price, because this price provides a reasonable approximation of the exit price.

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2017

*(Expressed in United States Dollars)*

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### 3. Significant Accounting Policies (Cont'd)

#### (b) Financial assets and financial liabilities (Cont'd)

##### (iv) Fair value measurement (Cont'd)

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

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

The fair values of cash and cash equivalents, other receivables, due to related parties, balance due to brokers and accrued payables are assumed to approximate to their carrying values, due to their short-term nature. The fair value of resale agreements is assumed to approximate their carrying value as they are subject to repricing in the short-term at market rate.

All changes in fair value are recognised in profit or loss.

##### (v) Identification and measurement of impairment

A financial asset not classified at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset or a group of financial assets is 'impaired' if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset(s) and that loss event(s) had an impact on the estimated future cash flows of that asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of the amount due on terms that the Fund would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, or adverse changes in the payment status of the borrowers.

- Calculation of recoverable amount:

The recoverable amount of the Fund's receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2017

*(Expressed in United States Dollars)*

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### 3. Significant Accounting Policies (Cont'd)

#### (b) Financial assets and financial liabilities (Cont'd)

##### (v) Identification and measurement of impairment (Cont'd)

- Reversals of impairment:

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

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

##### (vi) Derecognition

The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the fund neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset. The Fund uses the weighted average method to determine realised gains and losses on derecognition.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset that is derecognised) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in the statement of comprehensive income. Any interest in such transferred financial assets that is created or retained by the Fund is recognised as a separate asset or liability.

The Fund enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all of the risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all of the risks and rewards include reverse sale and repurchase transactions.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

##### (vii) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund has a legal right to offset the amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis for gains and losses from financial instruments at fair value through profit or loss and foreign exchange gains and losses.

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2017

*(Expressed in United States Dollars)*

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### 3. Significant Accounting Policies (Cont'd)

#### (b) Financial assets and financial liabilities (Cont'd)

##### (viii) Specific instruments

###### Cash and cash equivalents

Cash and cash equivalents comprise deposits with banks and highly liquid financial assets with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their carrying value and are used by the Fund in the management of short-term commitments, other than cash collateral provided in respect of derivatives, securities sold and securities borrowing transactions.

###### Securities purchased under resale agreements

When the Fund purchases a financial asset and simultaneously enters into an agreement to resell the same or substantially similar asset at a fixed price on a future date (reverse sale and repurchase agreement), the arrangement is accounted for as a loan and receivable, and recognised in the statement of financial position as a receivable from a reverse sale and repurchase agreement, and the underlying asset is not recognised in the Fund's financial statements.

Securities borrowed by the Fund are not recognised in the statement of financial position. If the Fund subsequently sells the borrowed securities, then the arrangement is accounted for as a short sold position, recognised in the statement of financial position as a financial liability at fair value through profit or loss (FVTPL), classified as held-for-trading and measured at FVTPL.

Reverse repos are accounted for as short-term collateralised lending and are classified as loans and receivables and measured at amortised cost.

###### Investment Shares

The investment shares are classified as financial liabilities and are measured at the present value of the redemption amounts.

#### (c) Interest income

Interest income is recognised in the statement of comprehensive income as it accrues using the effective interest method.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument (or, when appropriate, a shorter period) to the carrying amount of the financial instrument. When calculating the effective interest rate, the Fund estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. Interest received or receivable, and interest paid or payable, are recognised in the statement of comprehensive income as interest income and interest expense, respectively.

#### (d) Dividend income

Dividend income is recognised in profit or loss on the date on which the right to receive payment is established. For quoted equity securities, this is usually the ex-dividend date.

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2017

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*(Expressed in United States Dollars)*

### 3. Significant Accounting Policies (Cont'd)

(d) *Dividend income (Cont'd)*

For unquoted equity securities, this is usually the date on which the shareholders approve the payment of a dividend. Dividend income from equity securities designated as at FVTPL is recognised in profit or loss in a separate line item.

(e) *Expenses*

All expenses, including management fees and custodian fees, are recognised in the statement of comprehensive income on the accrual basis.

(f) *Accrued payables*

Accrued payables are stated at cost.

(g) *Dividends to holders of investment shares*

The Fund may distribute up to 100% of its net earned income (comprehensive income excluding the net change in fair value of financial assets at fair value through profit or loss and dividend income) during the calendar quarter for which the distribution will be made, by the last business day of each calendar quarter, subject to any relevant factors which may mitigate against that level of distribution being made.

