

**SCOTIABANK SHORT-TERM INCOME FUND INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2019**

**SCOTIABANK SHORT-TERM INCOME FUND INC.**

**INDEX TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2019**

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## *Independent auditor's report*

To the Board of Directors of Scotiabank Short-Term Income Fund Inc.

### *Report on the audit of the financial statements*

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#### *Our opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Scotiabank Short-Term Income Fund Inc. (the "Fund") as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

#### **What we have audited**

Scotiabank Short-Term Income Fund Inc.'s financial statements comprise:

- the statement of financial position as at December 31, 2019;
- the statement of comprehensive income (loss) for the year then ended;
- the statement of changes in net assets attributable to holders of redeemable investment shares for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies.

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#### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

#### **Independence**

We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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#### *Emphasis of Matter*

We draw attention to Note 2 to these financial statements, which states that on December 5, 2019, the Fund's Board of Directors approved the decision to transfer the Fund into the Scotia Money Market Fund effective March 30, 2020. These financial statements have therefore been prepared using a non-going concern basis of accounting. Our opinion is not modified in respect of this matter.

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## *Our audit approach*

### **Overview**

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- Overall materiality was determined based on the net assets attributable to holders of redeemable investment shares of the Fund.
  - The Fund is an open-ended investment company and has appointed Scotiabank & Trust (Cayman) Ltd. (the “Manager”) to manage its affairs and investments subject to the overall supervision and control of the Fund’s Board of Directors.
  - Valuation and existence of investments
- 

### **Audit scope**

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### **How we tailored the audit scope**

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the types of investments within the Fund, the involvement of the Manager and administrator, the accounting processes and controls, and the industry in which the Fund operates.

The Fund’s accounting is delegated to the administrator who maintain their own accounting records and controls and report to management.

As part of our risk assessment, we assessed the control environment to the extent relevant to our audit. This assessment of the operating and accounting structure included obtaining and reading the relevant control reports issued by the independent auditor of the administrator in accordance with generally accepted assurance standards for such work. We then identified those key controls at the administrator on which we could place reliance to provide audit evidence. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements, including whether we needed to perform additional testing in respect of those key controls to support our substantive work. For the purposes of our audit, we determined that additional testing of controls in place at the administrator was not required because additional substantive testing was performed.



## Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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<b><i>Overall materiality</i></b>	USD 34,000
<b><i>How we determined it</i></b>	1% of net assets attributable to holders of redeemable investment shares of the Fund
<b><i>Rationale for the materiality benchmark applied</i></b>	We have applied this benchmark, a generally accepted auditing practice for investment fund audits, in the absence of indicators that an alternative benchmark would be more appropriate and we believe this provides an appropriate and consistent year-on-year basis for our audit.

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## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Key audit matter	How our audit addressed the Key audit matter
<p><i>Valuation and existence of investments</i></p> <p>Refer to notes 3, 4 and 9 to the financial statements.</p> <p>The investment portfolio at December 31, 2019 is comprised of corporate bonds (USD 1.3m), government and agency bonds (USD 39k), Government T-bills (USD 94k) short-term investments (USD 77k), interest rate swaps (USD -6.9k) and forward foreign currency contracts (USD -13k).</p> <p>We focused on the valuation and existence of investments because investments represent the principal element of the net asset value as disclosed in the statement of financial position in the financial statements.</p>	<p>We tested the valuation of the investment portfolio as follows:</p> <ul style="list-style-type: none"><li>• for corporate bonds, government and agency bonds, Government T-bills and short-term investments we compared the prices used by the Fund to prices provided by third party data vendors;</li><li>• for interest rate swaps and forward foreign currency contracts we compared the prices used by the Fund to prices derived utilizing independent market data and generally accepted industry valuation models.</li></ul> <p>No material misstatements were identified.</p> <p>We tested the existence of the investment portfolio as follows:</p> <ul style="list-style-type: none"><li>• for corporate bonds, government and agency bonds, Government T-bills and short-term investments we agreed the holdings to custodian confirmations from State Street Bank and Trust Company and for interest rate swaps and forward foreign currency contracts we agreed the holdings to counterparty confirmations from State Street Bank and Trust Company or The Bank of Nova Scotia, as applicable.</li></ul> <p>No material misstatements were identified.</p>

*Other information*

Management is responsible for the other information. The other information comprises the Board of Directors Report and Management Report (but does not include the financial statements and our auditor’s report thereon), which is expected to be made available to us after the date of this auditor’s report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Board of Directors Report and Management Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.



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### *Responsibilities of management and those charged with governance for the financial statements*

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

In preparing the financial statements, management is responsible for assessing the 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.

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### *Auditor's responsibilities for the audit of the financial statements*

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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### *Other Matter*

This report, including the opinion, has been prepared for and only for the Fund in accordance with the terms of our engagement letter and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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The engagement partner on the audit resulting in this independent auditor's report is Brian Rando.

A handwritten signature in black ink that reads "PricewaterhouseCoopers". The signature is written in a cursive, flowing style.

March 26, 2020



**SCOTIABANK SHORT-TERM INCOME FUND INC.**

**STATEMENT OF FINANCIAL POSITION**

**AT DECEMBER 31, 2019**

(Expressed in United States dollars)

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,030,021	\$ 422,873
Financial assets at fair value through profit or loss:		
Debt securities (Cost: \$1,444,538; 2018: \$4,690,869) (Notes 3, 8 and 9)	1,486,066	4,569,320
Derivatives (Note 4)	-	104,782
Receivable from Manager (Note 5)	35,154	32,808
Interest receivable	16,001	58,479
	<u>3,567,242</u>	<u>5,188,262</u>
<b>LIABILITIES</b>		
Financial liabilities at fair value through profit or loss:		
Derivatives (Note 4)	19,943	5,443
Payable for investments purchased	80,173	-
Accrued expenses	43,697	32,888
Interest payable	7,640	26,915
Management fees (Note 5)	2,194	3,840
	<u>153,647</u>	<u>69,086</u>
Liabilities (excluding net assets attributable to holders of redeemable investment shares)		
	<u>153,647</u>	<u>69,086</u>
Governance shares	<u>100</u>	<u>100</u>
<b>Net assets attributable to holders of redeemable investment shares (Notes 7 and 8)</b>	<u>\$ 3,413,495</u>	<u>\$ 5,119,076</u>
Net asset value per redeemable investment shares (Note 7)		
Class A		
\$2,079,818/214,882 shares (2018: \$3,776,643/396,265 shares)	<u>\$ 9.68</u>	<u>\$ 9.53</u>
Class NU		
\$235,225/24,714 shares (2018: \$284,915/30,336 shares)	<u>\$ 9.52</u>	<u>\$ 9.39</u>
Class IU		
\$1,098,452/108,294 shares (2018: \$1,057,518/107,010 shares)	<u>\$ 10.14</u>	<u>\$ 9.88</u>

Approved for issuance on behalf of Scotiabank Short-Term Income Fund Inc.'s  
Board of Directors by:

Rhory McNamara

Rhory McNamara  
Director

Dwight Burrows

Dwight Burrows  
Director

Date : March 26, 2020

The accompanying notes are an integral part of these financial statements.

