

**SCOTIA CARIBBEAN INCOME FUND INC.**

Financial Statements

March 31, 2021

**SCOTIA CARIBBEAN INCOME FUND INC.**

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## **Independent Auditors' Report to the Board of 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, 2021, 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, 2021, 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 International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the 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 the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

A handwritten signature in blue ink that reads 'KPMG'.

June 28, 2021

**SCOTIA CARIBBEAN INCOME FUND INC.**

## Statement of Financial Position

March 31, 2021

*(Expressed in United States Dollars)*

	Notes	2021	2020
<b>Assets</b>		\$	\$
Cash	5	132,023	465,512
Securities purchased under resale agreements	7,16	19,873,159	17,822,163
Financial assets at fair value through profit or loss	6,16	138,080,479	128,910,116
Other receivables	8	57,697	103,210
Receivable for investments sold		-	1,731,122
Interest receivable		-	180,583
<b>Total assets</b>		<u>158,143,358</u>	<u>149,212,706</u>
<b>Equity</b>			
Share capital	9	<u>1,000</u>	<u>1,000</u>
		<u>1,000</u>	<u>1,000</u>
<b>Liabilities</b>			
Redemptions payable		50,443	441,006
Due to related parties	11	621,461	644,774
Other payables		73,082	71,808
Balance due to brokers	10	-	1,134,256
<b>Total liabilities (excluding net assets attributable to holders of investment shares)</b>		<u>744,986</u>	<u>2,291,844</u>
<b>Net assets attributable to holders of investment shares</b>	12	<u>157,397,372</u>	<u>146,919,862</u>

Issuance approved on behalf of Scotia Caribbean Income Fund Inc.'s Board of Directors by:

Adrian Stokes

Adrian Stokes

Director

Colleen Cyrus

Colleen Cyrus

Director

Date : June 28, 2021*The notes on pages 7 to 34 are an integral part of these financial statements.*

**SCOTIA CARIBBEAN INCOME FUND INC.**

## Statement of Comprehensive Income

For the year ended March 31, 2021

*(Expressed in United States Dollars)*

	Notes	2021 \$	2020 \$
Interest income calculated using the effective interest method		7,042,374	7,529,810
Other income		5,130	5,770
Net realized loss on financial assets through profit or loss		(2,391,792)	(657,836)
Net change in unrealized gain/(loss) on financial assets at fair value through profit or loss		<u>10,676,434</u>	<u>(8,626,039)</u>
<b>Total revenue</b>		<u>15,332,146</u>	<u>(1,748,295)</u>
Management fees	11,13	(2,417,455)	(2,541,886)
Trailer fees		(566,591)	(595,755)
Custodian & Administrator fees	13	(247,939)	(232,676)
Professional fees		(19,893)	(18,485)
Other expenses		<u>(159,878)</u>	<u>(127,388)</u>
<b>Total operating expenses</b>		<u>(3,411,756)</u>	<u>(3,516,190)</u>
<b>Operating profit/(loss) before finance costs</b>		<u>11,920,390</u>	<u>(5,264,485)</u>
Dividends to holders of investment shares		<u>(3,640,565)</u>	<u>(4,045,931)</u>
<b>Increase/(decrease) in net assets attributable to holders of investment shares before income tax</b>		8,279,825	(9,310,416)
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>8,279,825</u>	<u>(9,310,416)</u>

*The notes on pages 7 to 34 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, 2021

*(Expressed in United States Dollars)*

	<b>2021</b>	<b>2020</b>
	\$	\$
<b>Balance as at April 1</b>	146,919,862	154,613,728
Increase/(decrease) in net assets attributable to holders of investment shares after income tax	<u>8,279,825</u>	<u>(9,310,416)</u>
	<u>155,199,687</u>	<u>145,303,312</u>
Issue of investment shares	15,468,922	17,749,184
Reinvestment of investment shares	3,033,618	3,478,322
Redemption of investment shares	<u>(16,304,855)</u>	<u>(19,610,956)</u>
<b>Total subscriptions, reinvestments and redemptions by holders of investment shares during the year</b>	<u>2,197,685</u>	<u>1,616,550</u>
<b>Balance as at March 31</b>	<u>157,397,372</u>	<u>146,919,862</u>