Under the Caricom Tax Treaty, dividends paid by the Fund to shareholders who are resident in another Caricom member state which has incorporated the provisions of the Caricom Tax Treaty into its domestic law, will only be liable to income tax in the Caricom member state where the fund is resident (Saint Lucia), and such liability is at the rate of zero per cent (0%).

Dividends payable to holders of investment shares are recognized in the statement of comprehensive income as finance costs.

(h) *Net gain on financial assets at fair value through profit or loss*

Net gain from financial instruments at fair value through profit or loss includes all realised and unrealised fair value changes and foreign exchange differences, but excludes interest and dividend income.

(i) *Shares*

The Fund classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

The Fund has two types of shares in issue: investment shares and governance shares. The rights and obligations of different shares are explained in note 8 and 12. All investment shares are redeemable shares issued by the Fund and provide the investors with the right to require redemption for cash at a value proportionate to the investor's share in the Fund's net assets at the redemption date. In accordance with IAS 32 such instruments give rise to a financial liability for the present value of the redemption amount.

(j) *New standards, amendments and interpretations issued but not yet effective*

A number of new standards and amendments to standards are effective for annual periods beginning after April 1, 2016 and earlier application is permitted; however, the Fund has not early applied the following new or amended standards in preparing these financial statements. The two new standards potentially relevant to the Fund are discussed below. The Fund does not plan to adopt these standards early.

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2017

*(Expressed in United States Dollars)*

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### 3. Significant Accounting Policies (Cont'd)

(j) *New standards, amendments and interpretations issued but not yet effective (Cont'd)*

- IFRS 9, *Financial Instruments*, which is effective for annual reporting periods beginning on or after January 1, 2018, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities, including a new expected credit loss model for calculating impairment of financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) - are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different. IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognized.

The Fund is assessing the impact that the standard will have on its 2019 financial statements.

### 4. Cash and Cash Equivalents

	<b>2017</b>	<b>2016</b>
Cash at bank	\$ 8,920,695	1,751,160
Short-term investments	-	8,502,751
<b>Total</b>	<u>\$ 8,920,695</u>	<u>10,253,911</u>

During the year the Fund earned interest amounting to \$6,330,506 (2016 - \$5,341,022) which is gross of amortization of \$814,536 (2016 - \$942,693).



## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2017

*(Expressed in United States Dollars)*

### 5. Financial Assets at Fair Value Through Profit or Loss

The Fund's portfolio of investments at fair value through profit or loss is comprised of:

			2017	2016
Government of Jamaica - 7.63%	2025	\$	7,945,750	7,252,115
Government of Jamaica - 6.75%	2028		7,568,241	-
Government of Aruba - 4.63%	2023		6,863,500	4,728,500
National Road Operating and Construction Company - 9.38%	2024		6,517,728	2,088,747
Petroleum Company Trinidad and Tobago - 9.75%	2019		6,313,824	4,035,506
Sagicor Finance Ltd - 8.88%	2022		6,065,732	5,062,306
Cacao Jep Ltd - 10.25%	2019		4,659,191	3,463,219
Republic of Trinidad and Tobago - 4.50%	2026		4,642,696	-
Commonwealth Of Bahamas - 5.75%	2024		3,772,000	-
Grupo Unicomer Ltd - 7.88%	2024		3,657,500	-
Government of Bermuda - 4.85%	2024		3,158,010	2,097,600
Dominican Republic - 5.50%	2025		3,060,000	2,992,500
Government of Cayman Islands - 5.95%	2019		2,891,598	2,981,440
Panama Bonos Del Tesoro - 5.63%	2022		2,725,485	2,186,540
Instituto Costarricense de Electricidad - 6.95%	2021		2,526,000	2,060,625
Government of Costa Rica - 9.99%	2020		2,365,925	24,275
Republic of Trinidad and Tobago - 4.38%	2024		2,194,500	2,299,000
Dominican Republic - 5.88%	2024		2,095,000	1,025,000
Republic of Paraguay - 4.63%	2023		2,051,531	1,516,875
Jamaica Public Service - 11.00%	2021		1,641,595	195,124
Government of Aruba - 6.55%	2018		1,589,973	1,646,250
Trinidad Generation Unlimited - 5.25%	2027		1,489,768	-
Global Bank Corporation - 4.50%	2021		1,485,750	-
Government of Costa Rica - 4.25%	2023		1,449,375	-
Republic of Trinidad and Tobago - 9.75%	2020		1,948,505	2,073,838
Republic of Colombia - 11.75%	2020		1,888,125	1,970,250
Government of Jamaica - 8.50%	2036		1,191,250	-
Government of Barbados - 7.00%	2022		1,185,694	1,584,937
Government of Jamaica - 5.25%	2020		1,037,266	1,039,252
PBS Medium Term Bond - 7.75%	2020		1,005,123	1,008,253
Dominican Republic - 7.50%	2021		882,000	868,000
Republic of Guatemala - 5.75%	2022		876,000	876,000
Banco de Costa Rica - 4.88%	2018		789,750	776,100
Petrobras Global Finance Company - 3.00%	2019		684,247	-
Dominican Republic - 6.60%	2024		542,500	530,000
Government of Mexico - 5.95%	2019		538,750	557,500
Banco de Costa Rica - 5.25%	2018		506,875	506,250
Bank of Jamaica - 4.75%	2018		503,049	-
Government of Barbados - 7.80%	2019		463,580	667,628
Republic of Panama - 9.38%	2023		320,656	333,125
Government of Jamaica - 11.63%	2022		201,930	195,252
Republic of Brazil - 8.00%	2018		115,164	235,889
<b>Balance carried forward</b>		<b>\$</b>	<b>103,411,136</b>	<b>58,877,896</b>