**SCOTIABANK SHORT-TERM INCOME FUND INC.**  
**STATEMENT OF COMPREHENSIVE INCOME (LOSS)**  
**YEAR ENDED DECEMBER 31, 2019**

(Expressed in United States dollars)

	<u>2019</u>	<u>2018</u>
<b>Income</b>		
Interest income	\$ 77,954	\$ 233,767
Other income	3,459	3,589
Net realized gain on financial assets and liabilities at fair through profit or loss, foreign currencies and swap contracts	24,947	47,383
Net change in unrealized appreciation (depreciation) on financial assets and liabilities at fair value through profit or loss, foreign currencies	<u>51,339</u>	<u>(117,308)</u>
Total net income	<u>157,699</u>	<u>167,431</u>
<b>Expenses</b>		
Custodian and administration fees	70,426	82,006
Other expenses	42,962	40,849
Professional fees	27,937	27,363
Management fees (Note 5)	<u>24,478</u>	<u>43,927</u>
Total operating expenses	165,803	194,145
Less: expenses reimbursed (Note 5)	<u>(137,132)</u>	<u>(112,110)</u>
Net operating expenses	<u>28,671</u>	<u>82,035</u>
<b>Operating profit</b>	<u>129,028</u>	<u>85,396</u>
<b>Finance costs</b>		
Distributions to holders of redeemable shares (Notes 2 and 7)	<u>39,965</u>	<u>100,358</u>
<b>Profit (loss) after distributions</b>	<u>89,063</u>	<u>(14,962)</u>
<b>Increase (decrease) in net assets from operations attributable to holders of redeemable investment shares</b>	<u>\$ 89,063</u>	<u>\$ (14,962)</u>

The accompanying notes are an integral part of these financial statements.

**SCOTIABANK SHORT-TERM INCOME FUND INC.**

**STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE  
TO HOLDERS OF REDEEMABLE INVESTMENT SHARES**

**YEAR ENDED DECEMBER 31, 2019**

(Expressed in United States dollars)

	<u>Share Capital</u>	<u>Share Premium</u>	<u>(Increase) Decrease in net assets from operations attributable to holders of redeemable investment shares</u>	<u>Total net assets attributable to holders of redeemable investment shares (at redemption value)</u>
Balance as at December 31, 2017	\$ 9,117	\$ 9,284,910	\$ (402,588)	\$ 8,891,439
Issue of redeemable investment shares	1,298	1,250,312	-	1,251,610
Redemption of redeemable investment shares	(5,078)	(5,003,933)	-	(5,009,011)
Decrease in net assets from operations attributable to holders of redeemable investment shares	<u>-</u>	<u>-</u>	<u>(14,962)</u>	<u>(14,962)</u>
Balance as at December 31, 2018	\$ 5,337	\$ 5,531,289	\$ (417,550)	\$ 5,119,076
Issue of redeemable investment shares	1,105	1,067,094	-	1,068,199
Redemption of redeemable investment shares	(2,963)	(2,859,880)	-	(2,862,843)
Increase in net assets from operations attributable to holders of redeemable investment shares	<u>-</u>	<u>-</u>	<u>89,063</u>	<u>89,063</u>
Balance as at December 31, 2019	\$ <u>3,479</u>	\$ <u>3,738,503</u>	\$ <u>(328,487)</u>	\$ <u>3,413,495</u>

The accompanying notes are an integral part of these financial statements.

**SCOTIABANK SHORT-TERM INCOME FUND INC.**

**STATEMENT OF CASH FLOWS**

**YEAR ENDED DECEMBER 31, 2019**

(Expressed in United States dollars)

<b>Cash flows from operating activities</b>	<u>2019</u>	<u>2018</u>
Interest received	\$ 122,566	\$ 262,232
Other income received	3,459	3,589
Interest paid	(19,275)	-
Operating expenses paid	(156,640)	(207,512)
Reimbursements received from manger	134,786	82,796
Cash collateral received	-	239,864
Purchase of financial assets and settlement of financial liabilities at fair value through profit or loss	(2,103,049)	(7,619,700)
Proceeds from sale of financial assets and financial liabilities at fair value through profit or loss	5,416,365	10,867,693
Net realized income on foreign currencies and swap contracts	36,002	145,703
Net change in unrealized depreciation on foreign currencies	7,543	-
	<hr/>	<hr/>
Net cash provided by operating activities	3,441,757	3,774,665
	<hr/>	<hr/>
<b>Cash flows from financing activities</b>		
Distributions paid	(1,787)	(1,978)
Proceeds from subscriptions of redeemable investment shares	1,030,021	1,153,230
Payments for redemption of redeemable investment shares	(2,862,843)	(5,009,011)
	<hr/>	<hr/>
Net cash used in financing activities	(1,834,609)	(3,857,759)
	<hr/>	<hr/>
<b>Net change in cash and cash equivalents</b>	1,607,148	(83,094)
	<hr/>	<hr/>
<b>Cash and cash equivalents at beginning of the year</b>	422,873	505,967
	<hr/>	<hr/>
<b>Cash and cash equivalents at end of the year</b>	\$ 2,030,021	\$ 422,873
	<hr/> <hr/>	<hr/> <hr/>
<b>Supplemental cash flow disclosures:</b>		
Non-cash - reinvested distributions	\$ 38,178	\$ 98,380
	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

**SCOTIABANK SHORT-TERM INCOME FUND INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2019**

**1. Incorporation and Principal Activities**

Scotiabank Short-Term Income Fund Inc. (the “Fund”) was incorporated under the laws of St. Lucia on February 27, 2014. On April 22, 2016, the Fund was transferred by way of continuation to the Cayman Islands pursuant to the laws of that jurisdiction and is now validly existing in the Cayman Islands as an exempted company. The Fund is registered as an administered mutual fund under the Mutual Funds Law of the Cayman Islands. The registered office of the Fund is located at the offices of Scotiabank & Trust (Cayman) Ltd., P.O. Box 501, George Town, The Bank of Nova Scotia Building, Cardinal Avenue, Grand Cayman, Cayman Islands. The Company’s redeemable participating shares are listed on the Cayman Islands Stock Exchange and are registered for distribution in Trinidad and Tobago.

The Fund seeks to provide income that is consistent with prevailing U.S. bond yields with the potential for capital gains by investing primarily in short-term corporate and government fixed income securities.

On April 22, 2016, Scotiabank and Trust (Cayman) Ltd. was appointed as the Manager (the “Manager”), and the Fund Administrator (the “Fund Administrator”) for the Fund. Prior to April 22, 2016, Scotia Assets Management (St. Lucia) Inc. was the Manager (the “Manager”), Fund Administrator Inc. was the Fund Administrators (the “Fund Administrator”).