*The notes on pages 7 to 34 are an integral part of these financial statements.*

**SCOTIA CARIBBEAN INCOME FUND INC.**

## Statement of Cash Flows

For the year ended March 31, 2021

*(Expressed in United States Dollars)*

	Note	2021	2020
<b>Cash flows from operating activities</b>		\$	\$
Increase/(decrease) in net assets attributable to holders of investment shares after income tax		8,279,825	(9,310,416)
<b>Adjustments for:</b>			
Dividends paid to holders of investment shares		3,640,565	4,045,931
Net realized loss on financial assets at fair value through profit or loss		2,391,792	657,836
Net change in unrealized (gain)/loss on financial assets at fair value through profit or loss		(10,676,434)	8,626,039
Interest received		1,448,264	1,163,592
Proceeds from sale of investments		32,141,245	37,126,732
Purchase of investments		(34,294,647)	(47,991,460)
Net non-interest payments for purchase and resale agreements		(2,050,996)	7,659,901
Decrease in other receivables		45,513	310,695
Decrease/(increase) in receivable for investments sold		1,731,122	(223,675)
(Decrease)/increase in due to related parties		(23,313)	39,134
Increase/(decrease) in accrued payables		1,274	(26,422)
(Decrease)/increase in balance due to brokers		(1,134,256)	62,964
Decrease in tax withholding liability		-	(7,504)
<b>Net cash provided by operating activities</b>		<u>1,499,954</u>	<u>2,133,347</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of investment shares		15,468,922	17,749,184
Proceeds from reinvested investment shares		3,033,618	3,478,322
Payments on redemption of investment shares, net of redemptions payable		(16,695,418)	(19,327,389)
Dividends paid to holders of investment shares		(3,640,565)	(4,045,931)
<b>Net cash used in financing activities</b>		<u>(1,833,443)</u>	<u>(2,145,814)</u>
<b>Net decrease in cash</b>		(333,489)	(12,467)
Cash at beginning of year		<u>465,512</u>	<u>477,979</u>
<b>Cash at end of year</b>	5	<u>132,023</u>	<u>465,512</u>

*The notes on pages 7 to 34 are an integral part of these financial statements.*



# SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements

March 31, 2021

*(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 Administrator has appointed International Financial Data Services (Canada) Limited (“IFDS Canada”) as the Registrar and Transfer Agent. 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 28, 2021.

### (b) *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, 2021

*(Expressed in United States Dollars)*

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

(c) *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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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 translation are recognized 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 recognized initially on the trade date at which the Fund becomes party to the contractual provisions of the instrument. Other financial assets and liabilities are recognized on the date they are originated.

Financial assets and liabilities at fair value through profit or loss are recognized initially at fair value, with transaction costs recognized 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.

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2021

*(Expressed in United States Dollars)*

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

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

##### (ii) Classification

###### *Business model assessment*

In making an assessment of the object of the objective of the business model in which a financial asset is held, the Fund considers all of the relevant information about how the business is managed, including:

- the documented investment strategy and the execution of this strategy in practice. This includes whether the investment strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Fund's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed.
- how the investment manager is compensated: e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

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

The Fund has determined that it has two business models.

- Held-to-collect business model: this includes cash and receivables. These financial assets are held to collect contractual cash flow.
- Other business model: this includes debt securities, securities purchased under resale agreements and certificates of deposit. These financial assets are managed and their performance is evaluated, on a fair value basis, with frequent sales taking place.

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 amortized cost:

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

Financial liabilities at amortized cost:

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

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2021

*(Expressed in United States Dollars)*

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

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

##### (ii) Classification (Cont'd)

###### *Reclassifications*

Financial assets are not reclassified subsequent to their initial recognition unless the Fund were to change its business model for managing financial assets, in which case all affected financial assets would be reclassified on the first day of the first reporting period following the change in the business model.

##### (iii) Amortized cost measurement

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

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 other 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 recognized in profit or loss.

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2021

*(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

The Fund recognizes loss allowances for expected credit losses (ECLs) on financial assets measured at amortized cost.

The Fund measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- financial assets that are determined to have low credit risk at the reporting date; and
- other financial assets for which credit risk (i.e. the risk of default occurring over the expected life of the asset) has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Fund considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Fund's historical experience and informed credit assessment and including forward-looking information.

The Fund assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Fund considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Fund in full, without recourse by the Fund to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The Fund considers a financial asset to have low credit risk when the credit rating of the counterparty is equivalent to the globally understood definition of 'investment grade'. The Fund considers this to be as follows:

- (a) Credit Ratings issued by Standard and Poor's as BBB- or above;
- (b) Credit Ratings issued by Fitch Rating Agency as BBB- or above;
- (c) Credit Ratings issued by Moody's Rating Agency as Baa3 or above;
- (d) Credit Ratings issued by Caribbean Information and Credit Rating Services Limited as CariBBB- or above.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Fund is exposed to credit risk.