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2017

*(Expressed in United States Dollars)*

### 5. Financial Assets at Fair Value Through Profit or Loss (Cont'd)

The Fund's portfolio of investments at fair value through profit or loss is comprised of (Cont'd):

<b>Balance brought forward</b>		<b>\$ 103,411,136</b>	<b>58,877,896</b>
Dominican Republic - 9.04%	2018	112,899	231,711
Petroleum Company Trinidad and Tobago - 6.00%	2022	89,604	101,698
Government of Mexico - 8.00%	2022	62,000	64,125
Republic of El Salvador - 7.38%	2019	-	1,194,000
Government of Bermuda - 5.60%	2020	-	1,961,232
Government of Jamaica - 10.63%	2017	-	7,687,539
Government of Jamaica - 8.00%	2019	-	6,024,750
Petrobras Global Finance Company - 3.50%	2017	-	590,520
Republic of Bahamas - 5.75%	2024	-	2,055,000
		<u>103,675,639</u>	<u>78,788,471</u>
Accrued interest		1,485,818	1,198,330
<b>Total debt securities</b>		<b>\$ 105,161,457</b>	<b>79,986,801</b>
<b>Mutual funds</b>			
		<b>2017</b>	<b>2016</b>
Blackrock Global Funds		\$ -	-
MFS Meridian Funds		-	3,085,600
		<u>\$ -</u>	<u>3,085,600</u>
<b>Total securities</b>		<b>\$ 105,161,457</b>	<b>\$ 83,072,401</b>

### 6. Securities Purchased Under Resale Agreements

	<b>2017</b>	<b>2016</b>
Securities purchased under resale agreements	\$ 20,500,000	18,500,000
Accrued interest	<u>87,697</u>	<u>75,918</u>
	<u>\$ 20,587,697</u>	<u>18,575,918</u>

The fair value of underlying securities used to collateralize securities purchased under resale agreements is \$20,795,000 (2016 - \$19,369,000).

At March 31, 2017 \$4,508,486 (2016 - \$7,011,401) of securities purchased under resale agreements are to be matured within 90 days and \$16,079,211 (2016 - \$11,564,517) to be matured between 91 to 365 days.

### 7. Other Receivables

Other receivables are stated at cost, less impairment losses. Other receivables include a receivable for fund shares sold in the amount of \$794,824 (2016 - \$109,557).

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2017

*(Expressed in United States Dollars)*

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### 8. Share Capital

Authorised, issued and fully paid

	<b>2017</b>	<b>2016</b>
Governance shares of no par value (units)	<u>100</u>	<u>100</u>
100 Governance Shares	<u>\$ 1,000</u>	<u>1,000</u>

The rights and obligations of governance shares are as follows:

The Governance Shares:

- (i) rank pari passu as between and among themselves;
- (ii) have full voting rights, with one vote for each such share;
- (iii) do not have any ownership participation; and
- (iv) apart from their voting rights, have no economic rights or entitlements save for the right on a winding up to the repayment of the capital paid thereon after all the investment shares have been repaid in full.