On April 29, 2014, the Manager appointed State Street Cayman Trust Company, Ltd. as sub-administrator, (the “Sub-Administrator”), State Street Bank and Trust Company as custodian (the “Custodian”) and 1832 Asset Management L.P. was appointed as the Portfolio Manager (the “Portfolio Manager”) for the Fund. The Portfolio Manager is a related party to the Manager.

**2. Significant Accounting Policies**

The principal accounting policies applied in the preparation of these financial statements are set out below.

Basis of preparation:

The financial statements of the Fund have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss. On December 5, 2019, the Fund’s Board of Directors approved the decision to transfer the Fund into the Scotia Money Market Fund effective March 30, 2020. These financial statements have therefore been prepared using a non-going concern basis of accounting. In this instance, there is no material difference between the going concern and non-going concern basis of accounting.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgment in the process of applying the Fund’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 9.

All references to net assets throughout this document refer to net assets attributable to holders of Redeemable Investment Shares unless otherwise stated. Net assets per share information as disclosed in the Statement of Financial Position for each class of investment shares as disclosed in Note 7 has been determined as total assets less total liabilities (excluding net assets attributable to holders of Redeemable Investment Shares) divided by the number of outstanding shares of each class of Redeemable Investment Shares.

**SCOTIABANK SHORT-TERM INCOME FUND INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2019**

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

New standards and amendments to published standards and interpretations:

- (a) Standards and amendments to existing standards effective January 1, 2019.

There are no standards, amendments to standards or interpretations that are effective for annual periods beginning on 1 January 2019 that have a material effect on the financial statements of the Fund.

- (b) New standards, amendments and interpretations effective after 1 January 2019 and have not been early adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019, and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Fund.

**Valuation of financial assets at fair value through profit or loss:** The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The portfolio of financial assets is managed and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. The Fund has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income. The contractual cash flows of the Fund's debt securities are solely principal and interest, however, these securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund's business model's objective. Consequently, all investments are measured at fair value through profit or loss. Financial assets and liabilities at fair value through profit or loss are initially recognized at fair value, which is considered the cost basis of the financial assets. The Fund records security transactions on a trade date basis, recognizing the cost or sales proceeds of financial assets sold or purchased on an average cost basis. Financial assets and liabilities are valued on the valuation date at fair value, using data provided by one or more reputable third party pricing vendors which are in turn based upon (1) last traded price on the exchange upon which such financial assets are traded, (2) valuation models using observable market inputs, or (3) prices quoted by the principal market makers for non-exchange traded financial assets and liabilities. Management evaluates the reliability of the pricing data received at each report date. All related realized gains and losses are recognized in the Statement of Comprehensive Income (Loss) as income as they occur.

The Fund records its derivative activities on a mark-to-market or fair value basis. Market values are determined by using quoted market values when available. Otherwise, fair values are based on industry-accepted models or confirmation with counterparties.

**Foreign currency forward contracts:** The unrealized gain or loss on open foreign currency forward contracts is calculated as the difference between the contracted rate and the rate to close out the contract, i.e. the forward foreign exchange rate at the reporting date. Unrealized gains and losses are recorded in the Statement of Comprehensive Income (Loss). Realized gains or losses include net gains on contracts, which have been settled or offset by other contracts with the same counterparty.

**SCOTIABANK SHORT-TERM INCOME FUND INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2019**

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

**Interest rate swaps:** Unrealized gains or losses on open interest rate swap contracts are calculated using standard/external pricing models that are widely accepted by marketplace participants using observable inputs based on the terms of the contract, interest rates, prepayment speeds and currency rates obtained from swap counterparties and other market participants. Net realized gains or losses are recorded with respect to interest receipts or payments on interest rate swaps and upon early termination.

**Functional and presentation currency:** The United States Dollar (“USD”) is the currency in which the Fund measures its performance and reports its results, as well as the currency in which the Fund receives the majority of its subscriptions from its investors (the “functional currency”). The Fund has adopted USD as its presentation currency.

**Distribution policy:** The Fund will only distribute income and/or capital gains when determined by the Board of Directors of the Fund. It is anticipated that the Fund will distribute a percentage or all of its net earned income, as determined by the Board of Directors of the Fund, at the end of each month. It is anticipated that the Fund will distribute a percentage or all of its realized capital gains by the end of December of each calendar year. Distributions will be automatically reinvested in additional Redeemable Investment Shares of the Fund, unless a written election to receive cash payments is received by the Manager or its agent. Distributions are recognized as a finance cost in the Statement of Comprehensive Income (Loss).

**Offsetting financial instruments:** Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Fund or the counterparty.

**Accounting for investments and investment income:** Security transactions are accounted for on a trade date basis. Realized gains and losses on sales of financial assets are calculated on an average cost basis.

**Redeemable investment shares and governance shares:** Redeemable investment shares (the “Redeemable Investment Shares”) are redeemable at the shareholder’s option and are classified as financial liabilities. Any distribution on such Redeemable Investment Shares is recognized in the Statement of Comprehensive Income (Loss) as finance costs. The Redeemable Investment Shares can be put back to the Fund by the holder at any dealing day for cash equal to a proportionate share of the respective Fund’s net assets. The Redeemable Investment Shares are carried at the redemption amount that would be payable at the dealing day if the shareholder exercised its right to put the share back to the Fund. Governance shares (the “Governance Shares”) are not redeemable, and do not participate in the net income or dividends of the Fund as per the Fund’s articles of association.

**Interest income:** Interest income on financial assets is accrued on a daily basis. Interest income on financial assets includes interest and discount earned (net of premium), which is the difference between the face value and the original cost, including original issue discount, amortized using the effective yield method over the term of the financial assets. Interest is recognized in the Statement of Comprehensive Income (Loss) using the effective yield method and includes discount accreted and premium amortized over the remaining period to maturity of individual assets.

**Expenses:** Expenses directly attributable to the Fund are recorded on an accrual basis.

**Allocation of gains and losses:** Other than the different fee rates discussed in Note 5, profits and losses of the Fund are allocated to each class of shares according to their proportionate interest in the Fund.

**SCOTIABANK SHORT-TERM INCOME FUND INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2019**

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

**Translation of foreign currency amounts:** Assets and liabilities denominated in currencies other than the USD (“foreign currencies”) are translated at the rates prevailing on the date of valuation and exchange differences are reflected in the Statement of Comprehensive Income (Loss) in the period in which they arise. Transactions in foreign currencies are translated at prevailing exchange rates at the date of the transaction. The Fund does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on financial assets from the fluctuations arising from changes in market prices of financial assets held. Such fluctuations are included with the net realized gain or loss on financial assets at fair value through profit or loss and/or the net change in unrealized appreciation or depreciation on financial assets at fair value through profit or loss.

**Cash and cash equivalents:** Cash and cash equivalents comprise cash, fixed term deposits, and short term bonds with original maturity of less than 90 days.