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2021

*(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)

###### *Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Fund expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

###### *Credit-impaired financial assets*

At each reporting date, the Fund assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due; or
- it is probable that the borrower will enter bankruptcy or other financial reorganization.

###### *Presentation of allowance for ECLs in the statement of financial position*

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

###### *Write-off*

The gross carrying amount of a financial asset is written off when the Fund has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

The carrying amounts of the Fund's assets are reviewed at each reporting date to determine whether there is any objective evidence of impairment. A financial asset or group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows to the 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.

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2021

*(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)

If any such indication exists, the asset's recoverable amount is estimated at each reporting date. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

##### – 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.

##### – 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 recognized.

##### (vi) Derecognition

The Fund derecognizes 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 realized 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 derecognized) and the consideration received (including any new asset obtained less any new liability assumed) is recognized in the statement of comprehensive income. Any interest in such transferred financial assets that is created or retained by the Fund is recognized as a separate asset or liability.

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2021

*(Expressed in United States Dollars)*

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

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

##### (vi) Derecognition (Cont'd)

The Fund enters into transactions whereby it transfers assets recognized 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 derecognized 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.

##### (viii) Specific instruments

###### *Cash*

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 recognized in the statement of financial position as a receivable from a reverse sale and repurchase agreement, and the underlying asset is not recognized in the Fund's financial statements.

Securities borrowed by the Fund are not recognized 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, recognized 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 collateralized lending and are classified as loans and receivables and measured at amortized cost.



## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2021

*(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 (Cont'd)

###### *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 recognized 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 recognized in the statement of comprehensive income as interest income and interest expense, respectively.

#### (d) *Expenses*

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

#### (e) *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.

#### (f) *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 realized and unrealized fair value changes and foreign exchange differences, but excludes interest and dividend income, and are recognized in the statement of comprehensive income as net realized loss on financial assets at fair value through profit or loss and net change in unrealized gain/(loss) on financial assets at fair value through profit or loss, respectively.

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2021

*(Expressed in United States Dollars)*

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

#### (g) 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 9 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.

### 4. Changes in significant accounting policies

#### (a) Standards and amendments to existing standards effective April 1, 2020

There are no standards, amendments to standards or interpretations that are effective for annual periods beginning on April 1, 2020 that have a material effect on the financial statements of the Fund.

#### (b) New standards, amendments and interpretations effective after April 1, 2020 and have not been early adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after April 1, 2020, 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.

### 5. Cash

	2021	2020
Cash at bank	\$ 132,023	465,512
<b>Total</b>	<b>\$ 132,023</b>	<b>465,512</b>

During the year the Fund earned interest amounting to \$8,132,580 (2020 - \$8,983,489) which is gross of amortization of \$1,090,206 (2020 - \$1,453,679).

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2021

*(Expressed in United States Dollars)*

### 6. 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:

		2021	2020
		\$	\$
Government of Aruba - 4.63%	2023	8,223,682	10,052,227
Government of Bermuda - 4.85%	2024	7,080,511	7,130,784
Government of Jamaica - 7.63%	2025	6,817,025	6,716,486
National Road Operating and Construction Company - 9.38%	2024	6,647,834	6,002,145
Commonwealth of Bahamas - 5.75%	2024	6,203,553	8,278,870
Inversiones Atlantida Sa - 8.25%	2022	6,105,060	5,220,001
Dominican Republic - 4.88%	2032	5,612,500	-
Global Bank Corporation - 4.50%	2021	4,714,170	3,219,150
Trinidad Generation Unlimited - 5.25%	2027	4,197,416	4,420,575
Instituto Costarricense de Electricidad - 6.95%	2021	3,438,250	3,205,563
Credit Real SAB Company - 9.50%	2026	3,342,150	2,984,842
JPS Senior Unsecured Bond - 7.35%	2029	3,189,039	3,122,589
Republic of Paraguay - 4.63%	2023	3,089,087	3,005,623
Government of Bermuda - 4.14%	2023	3,003,216	2,828,625
Government of Honduras - 7.50%	2024	2,604,000	2,328,023
Panama Bonos Del Tesoro - 5.63%	2022	2,589,292	2,390,220
Sagcor Finance Ltd - 5.1%	2020	2,500,000	2,500,001
Global Bank Corporation - 1.00%	2029	2,447,952	-
Aeropuertos Dominica - 6.75%	2029	2,293,500	1,551,000
Dominican Republic - 8.63%	2027	2,276,910	908,960
Republic of Guatemala - 5.75%	2022	2,127,694	2,044,591
Republic of Chile - 2.25%	2022	2,073,884	2,025,020
Government of Jamaica - 9.25%	2025	2,038,770	2,047,160
Republic of South Africa - 4.85%	2029	2,010,720	-
Government of Jamaica - 6.75%	2028	2,004,844	4,435,234
NCBFG Bond - 5.00%	2024	1,987,427	-
Commonwealth of Bahamas - 6.00%	2028	1,909,520	-
Republic of Peru - 4.13%	2027	1,895,789	1,916,767
Republic of Panama - 7.13%	2026	1,851,195	-
Controladora Mabe Company - 5.60%	2028	1,743,750	1,417,500
Dominican Republic - 6.88%	2026	1,740,750	-
<b>Balance carried forward</b>		<b>107,759,490</b>	<b>89,751,956</b>