### 9. Balance due to brokers

The balance due to brokers represent amounts payable and are purchase transactions awaiting settlement for securities purchased but not yet settled as at the reporting date. At the year end, the balance due to brokers was \$6,024,670 (2016 - \$1,686,367)

### 10. Related Party Transactions

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

A party is related to the Fund, if:

- (a) A person or a close member of that person's family is related to a reporting entity if that person:
  - (i) has control or joint control over the reporting entity;
  - (ii) has significant influence over the reporting entity; or
  - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- (b) An entity is related to a reporting entity if any of the following conditions applies:
  - (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2017

*(Expressed in United States Dollars)*

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### 10. Related Party Transactions (Cont'd)

- (b) An entity is related to a reporting entity if any of the following conditions applies (Cont'd):
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
  - (vi) The entity is controlled, or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

*Due to related parties:*

	2017	2016
Due to Fund Manager – Scotia Asset Management (St. Lucia) Inc.	\$ <u>476,511</u>	<u>378,407</u>

The Fund has appointed the Fund Manager, a company registered in Saint Lucia as an International Business Company on April 21, 2009 and licensed as a Fund Manager in Saint Lucia, to provide investment advisory and fund management services. The Fund Manager appointed Scotia Asset Management (Jamaica) Limited, a company duly incorporated under the law of Jamaica and a dealer licensed by the Financial Services Commission in Jamaica, to implement the investment strategy and the administrative services. Investment management fees paid to the Fund Manager during the year was \$1,890,301 (2016 - \$1,533,648).

Included within cash and cash equivalents are amounts held with The Bank of Nova Scotia Jamaica Limited of \$nil (2016 - \$8,502,751), a company related by common control.

At March 31, 2017, all governance shares in the Fund were held by Scotia Investments Jamaica Limited.

### 11. Accrued Payables

Accrued payables are stated at amortised cost. Accrued payables include a payable for fund shares repurchased in the amount of \$43,609 (2016 - \$11,558).

**SCOTIA CARIBBEAN INCOME FUND INC.**

Notes to the Financial Statements (Cont'd)

March 31, 2017

*(Expressed in United States Dollars)***12. Net Assets Attributable to Holders of Investment Shares**

- (a) The analysis of movements in the number of investment shares and net assets attributable to holders of investment shares during the year was as follows:

	<b>2017</b>	<b>2016</b>
<i>Authorised investment shares</i>		
Investment shares of no par value (units)	<u><b>100,000,000</b></u>	<u><b>100,000,000</b></u>
<i>Issued and fully paid</i>		
<b>Number of Investment Shares</b>		
Balance at April 1	\$ 30,250,335	24,654,960
Subscriptions during the year	9,419,362	7,945,299
Reinvestment during the year	703,223	559,289
Redemptions during the year	<u>(5,330,046)</u>	<u>(2,909,213)</u>
Balance at March 31	<u>35,042,874</u>	<u>30,250,335</u>
<b>Balance as at April 1</b>	<b>\$ 109,840,239</b>	<b>90,352,735</b>
Increase/(decrease) in net assets attributable to holders of investment shares	1,321,348	(978,590)
Subscriptions of investment shares during the year	34,835,425	29,039,588
Reinvestment of investment shares during the year	2,591,824	2,030,875
Redemption of investment shares during the year	<u>(19,799,984)</u>	<u>(10,604,369)</u>
<b>Balance as at March 31</b>	<u>128,788,852</u>	<u>109,840,239</u>
Net asset value per investment share	<u>3.68</u>	<u>3.63</u>

The rights and obligations of investment shares are as follows:

The Investment Shares:

- (i) rank pari passu as between and among themselves for all purposes;
- (ii) together collectively comprise a 100% ownership participation;
- (iii) are redeemable by the Fund; and
- (iv) are non-voting and carry no voting rights on any matters, save and except that the investment shares shall carry one vote per investment share on any resolution for the following matters:
  - (a) the appointment of an investment manager of the Fund which is not Scotia Investments Jamaica Limited or a direct or indirect subsidiary of Scotia Investments Jamaica Limited, and;
  - (b) the appointment of any administrator or custodian of the Fund or the Fund's assets which is a related party to the investment manager of the Fund.