**Cash collateral receivable:** As of December 31, 2019, the fund had cash collateral receivable on swap contracts in the amounts of \$NIL (2018: \$NIL) included in the Statement of Financial Position.

**Capital risk management:** The capital of the Fund is represented by the net assets attributable to holders of Redeemable Investment Shares. The amount of net asset attributable to holders of Redeemable Investment Shares can change significantly on a daily basis as the Fund is subject to daily subscriptions and redemptions at the discretion of shareholders. The Fund’s objective when managing capital is to safeguard the Fund’s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain a strong capital base to support the development of the investment activities of the Fund. In order to maintain or adjust the capital structure, the Fund’s policy is to perform the following:

- Monitor the level of daily subscriptions and redemptions relative to the liquid assets and adjusts the amount of distributions the Fund pays to redeemable shareholders.
- Redeem and issue new shares in accordance with the constitutional documents of the Fund, which include the ability to restrict redemptions and require certain minimum holdings and subscriptions.

The Board of Directors and the Portfolio Manager monitor capital on the basis of the value of net assets attributable to Redeemable Investment Shares.

**3. Financial Assets at Fair Value through Profit or Loss**

At December 31, 2019 and 2018 the financial assets and liabilities comprised the following securities:

	<u>2019</u>		<u>2018</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
<u>Assets</u>				
Corporate Bonds	\$ 1,239,296	\$ 1,276,595	\$ 4,473,630	\$ 4,351,569
Government & Agency Bonds	37,385	38,502	56,117	54,938
Government T-bills	92,500	93,892	161,122	162,813
Short-Term Investments	75,357	77,077	-	-
Interest Rate Swaps	-	-	-	53,884
Forward Foreign Currency Contracts	-	-	-	50,898
	<u>\$ 1,444,538</u>	<u>\$ 1,486,066</u>	<u>\$ 4,690,869</u>	<u>\$ 4,674,102</u>
<u>Liabilities</u>				
Interest Rate Swaps		\$ (6,905)		\$ (5,443)
Forward Foreign Currency Contracts		(13,038)		-
		<u>\$ (19,943)</u>		<u>\$ (5,443)</u>
		<u>\$ 1,466,123</u>		<u>\$ 4,668,659</u>



**SCOTIABANK SHORT-TERM INCOME FUND INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2019**

**3. Financial Assets at Fair Value through Profit or Loss (continued)**

The following summarizes the investment portfolio segregated by country of issuer:

	<u>2019</u>		<u>2018</u>	
<u>Financial Assets at fair value</u>	<u>Fair Value</u>	<u>% of total portfolio</u>	<u>Fair Value</u>	<u>% of total portfolio</u>
Canada	\$ 712,185	48.58%	\$ 1,899,533	40.69%
Netherland	53,685	3.66%	-	0.00%
United Kingdom	-	0.00%	100,740	2.16%
United States	<u>720,196</u>	<u>49.12%</u>	<u>2,673,829</u>	<u>57.27%</u>
Total financial assets at fair value through profit or loss	<u>\$ 1,486,066</u>	<u>101.36%</u>	<u>\$ 4,674,102</u>	<u>100.12%</u>
<u>Financial Liabilities at fair value</u>				
Canada	\$ (3,188)	-0.22%	\$ (5,443)	-0.12%
United States	<u>(16,755)</u>	<u>-1.14%</u>	<u>-</u>	<u>0.00%</u>
Total financial liabilities at fair value through profit or loss	<u>\$ (19,943)</u>	<u>-1.36%</u>	<u>\$ (5,443)</u>	<u>-0.12%</u>
Total net financial assets and liabilities at fair value through profit or loss	<u>\$ 1,466,123</u>	<u>100.00%</u>	<u>\$ 4,668,659</u>	<u>100.00%</u>

As at December 31, 2019, the portfolio consists of 38 (2018: 46) positions, primarily located in United States and Canada. The three largest concentrations are in JP Morgan Chase & Co (7.10%), Hess Corporation (6.88%) and Honda Canada Finance Inc (5.32%) (2018: Citigroup Inc (6.41%), Chevron Corporation (5.31%) and Choice Properties L.P (4.74%)). The contractual interest rates on bonds and notes range from 1.25% to 5.63% (2018: 1.00% to 5.62%) and maturity dates of the securities range from 2020 to 2024 (2018: 2019 to 2024). The current period yields on bonds and notes range from 1.62% to 5.38% (2018: 1.37% to 7.54%).

**4. Derivatives**

The Fund may enter into derivatives such as options, futures, forwards and swaps to adjust the average duration, to adjust credit risk, to gain or reduce exposure to income producing securities and to hedge against changes in interest rates and foreign currency exchange rates.

A swap involves the exchange by the Fund with another party of their respective commitments to pay or receive cash flow, for instance an exchange of floating rate payments for fixed payments. Swap agreements and similar transactions can be individually negotiated and structured to include exposure to a variety of different types of investments or market factors. Depending on their structure, swap agreements may increase or decrease the Fund's exposure to long-term or short-term interest rates, foreign currency values, foreign government bonds, corporate debt or equity securities, or the volatility of an index of one or more securities.

**SCOTIABANK SHORT-TERM INCOME FUND INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2019**

**4. Derivatives (continued)**

At December 31, 2019 and 2018, the Fund has the following derivatives outstanding:

<b>Type of contract</b>	<b><u>2019</u></b>	<b><u>2018</u></b>
<b>Assets</b>	<b>Unrealized Appreciation/ (Depreciation)</b>	<b>Unrealized Appreciation/ (Depreciation)</b>
	<b>USD</b>	<b>USD</b>
Interest rate swaps	-	53,884
Forward foreign currency contracts	-	50,898
<b>Total Derivatives - Assets</b>	<b>-</b>	<b>104,782</b>
<b>Liabilities</b>		
Interest rate swaps	(6,905)	(5,443)
Forward foreign currency contracts	(13,038)	-
<b>Total Derivatives - Liabilities</b>	<b>(19,943)</b>	<b>(5,443)</b>

The outstanding amounts of swap contracts are detailed in the following pages.

**(a) Interest rate swaps (“IRS”)**

An IRS is a derivative in which one party exchanges a stream of interest payments for another party’s stream of cash flows. IRS can be used by the Fund to manage its fixed or floating rate assets and liabilities. The Fund can also use them for trading purposes; for instance, to replicate unfunded bond exposures to profit from changes in interest rates. In an IRS, each counterparty agrees to pay either a fixed or floating rate denominated in a particular currency to the other counterparty. The fixed or floating rate is multiplied by a notional principal amount. This notional amount is generally not exchanged between counterparties, but is used only for calculating the size of cash flows to be exchanged.

At the point of initiation of the swap, the swap is priced so that it has a net present value of zero. Thus, the swap requires little or no initial upfront payment from either party. At each valuation date, the present values of each leg of the swap transaction are compared and the resulting fair value is recorded as a financial asset or liability through profit or loss in the Statement of Financial Position. Interest rate receipts and payments are also recognized in the Statement of Comprehensive Income (Loss) through the lifetime of the swap as net realized gains or losses.