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2021

*(Expressed in United States Dollars)*

### 6. 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>		107,759,490	89,751,956
Trinidad and Tobago - 5.88%	2027	1,736,119	-
Commonwealth of Bahamas - 8.95%	2032	1,597,500	-
Republic of Peru - 7.35%	2025	1,592,995	1,005,275
Grupo Unicomer Ltd - 7.88%	2024	1,556,250	1,455,000
Braskem Netherlands Finance Company - 4.50%	2028	1,541,130	1,198,890
Government of Mexico - 6.75%	2034	1,278,760	-
General Motors Financial Corp - 4.20%	2021	1,276,971	1,193,055
Republic of South Africa - 4.85%	2027	1,237,800	-
Government of Barbados - 6.50%	2029	1,161,363	1,024,060
Republic of South Africa - 5.88%	2025	1,102,740	479,625
Republic of South Africa - 5.88%	2030	1,069,940	869,999
United Rentals North America Inc - 4.88%	2028	1,053,370	970,000
Ford Motor Credit Company LLC - 4.39%	2026	1,051,070	875,000
Republic of South Africa - 4.88%	2026	1,050,000	-
Republic of Panama - 4.00%	2024	1,023,820	972,900
Republic of Chile - 3.25%	2021	1,012,250	1,013,760
PBS Medium Term Bond - 7.75%	2025	1,011,220	1,001,581
Republic of Chile - 2.45%	2031	1,002,520	-
JMMB Group Ltd - 5.60%	2022	982,250	911,627
Republic of Chile - 3.24%	2028	969,867	950,634
Government of Mexico - 3.75%	2028	854,920	795,208
Government of Aruba - 6.50%	2029	546,230	-
Dominican Republic - 5.88%	2024	537,116	492,188
Republic of South Africa - 4.67%	2024	529,275	468,750
Dominican Republic - 7.45%	2044	471,000	679,000
Republic of Peru - 8.75%	2033	465,555	-
Republic of Panama - 3.88%	2028	436,920	428,004
Republic of Panama - 9.38%	2023	287,547	293,750
Government of Mexico - 8.00%	2022	55,094	58,219
Petroleum Company Trinidad and Tobago - 6.00%	2022	25,336	41,849
Dominican Republic - 7.50%	2021	-	4,878,833
NCB Financial Group - 4.75%	2021	-	2,000,000
BBVA Bancomer SA Texas - 7.25%	2020	-	1,985,020
Macy's Retail Holdings Inc - 6.7%	2034	-	1,882,391
Republic of Trinidad and Tobago - 9.75%	2020	-	1,622,075
Government of Costa Rica - 9.99%	2020	-	1,517,656
Government of Honduras - 8.75%	2020	-	1,485,015
Dominican Republic - 6.85%	2045	-	1,030,353
Republic of Brazil - 4.88%	2021	-	1,017,188
BBVA Bancomer SA Texas - 6.5%	2021	-	1,001,800
Macy's Retail Holdings Inc - 3.62%	2024	-	993,193
Republic of Chile - 3.88%	2020	-	434,083
Government of Barbados - 6.50%	2021	-	85,748
		136,276,418	126,863,685
Accrued interest		1,804,061	2,046,431
<b>Total debt securities</b>		<b>138,080,479</b>	<b>128,910,116</b>

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2021

*(Expressed in United States Dollars)*

### 7. Securities Purchased Under Resale Agreements

	<b>2021</b>	<b>2020</b>
	\$	\$
Securities purchased under resale agreements	19,504,372	17,518,271
Accrued interest	368,787	303,892
	<u>19,873,159</u>	<u>17,822,163</u>

The fair value of underlying securities used to collateralize securities purchased under resale agreements is \$31,193,493 (2020 - \$17,857,046).

At March 31, 2021 \$7,544,608 (2020 - \$4,880,006) of securities purchased under resale agreements are to be matured within 90 days and \$11,959,764 (2020 - \$12,638,265) to be matured between 91 to 365 days.