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2017

*(Expressed in United States Dollars)*

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### 12. Net Assets Attributable to Holders of Investment Shares (Cont'd)

(b) Reconciliation of net asset value of Fund to the net asset value per Investment Share:

	<b>2017</b>	<b>2016</b>
Net assets value of Fund	\$ 128,788,852	109,840,239
Less: Governance shares	<u>(1,000)</u>	<u>(1,000)</u>
	\$ <u>128,787,852</u>	<u>109,839,239</u>
Investment shares in issue at March 31	<u>35,042,874</u>	<u>30,250,335</u>
Net asset value per investment share	<u>\$ 3.68</u>	<u>3.63</u>

### 13. Administration, Management and Custodian fees

#### *Administrator fees*

The Fund Administrator shall be paid an annual fee up to \$15,000 for services rendered in accordance with the terms of the Fund Administration Agreement, out of the assets of the Fund. During the year the Fund Administrator was paid fees of \$2,545 (2016 - \$12,820).

The Fund Sub Administrator shall be paid a minimum annual fee of \$22,035 for services rendered in accordance with the terms of the Fund Sub Administration Agreement, out of the assets of the Fund, any other expenses are paid at cost as incurred. Sub administrator fees incurred during the year amounted to \$69,073 (2016 - \$61,035). These fees accrue daily and are paid quarterly in arrears.

The Fund Distributor(s) is/are entitled to receive an annual trailer fee of at an annual rate of 0.375% of the NAV of the Fund that is calculated and accrues daily and payable monthly in arrears based on the daily average net assets under management. A sub-distributor may be paid by its distributor out of this trailer fee. Trailer fees are included within administrator fees in the statement of comprehensive income. During the year trailer fees paid to the distributor amounted to \$443,040 (2016 - \$381,433).

Other administrator fees, which include transfer agent and other administrator fees amounted to \$77,139 (2016 - \$97,552). Total administrator fees included in the statement of comprehensive income amounted to \$591,797 (2016 - \$552,840).

#### *Fund manager fees*

The Fund Manager is entitled to receive an annual fee of at an annual rate of 1.60% of the NAV of the Fund that is calculated and accrues daily and payable quarterly in arrears based on the daily NAV of the Fund. These amounts are payable out of the assets of the Fund. The Fund management fees incurred during the year amounted to \$1,890,301 (2016 - \$1,533,648).

#### *Custodian fees*

The Custodian shall be paid a fee of up to 0.60% per annum of the Net Asset Value of the Fund calculated in accordance with the Custodian Agreement. The Custodian is also entitled to be reimbursed by the Fund for all its out of pocket disbursements (excluding its normal overhead costs) wholly and exclusively incurred in the performance of its duties for the Fund. During the year the Custodian was paid a fee of \$25,276 (2016 - \$33,594).

A fee for auditing services will also be payable out of the assets of the Fund.

**SCOTIA CARIBBEAN INCOME FUND INC.**

Notes to the Financial Statements (Cont'd)

March 31, 2017

*(Expressed in United States Dollars)***14. Income Tax Expense***(a) Incidence of Taxation:*

The Fund is liable to income tax in Saint Lucia on its taxable income at the rate of 1%.

A substantial part of the assets of the Fund comprises interest-bearing securities issued by Caricom member states, which have exempted such interest from income tax in the issuing state. Under the Taxation Agreement among Member States of the Caribbean Community for the Avoidance of Double taxation (the "Caricom Tax Treaty"), interest paid by an issuer of debt in one member state to a debt-holder in another member state is only taxable in the state in which it arises, and therefore interest on those securities will not be subject to tax in Saint Lucia.

*(b) Income tax expense*

	<b>2017</b>	<b>2016</b>
Income tax expense	\$ -	-
Reconciliation of applicable tax charge to effective tax charge:		
Profit (Loss) before income tax expense	\$ 1,321,348	(978,590)
Income tax at domestic rate of 1% (2016 - 1%)	\$ 13,213	(9,786)
Less: Tax effect of exempt income	(29,430)	(22,026)
Losses expiring	13,745	-
Deferred tax asset not recognized	2,472	
Unrealised fair value (gains)/losses	-	10,345
Adjustment for current year tax losses	-	21,467
Income tax expense	\$ -	-

At the end of the year, the Fund had income tax losses of \$11,204,949 (2016: \$10,397,192) to carry forward against future tax liabilities. These losses, which have not been confirmed or agreed by the Inland Revenue Department, will expire as follows if not utilised:

<b>Income year</b>	<b>Expiry year</b>	<b>Losses arising</b>	<b>Incurred/ (utilised)</b>	<b>Losses available</b>
		\$	\$	\$
2011	2017	1,288,929	(1,288,929)	-
2012	2018	1,578,954	-	1,578,954
2013	2019	1,767,734	-	3,346,688
2014	2020	1,863,866	-	5,210,554
2015	2021	1,750,947	-	6,961,501
2016	2022	2,146,762	-	9,108,263
2017	2023	2,096,686	-	11,204,949

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The deferred tax asset has not been recognised since it is uncertain that taxable profits will be available against which the deferred tax asset can be utilised.