Interest rate swap contracts outstanding as at December 31, 2019:

<b>Liabilities</b>	<b>Currency</b>	<b>Notional Amount</b>	<b>Unrealized Depreciation</b>
		<b>USD</b>	<b>USD</b>
Pay Fixed, USD receive floating	USD	200,000	(1,170)
Pay Fixed, USD receive floating	USD	800,000	(2,547)
Pay Fixed, CAD receive floating	CAD	200,000	(3,188)
<b>Total Interest Rate Swaps - Liabilities</b>		<b>1,200,000</b>	<b>(6,905)</b>

**SCOTIABANK SHORT-TERM INCOME FUND INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2019**

**4. Derivatives (continued)**

**(a) Interest rate swaps (continued)**

Interest rate swap contracts outstanding as at December 31, 2018:

	Currency	Notional Amount	Unrealized Appreciation/ (Depreciation)
<b>Assets</b>		<b>USD</b>	<b>USD</b>
Pay Fixed, USD receive floating	USD	150,000	1,308
Pay Fixed, USD receive floating	USD	900,000	11,769
Pay Fixed, USD receive floating	USD	500,000	4,208
Pay Fixed, USD receive floating	USD	200,000	4,460
Pay Fixed, USD receive floating	USD	300,000	5,717
Pay Fixed, USD receive floating	USD	800,000	21,769
Pay Fixed, USD receive floating	USD	1,000,000	4,653
<b>Total Interest Rate Swaps - Assets</b>		<b><u>3,850,000</u></b>	<b><u>53,884</u></b>
<b>Liabilities</b>			
Pay Fixed, CAD receive floating	CAD	5,000,000	(5,443)
<b>Total Interest Rate Swaps - Liabilities</b>		<b><u>5,000,000</u></b>	<b><u>(5,443)</u></b>

**(b) Forward foreign currency contracts**

Forwards are a contractual obligation by one party to buy and another party to sell, a financial instrument, equity, commodity or currency at a specific future date. Forwards held by the Fund are forward foreign currency contracts. Forward foreign currency contracts are contracts for the delayed delivery of currency on a specified future date.

Forward foreign currency contracts outstanding per currency as at December 31, 2019:

Settlement Date	Currency to be received	Value as at December 31, 2019 USD	Currency to be delivered	Value as at December 31, 2019 USD	Unrealized depreciation USD
January 15, 2020	USD	989,753	CAD	1,300,000	1,002,791
					<u>(13,038)</u>
					<u>(13,038)</u>

Forward foreign currency contracts outstanding per currency as at December 31, 2018:

Settlement Date	Currency to be received	Value as at December 31, 2018 USD	Currency to be delivered	Value as at December 31, 2018 USD	Unrealized Appreciation USD
January 16, 2019	USD	345,274	CAD	450,000	329,897
February 20, 2019	USD	316,762	CAD	411,500	301,920
March 15, 2019	USD	348,948	CAD	458,500	336,575
April 18, 2019	USD	449,060	CAD	600,000	440,754
					<u>8,306</u>
					<u>50,898</u>

**SCOTIABANK SHORT-TERM INCOME FUND INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2019**

**4. Derivatives (continued)**

**(c) Offsetting assets and liabilities**

The following table presents the Fund's financial assets and liabilities by counterparty, net of amounts available for offset under a master netting agreement, or similar agreement, and net of related collateral received or pledged as of December 31, 2019 and 2018.

As of December 31, 2019

Offsetting of Derivative Liabilities

Counterparty	Gross Amount of Recognized Liabilities	Gross Amount Offset in the Statement of Financial Position	Net Amount of Liabilities Presented In The Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		Net Amount (Asset)/ Liability
				Financial Instruments	Cash Collateral Pledged	
Bank of Nova Scotia	\$ (6,905)	\$ -	\$ (6,905)	\$ -	\$ -	\$ (6,905)
State Street Trust Canada	(13,038)	-	(13,038)	-	-	(13,038)
<b>Total</b>	<b>\$ (19,943)</b>	<b>\$ -</b>	<b>\$ (19,943)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (19,943)</b>

As of December 31, 2018

Offsetting of Derivative Assets

Counterparty	Gross Amount of Recognized Assets	Gross Amount Offset in the Statement of Financial Position	Net Amount of Assets Presented In The Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		Net Amount Asset/ (Liability)
				Financial Instruments	Cash Collateral Received	
Bank of Nova Scotia	\$ 53,884	\$ -	\$ 53,884	\$ (5,443)	\$ -	\$ 48,441
State Street Trust Canada	50,898	-	50,898	-	-	50,898
<b>Total</b>	<b>\$ 104,782</b>	<b>\$ -</b>	<b>\$ 104,782</b>	<b>\$ (5,443)</b>	<b>\$ -</b>	<b>\$ 99,339</b>

Offsetting of Derivative Liabilities

Counterparty	Gross Amount of Recognized Liabilities	Gross Amount Offset in the Statement of Financial Position	Net Amount of Liabilities Presented In The Statement of Financial Position	Gross Amounts Not Offset in the Statement of Financial Position		Net Amount (Asset)/ Liability
				Financial Instruments	Cash Collateral Pledged	
Bank of Nova Scotia	\$ 5,443	\$ -	\$ 5,443	\$ (5,443)	\$ -	\$ -
State Street Trust Canada	-	-	-	-	-	-
<b>Total</b>	<b>\$ 5,443</b>	<b>\$ -</b>	<b>\$ 5,443</b>	<b>\$ (5,443)</b>	<b>\$ -</b>	<b>\$ -</b>

**SCOTIABANK SHORT-TERM INCOME FUND INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2019**

**5. Management Agreement**

Under the terms of the investment and fund management agreement dated April 29, 2014, the Fund appointed the Fund Administrator with the power and authority to appoint a Manager to manage the affairs and investments of the Fund subject to the overall supervision and control of the Board of Directors of the Fund.

The Manager has responsibility for the general administration of the Fund, but has delegated the performance of most tasks to third parties.

The Manager is entitled to a fee (the “management fee”) at rates disclosed in the table below. The management fee is paid out of the assets of the Fund and is accrued daily and paid quarterly in arrears. Out of this fee, the Manager is required to pay the fees of the Sub-Manager, the Portfolio Manager and any other person to whom functions are delegated by the Manager, along with all investment related direct expenses. The Manager may also pay trailing commissions to the Distributor out of the management fee. The Manager and/or Sub-Manager may choose from time to time to absorb any portion of the annual management fee on any class of shares of the Fund.