### 8. Other Receivables

Other receivables are stated at amortized cost. Other receivables include a receivable for fund shares sold in the amount of \$57,697 (2020 - \$103,210).

### 9. Share Capital

Authorized, issued and fully paid

	<b>2021</b>	<b>2020</b>
Governance shares of no par value (units)	<u>100</u>	<u>100</u>
	<b>2021</b>	<b>2020</b>
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.

### 10. 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 \$Nil (2020 - \$1,134,256).

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2021

*(Expressed in United States Dollars)*

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### 11. 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.
  - (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:*

	<b>2021</b>	<b>2020</b>
Due to Fund Manager – Scotia Asset Management (St.Lucia) Inc.	\$ <u>621,461</u>	<u>644,774</u>
	<b>2021</b>	<b>2020</b>
Director's fee	\$ <u>5,000</u>	<u>5,000</u>

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2021

*(Expressed in United States Dollars)*

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

*Due to related parties (Cont'd):*

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 Investments 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 incurred to the Fund Manager during the year were \$2,417,455 (2020 - \$2,541,886).

At March 31, 2021, all governance shares in the Fund were held by Scotia Investments Jamaica Limited.

At March 31, 2021, Scotia Investments Jamaica Limited's balance in the Fund was \$10,021,195 (2020 - \$9,346,911).

During the year, distributions paid to Scotia Investments Jamaica Limited were \$127,016 (2020 - 254,300).

### 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:

	2021	2020
<i>Authorised investment shares</i>		
Investment shares of no par value (units)	<u>100,000,000</u>	<u>100,000,000</u>
<i>Issued and fully paid</i>		
<b>Number of Investment Shares</b>		
Balance at April 1	42,528,592	42,178,521
Subscriptions during the year	4,261,519	4,737,109
Reinvestment during the year	839,657	951,291
Redemptions during the year	<u>(4,572,094)</u>	<u>(5,338,329)</u>
Balance at March 31	<u>43,057,674</u>	<u>42,528,592</u>
<b>Balance as at April 1</b>	\$ 146,919,862	154,613,728
Increase/(decrease) in net assets attributable to holders of investment shares	8,279,825	(9,310,416)
Subscriptions of investment shares during the year	15,468,922	17,749,184
Reinvestment of investment shares during the year	3,033,618	3,478,322
Redemption of investment shares during the year	<u>(16,304,855)</u>	<u>(19,610,956)</u>
<b>Balance as at March 31</b>	<u>157,397,372</u>	<u>146,919,862</u>
Net asset value per investment share	<u>3.66</u>	<u>3.45</u>

**SCOTIA CARIBBEAN INCOME FUND INC.**

Notes to the Financial Statements (Cont'd)

March 31, 2021

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

- (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 (Cont'd):

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 not a related party to the investment manager of the Fund.

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

	<b>2021</b>	<b>2020</b>
Net assets value of Fund	\$ 157,397,372	146,919,862
Less: Governance shares	<u>(1,000)</u>	<u>(1,000)</u>
	\$ <u>157,396,372</u>	<u>146,918,862</u>
Investment shares in issue at March 31	<u>43,057,674</u>	<u>42,528,592</u>
Net asset value per investment share	\$ <u>3.66</u>	<u>3.45</u>

- (c) Distributions

During the year, the Fund declared and paid distributions as follows.

Declaration date	Type	USD Class A Units		USD Class I Units	
		Dividends Per Unit \$	Dividends Value \$	Dividends Per Unit \$	Dividends Value \$
06/29/2020	Interim dividend	0.02	1,019,287	0.06	77
09/29/2020	Interim dividend	0.02	910,465	0.06	75
12/30/2020	Interim dividend	0.02	765,550	0.05	69
03/30/2021	Interim dividend	0.02	944,965	0.06	77
			<u>3,640,267</u>		<u>298</u>



## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2021

*(Expressed in United States Dollars)*

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

#### (c) Distributions (Cont'd)

2020 Dividends		USD Class A Units		USD Class I Units	
		Dividends Per Unit	Dividends Value	Dividends Per Unit	Dividends Value
Declaration date	Type	\$	\$	\$	\$
06/27/2019	Interim dividend	0.02	1,006,015	0.06	75
09/27/2019	Interim dividend	0.02	975,107	0.06	75
12/30/2019	Interim dividend	0.02	1,031,029	0.06	79
3/30/2020	Interim dividend	0.02	1,033,474	0.06	77
			<u>4,045,625</u>		<u>306</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 \$6,665 (2020 - \$6,665).