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2017

*(Expressed in United States Dollars)*

### 15. Involvement with unconsolidated listed investment entities

The table below sets out interests held by the Fund in unconsolidated listed structured entities. The maximum exposure to loss is the carrying amount of the financial assets held. As of March 31, 2017, there were no interests held by the Fund in unconsolidated listed structured entities.

<b>31 March 2016</b>	<b>Number of investee funds</b>	<b>Total net assets</b>	<b>Carrying amount included in financial assets at fair value through profit or loss</b>
Investment in listed open-ended Funds			
MFS Meridian – Research Bond Fund	1	\$655,293,891	\$3,085,600
Total			\$3,085,600

During the year, the Fund did not provide financial support to unconsolidated structured entities and has no intention of providing financial or other support.

### 16. Financial Risk Management

By their nature, the Fund's activities are principally related to the use of financial instruments. Therefore, this will involve analysis, evaluation and management of some degree of risk or combination of risks. Taking these risks is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Fund's aim is therefore to achieve an appropriate balance between risks and return and minimise potential adverse effects on the Fund's financial performance.

#### Risk Management Framework

The Fund manages risk through a framework of risk principles, organisational structures and risk measurement and monitoring processes that are closely aligned with the activities of its business units. The Fund's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to date information systems. The Fund regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Centralised credit risk management and market and operational risk management departments execute the risk management functions, under the guidance of policies approved by the Board of Directors. The Committee has the responsibility of ensuring that risks are managed within the limits established by the Board of Directors. The Committee meets at least once a month to review risks, evaluate performance and provide strategic direction. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risk faced by the Fund from its use of financial instruments are credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate and other price risk.



## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2017

*(Expressed in United States Dollars)*

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### 16. Financial Risk Management (Cont'd)

#### Risk Management Framework (Cont'd)

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

- Credit risk
- Liquidity risk
- Market risk

(a) Credit risk:

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit exposures arise principally on the Fund's investment activities. The Fund structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single counterparty or groups of related counterparties and to geographical and industry segments.

The Fund limits its exposure to credit risk by investing mainly in securities with counterparties that have high credit quality when considered in the context of the Caribbean region.

The Fund has documented investment policies; these facilitate the management of credit risk on investment securities and resale agreements. The Fund's exposure and the credit ratings of its counterparties are continually monitored.

(i) Analysis of credit quality

The maximum exposure to credit risk on debt securities, before collateral held or other credit enhancements is as follows:

	2017	2016
S & P Rating		
AAA to A-	11.49%	10.26%
BBB+ to B-	72.91%	72.60%
CCC+ to C-	1.59%	0.00%
Not rated	14.01%	17.14%
<b>Total</b>	<u>100.00%</u>	<u>100.00%</u>

	2017	2016
<b>Investments</b>		
Financial assets at fair value through profit or loss	\$ 105,161,457	83,072,401
Securities purchased under resale agreements	<u>20,587,697</u>	<u>18,575,918</u>
<b>Total Investments</b>	<u>\$ 125,749,154</u>	<u>101,648,319</u>

**SCOTIA CARIBBEAN INCOME FUND INC.**

Notes to the Financial Statements (Cont'd)

March 31, 2017

*(Expressed in United States Dollars)***16. Financial Risk Management (Cont'd)****(a) Credit risk (Cont'd)****(i) Analysis of credit quality (Cont'd)**

Most of the Fund's financial assets are concentrated in the Caribbean region as follows:

	<b>Rating</b>	<b>2017</b>	<b>Rating</b>	<b>2016</b>
Banco de Costa Rica	NR	1,316,042	NR	1,301,767
Bank of Jamaica	NR	507,343	----	-
Cacao Jep Ltd	NR	4,664,310	NR	3,466,849
Dominican Republic	BB-	6,806,742	BB-	5,736,819
Global Bank Corporation	BBB-	1,516,313	----	-
Government of Aruba	BBB+	8,501,511	BBB+	6,418,857
Government of Barbados	CCC+	1,672,421	B	2,277,976
Government of Bermuda	A+	3,204,527	A+	4,093,411
Government of Cayman Islands	NR	2,947,474	NR	3,037,316
Government of Costa Rica	BB-	3,862,126	BB-	24,608
Government of Jamaica	B	18,291,929	B	22,668,053
Government of Mexico	BBB+	601,820	BBB+	622,695
Grupo Unicomer Ltd	BB-	3,661,438	----	-
Instituto Costarricense de Electricidad	NR	2,591,330	NR	2,117,789
Jamaica Public Service	NR	1,682,839	NR	199,877
MFS Meridian Funds	----	-	NR	3,085,600
National Road Operating and Construction Company	B	6,719,901	B	2,162,405
Panamá Bonos del Tesoro	BBB	2,762,545	BBB	2,207,165
PBS Medium Term Bond	NR	1,024,923	NR	1,027,840
Petrobas Global Finance BV	BB-	688,585	B+	593,728
Petroleum Company Trinidad and Tobago	BB	6,481,721	BB	4,189,926
Republic of Bahamas	BB+	3,816,083	BBB-	2,078,958
Republic of Brazil	BB	117,040	BB	239,642
Republic of Colombia	BBB	1,905,750	BBB	1,987,875
Republic of El Salvador	NR	-	B+	1,223,500
Republic of Guatemala	BB	890,694	BB	890,694
Republic of Panama	BBB	325,539	BBB	338,008
Republic of Paraguay	BB	2,068,278	BB	1,529,594
Republic of Trinidad and Tobago	A-	8,878,355	A	4,432,183
Sagicor Finance Ltd	BB-	6,132,061	B	5,119,266
Trinidad Generation Unlimited	BBB	1,521,817	----	-
		<u>\$ 105,161,457</u>		<u>83,072,401</u>

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2017

*(Expressed in United States Dollars)*

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### 16. Financial Risk Management (Cont'd)

#### (a) Credit risk (Cont'd)

##### (ii) Offsetting financial assets and financial liabilities

The Fund's securities purchased under resale agreement are not covered by master agreements with netting terms similar to those of ISDA master netting agreements.

None of the financial assets and financial liabilities is offset in the statement of financial position. The disclosures set out in note 6 include financial assets that are not subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments.

The similar agreements primarily include global master repurchase agreements. Similar financial instruments include sale and repurchase agreements, reverse sale and repurchase agreements, and securities borrowing agreements.

The Fund gives collateral in the form of cash and marketable securities in respect of the following transactions:

- Securities purchased under resale agreements

#### (b) Liquidity risk:

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

The Fund manages liquidity risk by ensuring, as far as possible, that it has adequate liquid assets to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the its reputation.

The residual contractual maturities of the Fund's financial liabilities are within one to three months.

#### (c) Market risk:

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Fund is exposed to market risk as the financial instruments subject to this risk represent a significant portion of its investments.

The Fund's strategy on the management of market risk is driven by the Fund's investment objective. The Fund's objective is to provide a regular stream of income and modest capital gains over time. The Fund's market risk is managed by the Investment Manager in accordance with policies and procedures approved by the Board.

##### (i) Foreign currency risk:

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Fund has no significant exposure to foreign currency risk as all financial assets and liabilities are in United States dollars.

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2017

(Expressed in United States Dollars)

### 16. Financial Risk Management (Cont'd)

#### (c) Market risk (Cont'd)

##### (ii) Interest rate risk:

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

Floating rate instruments expose the Fund to cash flow interest risk, whereas fixed interest rate instruments expose the Fund to fair value interest risk.

All financial liabilities are non-interest bearing.

The following table summarises the Fund's exposure to interest rate risk to earnings. It includes the Fund's financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity date.