The Manager is entitled to a management fee from the classes of Redeemable Investment Shares as listed below:

<b><u>Class</u></b>	<b><u>Management fee per annum</u></b>
A	up to 1.30%
NU	up to 1.50%
IU	NIL

No management fees are charged on Class IU shares. Instead, Class IU investors negotiate a separate fee that is paid directly to the Manager. For the year ended December 31, 2019, the management fee was set at 1.10% for Class A shares (2018: 1.10%) and 1.30% for Class NU shares (2018: 1.30%), which amounted to \$24,478 (2018: \$43,927). The Fund also incurs certain operating expenses. Such expenses may include, but are not limited to, administration costs, interest on borrowed funds, auditing expenses, legal expenses, insurance, licensing, accounting, fees and disbursement of transfer agents, registrars, custodians, sub-custodians and escrow agents and the annual registration fee payable in St Lucia, the Cayman Islands and any other jurisdictions where the Fund may be registered from time to time. The Manager has subcontracted third party service providers to perform these services. The Manager and/or Sub-Manager may choose to absorb any of these operating expenses at any time.

For the year ended December 31, 2019, the Manager voluntarily applied a management expense ratio cap on management fees and operating expenses of 1.50% for Class A shares (2018: 1.50%), 1.70% for Class NU shares (2018: 1.70%), and 0.50% for Class IU shares (2018: 0.50%). As a result of the management expense ratio cap, total management fee and operating expenses reimbursable by the Manager and/or Sub-Manager for the year ending December 31, 2019 was \$137,132 (2018: \$112,110), of which \$35,154 (2018: \$32,808) was receivable as of December 31, 2019 and was subsequently paid to the Fund.

**6. Other Related Party Transactions**

At December 31, 2019, the Sub-Manager held 100 (2018: 100) Governance Shares. All fees payable to the Sub-Manager are being borne by the Manager.

Under terms of the sub-distributorship agreement dated April 29, 2014, Scotiabank & Trust (Cayman) Ltd. (the “Distributor”) is responsible for the distribution of Redeemable Investment Shares of the Fund in accordance with the terms of the prospectus. The Distributor may appoint sub-distributors. The sub-distributors are entitled to all initial subscription charges levied against subscribers. The subscription charge is levied solely at the discretion of the Sub-Manager at up to 5% (2018: 5%) of the total amount paid by the subscriber for Class A shares. No initial subscription charge is levied against Class NU and Class IU subscribers.

**SCOTIABANK SHORT-TERM INCOME FUND INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2019**

**7. Share Capital**

**Authorized:**

100 Governance Shares of \$1.00 par value each.  
100,000,000 Redeemable Investment Shares at par value of \$0.01

**Issued:**

Total shares issued or redeemed during the period and the corresponding share capital can be summarized as follows:

	<u>2019</u>		<u>2018</u>	
	<u>Shares</u>	<u>\$</u>	<u>Shares</u>	<u>\$</u>
<b>Governance shares</b>				
Shares issued during the year	-	-	-	-
Shares redeemed during the year	-	-	-	-
<b>Redeemable Investment Shares</b>				
<b>Class A</b>				
Shares issued during the year	106,673	1,030,021	119,747	1,153,230
Shares redeemed during the year	(290,358)	(2,806,252)	(58,562)	(564,301)
Reinvestment	2,302	22,187	4,465	42,909
<b>Class NU</b>				
Shares issued during the year	-	-	-	-
Shares redeemed during the year	(5,946)	(56,591)	(58,668)	(558,334)
Reinvestment	324	3,079	408	3,863
<b>Class IU</b>				
Shares issued during the year	-	-	-	-
Shares redeemed during the year	-	-	(390,606)	(3,886,376)
Reinvestment	1,284	12,912	5,199	51,608

Shares that are redeemed within 90 days of purchase may be subject to a redemption fee up to 2% of the redemption amount payable back to the Fund. No redemption fees were levied during the year ended December 31, 2019 (2018: \$NIL).

The initial subscription price of the Redeemable Investment Shares is \$10.00 per share. Each of the classes of Redeemable Investment Shares are issued and redeemable daily at a price equal to the net asset value per share on the valuation day on which the notification is received, as long as it is received before the Fund's close of business. The net asset value per share for any valuation date is determined by dividing the value of the assets of the respective share class less its liabilities at the close of business on such valuation day by the number of Redeemable Investment Shares outstanding in the share class on that date.

The Redeemable Investment Shares confer no voting rights and no entitlement to receive notice of, or attend at general meetings of the Fund. The Redeemable Investment Shares carry the right to participate in dividends and all other distributions of the Fund.

The Fund's capital is primarily represented by these Redeemable Investment Shares. In accordance with the objectives outlined in Note 1 and the risk management policies in Note 8, the Fund endeavors to invest the subscriptions received from redeemable investment shareholders into appropriate investments while maintaining sufficient liquidity to meet redemptions, being augmented by disposal of fixed income securities where necessary.

**SCOTIABANK SHORT-TERM INCOME FUND INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2019**

**7. Share Capital (continued)**

As of December 31, 2019, 30% of the Fund's capital was attributable to one investor. In addition, 31% of the Fund's capital was attributable to the Manager. The actions of these investors may have a material impact on the Fund.

**8. Financial Risk Management**

The Fund's investment activities expose it to various types of risk which are associated with the financial assets and markets in which it invests.

Price risk: All financial assets present a risk of loss of capital. The Portfolio Manager moderates this risk through a careful selection of the financial assets. Maximum risk resulting from financial assets is determined by the fair value of the financial assets. The Fund's overall positions are monitored on a daily basis by the Portfolio Manager. As the Fund's objective is to invest in fixed income securities none of its holdings are susceptible to any significant market fluctuations other than those described in interest rate risk and credit risk below.

Currency risk: When the Fund buys or holds an investment that is denominated in a currency other than USD, changes in the exchange rate between that foreign currency and the USD will affect the value of the Fund.

Changes in exchange rates between currencies or the conversion from one currency to another may cause the value of the financial assets to diminish or increase. Currency exchange rates may fluctuate over short periods of time and are generally determined by supply and demand in the currency exchange markets and the relative merits of investments in different countries, actual or perceived changes in interest rates and other complex factors. Currency exchange rates can be affected unpredictably by intervention (or the failure to intervene) by government or central banks, or by currency controls or political developments.

The table below details the combined monetary and non-monetary significant currency exposures on the Statement of Financial Position date:

**As at December 31, 2019**

Foreign Currency	Monetary & Non-monetary Investments \$	Forward Foreign Currency Contracts \$	Total \$	% Net Assets %
Canadian Dollar	1,100,372	(989,753)	110,619	3.24

**As at December 31, 2018**

Foreign Currency	Monetary & Non-monetary Investments \$	Forward Foreign Currency Contracts \$	Total \$	% Net Assets %
Canadian Dollar	1,397,867	(1,460,044)	(62,177)	(1.21)

As at December 31, 2019, had the exchange rate between the US Dollar and Canadian Dollar ("CAD") above increased or decreased by 5% with all other variables held constant, the change in net assets attributable to holders of redeemable shares would amount to approximately \$5,531 (2018: \$3,109).

In accordance with the Fund's policy, the Portfolio Manager monitors the financial assets and liabilities exposure to currency risk.