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 \$85,549 (2020 - \$89,437). These fees accrue daily and are paid quarterly in arrears.

The Fund Distributor(s) is/are entitled to receive an annual trailer fee 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 \$566,591 (2020 - \$595,755).

Other administrator fees, which include transfer agent and other administrator fees amounted to \$80,949 (2020 - \$81,297). Total administrator fees included in the statement of comprehensive income amounted to \$739,754 (2020 - \$773,155).

#### *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 \$2,417,455 (2020 - \$2,541,886).

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2021

*(Expressed in United States Dollars)*

### 13. Administration, Management and Custodian fees (Cont'd)

#### *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 \$74,776 (2020 - \$55,277).

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

### 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.

As at March 31, 2021, the company has measured tax liabilities with respect to withholding taxes on interest income for \$Nil (2020 - \$Nil).

#### (b) *Income tax expense*

	2021	2020
Income tax expense	\$ -	-
Reconciliation of applicable tax charge to effective tax charge:		
Profit (loss) before income tax expense	\$ 8,279,825	(9,310,416)
Income tax at domestic rate of 1% (2020 - 1%)	\$ 82,798	(93,104)
Less: Tax effect of exempt income	(25,657)	(29,331)
Losses expiring	17,510	18,639
Movement in deferred tax asset (not recognized)	(74,651)	103,796
Unrealised fair value (gains)/losses	-	-
Adjustment for current year tax losses	-	-
Income tax expense	\$ -	-

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2021

*(Expressed in United States Dollars)*

### 14. Income Tax Expense (Cont'd)

#### (b) *Income tax expense (Cont'd)*

At the end of the year, the Fund had income tax losses of \$19,574,277 (2020 - \$16,362,928) 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:

<u>Income year</u>	<u>Expiry year</u>	<u>Losses arising</u>	<u>Incurred/ (utilised)</u>	<u>Losses available</u>
		\$	\$	\$
2015	2021	1,750,947	(1,750,947)	-
2016	2022	2,146,762	-	2,146,762
2017	2023	2,096,686	-	4,243,448
2018	2024	3,442,524	-	7,685,972
2019	2025	3,308,580	-	10,994,552
2020	2026	3,617,429	-	14,611,981
2021	2027	4,962,296	-	19,574,277

Deferred income tax assets are recognized 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 recognized since it is uncertain that taxable profits will be available against which the deferred tax asset can be utilised.

### 15. Involvement with unconsolidated listed investment entities

The maximum exposure to loss, due to interests held by the Fund in unconsolidated listed structured entities, is the carrying amount of the financial assets held. As of March 31, 2021 and March 31, 2020, there were no interests held by the Fund in unconsolidated listed structured entities.

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.

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2021

*(Expressed in United States Dollars)*

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

#### 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.

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.

**SCOTIA CARIBBEAN INCOME FUND INC.**

Notes to the Financial Statements (Cont'd)

March 31, 2021

*(Expressed in United States Dollars)*

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**16. Financial Risk Management (Cont'd)***Risk Management Framework (Cont'd)*

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

(i) Analysis of credit quality

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

	<b>2021</b>	<b>2020</b>
S & P Rating		
AAA to A-	11.04%	11.24%
BBB+ to B-	79.36%	76.39%
Not rated	9.60%	12.37%
<b>Total</b>	<u>100.00%</u>	<u>100.00%</u>
	<b>2021</b>	<b>2020</b>
<b>Investments</b>		
Financial assets at fair value through profit or loss	\$ 138,080,479	128,910,116
Securities purchased under resale agreements	19,873,159	17,822,163
<b>Total Investments</b>	<u>\$ 157,953,638</u>	<u>146,732,279</u>

# SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2021

*(Expressed in United States Dollars)*

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

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

#### (i) Analysis of credit quality (Cont'd)

Credit ratings for the Fund's financial assets are as follows:

	Rating	2021	Rating	2020
Aeropuertos Dominica	B+	2,293,912	BB-	1,551,413
BBVA Bancomer SA Texas	NR	-	NR	3,054,653
Braskem Netherlands Finance Company	BB+	1,556,317	BBB-	1,214,078
Commonwealth of Bahamas	BB-	9,890,357	BB+	8,385,761
Controladora Mabe Company	BBB-	1,780,617	BBB-	1,454,367
Credit Real SAB Company	BB	3,387,038	BB	3,036,855
Dominican Republic	BB-	10,760,080	BB-	8,218,910
Ford Motor Credit Company LLC	BB+	1,061,189	BB+	885,119
General Motors Financial Corp	BBB	1,298,116	BBB	1,214,201
Global Bank Corporation	BBB-	7,312,370	BBB-	3,285,562
Government of Aruba	BBB	8,792,862	BBB+	10,074,340
Government of Barbados	B-	1,198,549	B-	1,159,341
Government of Bermuda	A+	10,160,276	A+	10,035,958
Government of Costa Rica	B+	-	B+	1,542,977
Government of Honduras	BB-	2,612,000	BB-	3,896,820
Government of Jamaica	B+	11,082,504	B+	13,501,092
Grupo Unicomer Ltd	BB-	1,615,313	BB-	1,514,063
Instituto Costarricense de Electricidad	NR	3,530,801	NR	3,298,113
Inversiones Atlantida Sa	B+	6,191,685	B+	5,306,625
JMMB Group Ltd	NR	986,807	NR	916,146
JPS Senior Unsecured Bond	NR	3,211,995	NR	3,146,149
National Road Operating and Construction Company	B+	6,850,008	B+	6,204,319
NCBFG Bond	NR	1,995,920	---	-
NCB Financial Group	NR	-	NR	2,008,329
Panama Bonos del Tesoro	BBB	2,614,444	BBB+	2,415,372
PBS Medium Term Bond	NR	1,028,005	NR	1,021,381
Petroleum Company Trinidad and Tobago	BB-	25,932	BB	42,842
Macy's Retail Holdings Inc	BB	-	BB	2,921,997
Republic of Brazil	BB-	-	BB-	1,026,531
Republic of Chile	A	5,087,704	A+	4,451,207
Republic of Guatemala	BB-	2,164,981	BB-	2,081,878
Republic of Panama	BBB	3,624,314	BBB+	1,701,080
Republic of Paraguay	BB	3,113,974	BB	3,030,510
Republic of Peru	BBB+	3,989,267	BBB+	2,940,345
Republic of South Africa	BB-	7,047,404	BB	1,840,550
Republic of Trinidad and Tobago	BBB-	-	BBB-	1,661,367
Sagicor Finance Ltd	NR	2,500,000	NR	2,501,747
Trinidad and Tobago	BBB-	1,770,605	---	-
Trinidad Generation Unlimited	BB+	4,285,203	BB+	4,527,655
United Mexican States	BBB	2,196,268	BBB	860,171
United Rentals North America Inc	BB	1,063,662	BB-	980,292
		<u>\$ 138,080,479</u>		<u>\$ 128,910,116</u>

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2021

*(Expressed in United States Dollars)*

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

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

##### (i) Analysis of credit quality (Cont'd)

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

<u>Financial assets at fair value</u> <u>through profit or loss</u>	<u>2021</u>		<u>2020</u>			
	\$	Fair Value	% of total portfolio	\$	Fair Value	% of total portfolio
Aruba		8,792,863	6.37%		10,074,340	7.82%
Bahamas (The)		9,890,357	7.16%		8,385,761	6.51%
Barbados		1,198,550	0.87%		1,159,341	0.90%
Bermuda		10,160,276	7.36%		10,035,958	7.79%
Brazil		-	0.00%		1,026,532	0.80%
Chile		5,087,705	3.68%		4,451,208	3.45%
Costa Rica		3,530,801	2.56%		4,841,091	3.76%
Dominican Republic (The)		13,053,993	9.45%		9,770,322	7.58%
El Salvador		1,615,313	1.17%		1,514,063	1.17%
Guatemala		2,164,981	1.57%		2,081,878	1.61%
Honduras		8,803,685	6.38%		9,203,445	7.14%
Jamaica		27,655,235	20.03%		29,299,160	22.72%
Mexico		7,363,923	5.33%		5,351,393	4.15%
Netherlands (The)		1,556,318	1.13%		1,214,078	0.94%
Panama		13,551,127	9.81%		7,402,014	5.74%
Paraguay		3,113,974	2.26%		3,030,509	2.35%
Peru		3,989,267	2.89%		2,940,345	2.28%
South Africa		7,047,404	5.10%		1,840,550	1.43%
Trinidad and Tobago		6,081,739	4.40%		6,231,865	4.83%
United States		3,422,968	2.48%		9,056,263	7.03%
Total financial assets at fair value through profit or loss	\$	<u>138,080,479</u>	<u>100.00%</u>	\$	<u>128,910,116</u>	<u>100.00%</u>

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

The Fund's securities purchased under resale agreements 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 are offset in the statement of financial position. The disclosures set out in note 7 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.

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2021

*(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 (Cont'd)

The Fund gives collateral in the form of cash and marketable securities in respect of Securities purchased under resale agreements.