2017		Less than 1 month	1-3 months	3 months - 1 year	Over 1 year	Non-Rate Sensitive	Total
<b>Assets</b>							
Cash and cash equivalents	\$	8,920,695	-	-	-	-	8,920,695
Financial assets at fair value through profit or loss		-	-	231,806	104,929,651	-	105,161,457
Securities purchased under resale agreements		2,005,063	2,503,423	16,079,211	-	-	20,587,697
Other receivables		-	-	-	-	794,824	794,824
<b>Total assets</b>	<b>\$</b>	<b>10,925,758</b>	<b>2,503,423</b>	<b>16,311,017</b>	<b>104,929,651</b>	<b>794,824</b>	<b>135,464,673</b>

2016		Less than 1 month	1-3 months	3 months - 1 year	Over 1 year	Non-Rate Sensitive	Total
<b>Assets</b>							
Cash and cash equivalents	\$	9,253,840	1,000,071	-	-	-	10,253,911
Financial assets at fair value through profit or loss		-	-	593,728	79,393,073	3,085,600	83,072,401
Securities purchased under resale agreements		-	7,011,401	11,564,517	-	-	18,575,918
Other receivables		-	-	-	-	109,557	109,557
<b>Total assets</b>	<b>\$</b>	<b>9,253,840</b>	<b>8,011,472</b>	<b>12,158,245</b>	<b>79,393,073</b>	<b>3,195,157</b>	<b>112,011,787</b>

#### Sensitivity analysis

The Fund is susceptible to interest rate risk arising from the exposure to debt securities. As at March 31, 2017, should interest rates have lowered or risen by 100 basis points with all other variables remaining constant, the decrease or increase, respectively, in net assets attributable to the holder of redeemable shares for the year ended would amount to an immaterial change arising from the decrease or increase, respectively, in interest receivable due to the Fund's exposure to debt securities. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2017

*(Expressed in United States Dollars)*

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### 16. Financial Risk Management (Cont'd)

(c) Market risk (cont'd):

(iii) Other price risk:

Other price risk is the risk that the value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting instruments traded in the market. As the majority of the Fund's financial instruments are carried at fair value with fair value changes recognised in the statement of comprehensive income, all changes in market conditions will directly affect profit or loss.

The Fund's exposure to price risk is represented by the total carrying value of investments on the statement of financial position of \$105,161,457 (2016 - \$83,072,401).

#### *Sensitivity analysis*

A 5% increase/decrease in prices at March 31, 2017, would have increased/decreased the surplus for the year and the net assets available to holders of fund units by \$5,258,073 (2016 - \$4,153,620).

### 17. Fair Value Disclosure

The Fund classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in determining the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instrument; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

**SCOTIA CARIBBEAN INCOME FUND INC.**

Notes to the Financial Statements (Cont'd)

March 31, 2017

*(Expressed in United States Dollars)***17. Fair Value Disclosure (Cont'd)**

The determination of what constitutes “observable” requires significant judgment by the Fund. The Fund considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following tables analyse within the fair value hierarchy the Fund’s financial assets and liabilities (by class) measured at fair value:

**Financial instruments measured at fair value****At March 31, 2017**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Balance</u>
Financial assets at fair value through profit or loss				
Government Issues	\$ -	67,160,179	-	67,160,179
Government Bonds	-	38,001,278	-	38,001,278
Total financial assets at fair value through profit or loss	\$ -	105,161,457	-	105,161,457

**At March 31, 2016**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Balance</u>
Financial assets at fair value through profit or loss				
Government Issues	\$ -	59,807,354	-	59,807,354
Government Bonds	-	20,179,447	-	20,179,447
Mutual Funds	-	3,085,600	-	3,085,600
Total financial assets at fair value through profit or loss	\$ -	83,072,401	-	83,072,401

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2017

*(Expressed in United States Dollars)*

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### 17. Fair Value Disclosure (Cont'd)

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, would include active listed equities, most exchange traded derivatives, many US government bills and certain non-US sovereign obligations. The Fund does not adjust the quoted price for these instruments.

Fair values are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are classified as Level 2, unless the measurement of its fair value requires the use of significant unobservable input, in which case it is reclassified as Level 3. For the year ended March 31, 2017, there were no securities transferred between Level 1 or 2.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs would be classified within Level 2. These include most investment-grade corporate bonds, investments in other funds where redemption is not restricted, certain non-US sovereign obligations, thinly traded listed equities and some over-the-counter derivatives.

As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

For the year ended March 31, 2017, the Fund did not have any Level 3 securities. There were no securities transferred in or out of Level 3.

#### **Financial instruments not measured at fair value**

The financial instruments not measured at fair value through profit or loss are short term financial assets and financial liabilities whose carrying amounts approximate fair value. These financial instruments are classified within Level 2 of the fair value hierarchy.