**SCOTIABANK SHORT-TERM INCOME FUND INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2019**

**8. Financial Risk Management (continued)**

Interest rate risk: Funds that invest in fixed income securities, such as bonds, mortgages and money market instruments, are sensitive to changes in interest rates. In general, when interest rates are rising, the value of these investments tends to fall. When rates are falling, fixed income securities tend to increase in value. Fixed income securities with longer terms to maturity are generally more sensitive to changes in interest rates.

The Fund's interest-bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The table below summarizes the Fund's exposure to interest rate risks. It includes the Fund's financial assets and liabilities, categorized by the earlier of contractual re-pricing or maturity dates.

**At December 31, 2019**

	<b>Up to 1 year</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Non-interest bearing</b>	<b>Total</b>
<b>Assets</b>					
Cash and cash equivalents	-	-	-	2,030,021	2,030,021
Financial assets at fair value through profit or loss:					
Investments	204,495	1,281,571	-	-	1,486,066
Other assets	-	-	-	51,155	51,155
<b>Total Assets</b>	<b>204,495</b>	<b>1,281,571</b>	<b>-</b>	<b>2,081,176</b>	<b>3,567,242</b>
	<b>Up to 1 year</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Non-interest bearing</b>	<b>Total</b>
<b>Liabilities</b>					
Financial liabilities at fair value through profit or loss:					
Derivatives	-	6,905	-	13,038	19,943
Other liabilities	-	-	-	133,704	133,704
Redeemable investment shares	-	-	-	3,413,495	3,413,495
<b>Total Liabilities (including redeemable investment shares)</b>	<b>-</b>	<b>6,905</b>	<b>-</b>	<b>3,560,237</b>	<b>3,567,142</b>
<b>Interest sensitivity gap</b>	<b>204,495</b>	<b>1,274,666</b>	<b>-</b>		



**SCOTIABANK SHORT-TERM INCOME FUND INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2019**

**8. Financial Risk Management (continued)**

Interest rate risk (continued)

**At December 31, 2018**

	<b>Up to 1 year</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Non-interest bearing</b>	<b>Total</b>
<b>Assets</b>					
Cash and cash equivalents	-	-	-	422,873	422,873
Financial assets at fair value through profit or loss:					
Investments	817,460	3,507,300	244,560	-	4,569,320
Derivatives	53,884	-	-	50,898	104,782
Other assets	-	-	-	91,287	91,287
<b>Total Assets</b>	<b>871,344</b>	<b>3,507,300</b>	<b>244,560</b>	<b>565,058</b>	<b>5,188,262</b>
	<b>Up to 1 year</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Non-interest bearing</b>	<b>Total</b>
<b>Liabilities</b>					
Financial liabilities at fair value through profit or loss:					
Derivatives	5,443	-	-	-	5,443
Other liabilities	-	-	-	63,643	63,643
Redeemable investment shares	-	-	-	5,119,076	5,119,076
<b>Total Liabilities (including redeemable investment shares)</b>	<b>5,443</b>	<b>-</b>	<b>-</b>	<b>5,182,719</b>	<b>5,188,162</b>
<b>Interest sensitivity gap</b>	<b>865,901</b>	<b>3,507,300</b>	<b>244,560</b>		

At December 31, 2019, should interest rates have lowered by 25 basis points with all other variables remaining constant and ignoring the effects of any management fees, the change in the increase in net assets attributable to holders of Redeemable Investment Shares for the period would amount to approximately \$16,175 (2018: \$43,562) lower arising substantially from the increase in market values of debt securities. If interest rates had risen by 25 basis points with all other variables remaining constant and ignoring the effects of any management fees, the change in the decrease in net assets attributable to holders of Redeemable Investment Shares would amount to approximately \$16,294 (2018: \$43,039) higher arising substantially from the decrease in market values of debt securities.

**SCOTIABANK SHORT-TERM INCOME FUND INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2019**

**8. Financial Risk Management (continued)**

**Credit risk:** Financial assets which potentially expose the Fund to credit risk consist primarily of cash and cash equivalents, investments in debt securities, and management fees recoverable. Investment in debt securities exposes the Fund to the risk that an issuer will default on the payment of interest, principal or both. The extent of the Fund's exposure to credit risk in respect of these financial assets approximates their carrying value as recorded in the Fund's Statement of Financial Position.

The majority of transactions of financial assets undertaken by the Fund are cleared through and held in custody by a reputable custodian. The Fund's cash is held by this same custodian. The clearing and depository operations for the Fund's security transactions are mainly concentrated with one custodian. The Custodian is a member of a major securities exchange and at December 31, 2019 had a credit rating from S&P of AA- (2018: AA-). The Fund is subject to credit risk and possible losses should the Custodian be unable to fulfil its obligations to the Fund. At December 31, 2019 and 2018, all cash and cash equivalents balances are either held with or placed in custody with the Custodian.

The Fund's debt securities in financial assets at fair value through profit and loss have the following grades provided by a well-known rating agency. The ratings are as follows:

<b>S&amp;P Rating of Debt Securities</b>	<b>2019</b>	<b>2018</b>
AAA	0.00%	0.80%
AA	3.38%	5.42%
AA-	2.62%	4.35%
A+	8.62%	4.35%
A-	14.00%	17.36%
BBB	9.72%	17.35%
BBB+	3.50%	10.89%
BBB-	25.08%	23.91%
BB+	7.02%	2.06%
BB	0.00%	1.22%
N/A (Not rated)*	26.06%	12.29%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

\*Debt securities not rated have a total value of \$387,369 (2018: \$560,830). Of this, \$93,892 (2018: \$162,813) are Government T-bills.

The Fund measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward looking information in determining any expected credit loss. At 31 December 2019 and 31 December 2018, interest receivable, receivable from Manager, cash collateral receivable and cash and cash equivalents are held with counterparties with a credit rating of AA- or higher and are due to be settled within 1 week. Management consider the probability of default to be close to zero as the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Fund.

**SCOTIABANK SHORT-TERM INCOME FUND INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2019**

**8. Financial Risk Management (continued)**

Concentration risk: This is the risk associated with funds that concentrate their investments in a particular issuer, issuers, sector, or in a single country or geographic region. This allows the Fund to focus on the potential of that particular sector, country or region, or of a relatively few number of securities. However, funds that concentrate their investments tend to have greater fluctuations in price than funds with broader diversification. Funds that invest in fewer securities, sectors, countries or regions have greater concentration risk.

See Note 3 for significant concentrations in country and industry sectors.

Liquidity risk: Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial instrument quickly close to its fair value.

All liabilities are due on demand or within one year.

The Fund is exposed to daily cash redemptions of Redeemable Investment Shares. It therefore invests predominantly in financial assets that can be readily disposed of; it is permitted to invest only a limited proportion of its financial assets in investments that are not actively traded in a secondary market.