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 March 31, 2021 and March 31, 2020, all other receivables, amounts due from brokers, cash and short-term deposits are held with counterparties with a credit rating of AA/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 recognized based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Fund.

(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.

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.



**SCOTIA CARIBBEAN INCOME FUND INC.**

Notes to the Financial Statements (Cont'd)

March 31, 2021

*(Expressed in United States Dollars)*

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

(c) Market risk (Cont'd)

From time to time, countries have experienced outbreaks of infectious illnesses. A 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.

(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.

(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 summarizes the Fund's exposure to interest rate risk. It includes the Fund's financial instruments at carrying amounts, categorized by the earlier of contractual re-pricing or maturity date.

**2021**

	Less than 1 month	1-3 months	3 months - 1 year	Over 1 year	Non- Rate Sensitive	Total
<b><u>Assets</u></b>						
Financial assets at fair value through profit or loss	\$ 2,500,000	-	10,650,453	124,930,026	-	138,080,479
Securities purchased under resale agreements	5,314,813	2,429,025	12,129,321	-	-	19,873,159
<b>Total assets</b>	<b>\$ 7,814,813</b>	<b>2,429,025</b>	<b>22,779,774</b>	<b>124,930,026</b>	<b>-</b>	<b>157,953,638</b>

**2020**

	Less than 1 month	1-3 months	3 months - 1 year	Over 1 year	Non- Rate Sensitive	Total
<b><u>Assets</u></b>						
Financial assets at fair value through profit or loss	\$ 2,049,062	-	12,816,533	114,044,521	-	128,910,116
Securities purchased under resale agreements	-	4,970,390	12,851,773	-	-	17,822,163
<b>Total assets</b>	<b>\$ 2,049,062</b>	<b>4,970,390</b>	<b>25,668,306</b>	<b>114,044,521</b>	<b>-</b>	<b>146,732,279</b>

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2021

*(Expressed in United States Dollars)*

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

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

##### (ii) Interest rate risk (Cont'd)

###### *Sensitivity analysis*

The Fund is susceptible to interest rate risk arising from the exposure to debt securities. As at March 31, 2021, 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.

##### (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 recognized 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 \$138,080,479 (2020 - \$128,910,116).

###### *Sensitivity analysis*

A 5% increase/decrease in prices at March 31, 2021, would have increased/decreased the surplus for the year and the net assets available to holders of fund units by \$6,904,024 (2020 - \$6,445,506).

### 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:

#### Level 1

- Quoted prices (unadjusted) in active markets for identical assets or liabilities.

#### Level 2

- 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.

**SCOTIA CARIBBEAN INCOME FUND INC.**

Notes to the Financial Statements (Cont'd)

March 31, 2021

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

## Level 3

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

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.

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 analyze 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, 2021**

	Level 1	Level 2	Level 3	Total Balance
Financial assets at fair value through profit or loss				
Government Issues	\$ -	86,105,591	-	86,105,591
Corporate Bonds	-	51,974,888	-	51,974,888
Total financial assets at fair value through profit or loss	\$ -	138,080,479	-	138,080,479

**At March 31, 2020**

	Level 1	Level 2	Level 3	Total Balance
Financial assets at fair value through profit or loss				
Government Issues	\$ -	78,824,211	-	78,824,211
Corporate Bonds	-	50,085,905	-	50,085,905
Total financial assets at fair value through profit or loss	\$ -	128,910,116	-	128,910,116

## SCOTIA CARIBBEAN INCOME FUND INC.

Notes to the Financial Statements (Cont'd)

March 31, 2021

*(Expressed in United States Dollars)*

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

#### Financial instruments measured at fair value (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, 2021, 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, 2021, the Fund did not have any Level 3 securities. There were no securities transferred in or out of Level 3.

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.

### 18. Subsequent Events

From April 1, 2021 to June 28, 2021, the Fund received subscriptions of \$2,644,464 and redemptions of \$3,242,020.

Effective June 11, 2021, the Fund was re-domiciled and transitioned from a corporation under the laws of St. Lucia to a company continued in and licensed as a mutual fund under the laws of Barbados. This transition is not expected to affect the assets of the Fund or the value of the investments.

With the change in domicile to Barbados, the Board of Directors has also changed to reflect a majority Barbados-resident Board. The Members of the Board of Directors effective June 11th 2021 are: Mr. Sunil Chatrani, Ms. Lisl Lewis, Ms. Colleen Cyrus, Dr. Adrian Stokes, Ms. Carol McKeever and Mr. Mario Causarano.

The Fund is in the process of de-registering with the Cayman regulator as a registered mutual fund. There are no other subsequent events.