Under certain circumstances the Directors of the Fund have the ability to suspend the determination of the net assets attributable to holders of Redeemable Investment Shares if it is considered in the best interest of the shareholder group as a whole. During the suspension of the net assets attributable to holders of Redeemable Investment Shares, the subscription and redemption of shares would also be suspended.

Derivative Risk: To the extent that a Fund uses derivatives, it will be sensitive to derivatives risk. Derivatives can be useful for hedging against losses, gaining exposure to financial markets and making indirect investments, but they involve certain risks:

- Hedging with derivatives may not achieve the intended result. Hedging instruments rely on historical or anticipated correlations to predict the impact of certain events, which may or may not occur. If they occur, they may not have the predicted effect.
- It is difficult to hedge against trends that the market has already anticipated.
- Costs relating to entering and maintaining derivatives contracts may reduce the returns of a Fund.
- A currency hedge will reduce gains in the event that the hedged currency increases in value.
- Currency hedging can be difficult in smaller emerging growth countries because of the limited size of their markets.
- Currency hedging provides no protection against changes in the value of the underlying securities.
- The prices of derivatives can be distorted if trading in their underlying assets is halted. Trading in the derivative might be interrupted if trading is halted in a large number of the underlying stocks or assets. This would make it difficult for a Fund to close out its positions.
- Derivatives trading on foreign markets may take longer and be more difficult to complete. Derivatives on foreign markets are subject to foreign investment risk.
- The counterparty in a derivatives contract might not be able to meet its obligations. When using derivatives, a fund relies on the ability of the counterparty to the transaction to perform its obligations. In the event that a counterparty fails to complete its obligations, the fund may bear the risk of loss of the amount expected to be received under options, forward contracts or other transactions in the event of the default or bankruptcy of a counterparty.
- The regulation of derivatives is a rapidly changing area of law and is subject to modification by government and judicial action. The effect of any future regulatory changes may make it more difficult, or impossible, for a Fund to use certain derivatives.

**SCOTIABANK SHORT-TERM INCOME FUND INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2019**

**8. Financial Risk Management (continued)**

Fair values: At December 31, 2019 and 2018, investments are carried at fair value and the carrying amounts of all other assets and liabilities on the Statement of Financial Position approximated their fair values.

**9. Fair Value Disclosure**

IFRS 13 requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making 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) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Transfers between levels of the fair value hierarchy are deemed to have occurred at the beginning of the reporting period.

The level in the fair value hierarchy within which the fair value measurement is categorized 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.

The determination of what constitutes ‘observable’ requires significant judgment by the Portfolio Manager. The Portfolio Manager 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.

**SCOTIABANK SHORT-TERM INCOME FUND INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2019**

**9. Fair Value Disclosure (continued)**

The following table analyses within the fair value hierarchy the Fund's financial assets and liabilities (by class) measured at fair value:

**At December 31, 2019**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Balance</u>
<u>Financial assets at fair value</u>				
<u>through profit and loss</u>				
Corporate Bonds	\$ -	\$ 1,276,595	\$ -	\$ 1,276,595
Government & Agency Bonds	-	38,502	-	38,502
Government T-bills		93,892	-	93,892
Short-Term Investments	-	<u>77,077</u>	-	<u>77,077</u>
 Total financial assets at fair value through profit and loss	 \$ -	 \$ <u>1,486,066</u>	 \$ -	 \$ <u>1,486,066</u>
<u>Financial liabilities at fair value</u>				
<u>through profit and loss</u>				
Interest Rate Swaps	-	6,905	-	6,905
Forward Foreign Currency Contracts	-	<u>13,038</u>	-	<u>13,038</u>
 Total financial liabilities at fair value through profit and loss	 \$ -	 \$ <u>19,943</u>	 \$ -	 \$ <u>19,943</u>

**At December 31, 2018**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Balance</u>
<u>Financial assets at fair value</u>				
<u>through profit and loss</u>				
Corporate Bonds	\$ -	\$ 4,351,569	\$ -	\$ 4,351,569
Government & Agency Bonds	-	54,938	-	54,938
Government T-bills	-	162,813	-	162,813
Interest Rate Swaps	-	53,884	-	53,884
Forward Foreign Currency Contracts	-	<u>50,898</u>	-	<u>50,898</u>
 Total financial assets at fair value through profit and loss	 \$ -	 \$ <u>4,674,102</u>	 \$ -	 \$ <u>4,674,102</u>
<u>Financial liabilities at fair value</u>				
<u>through profit and loss</u>				
Interest Rate Swaps	-	<u>5,443</u>	-	<u>5,443</u>
 Total financial liabilities at fair value through profit and loss	 \$ -	 \$ <u>5,443</u>	 \$ -	 \$ <u>5,443</u>

In relation to the above table, further details of the country classifications were disclosed in Note 3.

**SCOTIABANK SHORT-TERM INCOME FUND INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2019**

**9. Fair Value Disclosure (continued)**

Financial assets and liabilities at fair value through profit and loss (“investments”) whose values are based on quoted market prices in active markets, and therefore classified within Level 1, would include active listed equities and most exchange traded derivatives. The Fund does not adjust the quoted price for these investments.

Investments 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 commercial paper, most investment-grade corporate bonds 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.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 investments would include private equity, certain restricted investments in other funds, and certain corporate debt securities. As observable prices are not available for these investments, if any such investments were held, the Fund would use valuation techniques to derive the fair value.

The Fund does not hold any investments classified within Level 1 and Level 3 as of December 31, 2019 and 2018.

There were no transfers between Levels during the year ended December 31, 2019 and 2018.

For other assets and liabilities carried at amortized cost, their carrying values are a reasonable approximation of fair value, and are classified as Level 2. Redeemable investment share values are based on the amount payable on demand and are classified as Level 2.

**10. Taxation**

The Fund is not subject to any income, withholding or capital gains taxes in the Cayman Islands. Generally, the Fund intends to conduct its affairs so as not to be liable to taxation in any other jurisdiction; however, it may invest in securities whose income is subject to non-refundable foreign withholding taxes.

**11. Subsequent Events**

Beginning in January 2020, global financial markets have experienced and may continue to experience significant volatility resulting from the spread of a novel coronavirus known as COVID-19. The outbreak of COVID-19 has resulted in travel and border restrictions, quarantines, supply chain disruptions, lower consumer demand and general market uncertainty. The effects of COVID-19 have and may continue to adversely affect the global economy, the economies of certain nations and individual issuers, all of which may negatively impact the Fund’s performance.

From time to time, countries have experienced outbreaks of infectious illnesses. Any spread of an infectious illness, public health threat or similar issue could reduce consumer demand or economic output, result in market closures, travel restrictions or quarantines, and generally have a significant impact on a particular country’s economy, which in turn could adversely affect the Fund’s investments.

From January 1, 2020 to March 26, 2020, the Fund received subscriptions of \$7,038 and redemptions of \$1,129,611.

On March 30, 2020, the Fund will transfer into Scotia Money Market Fund. This transfer was approved and adopted by the Fund’s Board of Directors on December 5, 2019.

There are no other subsequent events.