



Annual Report 2017

Scotiabank Short-Term Income Fund Inc.

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BOARD OF DIRECTORS REPORT

The Board of Directors (the “Directors”) of Scotiabank Short-Term Income Fund Inc. (“The Fund”) is pleased to present the annual report on the activities and financial results for the fiscal year ended December 31, 2017.

Results

The Scotiabank Short-Term Income Fund’s (the “Fund”) net asset value decreased by 35.5% to US\$8.9 million at December 31, 2017 from US\$13.8 million at December 31, 2016. The decrease is attributed to investment performance of US\$0.2 million and net sales of -US\$5.0 million, offset by distributions of US\$0.1 million. The net asset value per share for the Fund’s Class A shares remained the same year-over-year at US\$9.63, as at December 31, 2017. The Fund’s Class A shares paid a dividend of US\$0.12 per share and had an increased dividend yield of 2.00% in 2017. The return of 1.20%, including distributions, for the Fund’s Class A shares was primarily generated from the stable running yield of the portfolio, due to increases in the Federal Funds rate.

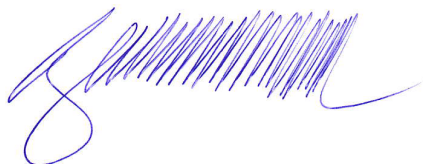
Board

During the period, the Board of Directors continued to discharge its duties of providing guidance to management and oversight of the Fund’s business affairs. During 2017, Frederick Williams, Dwight Burrows, Lissant Mitchell, Carlos Escamilla, and Robert Lawrence joined the board. Frederick Williams, Sloane Muldoon and Sarah Hobbs left the Board during the same period, and as of December 31, 2017, the members of the Board of Directors were as follows:

Mr. Dwight Burrows
Mr. Carlos Escamilla
Mr. Chester Hinkson
Mr. Robert Lawrence
Mr. Rhory McNamara
Mr. Lissant Mitchell

Appreciation

I would like to thank our valued shareholders for their continued support and confidence. I would also like to thank the members of the Board of Directors, our stakeholders and the entire team at Scotia Asset Management (St Lucia) Inc. and Scotiabank & Trust (Cayman) Ltd. for their contributions over the past year.



Rhory McNamara
Director

MANAGEMENT REPORT

i) ECONOMIC REVIEW

An improvement in key economic indicators signaled a strengthening of the US economy in 2017. The current economic cycle is now the 3rd longest on record. US Gross Domestic Product increased 2.3%, driven mainly by consumer spending. Strength in demand for motor vehicles, household furnishings and equipment resulted in a 6% increase in purchases of durable goods. Consumer confidence and spending are well supported by an unemployment rate at 4.4% – a near 20-year low – gains in personal wealth from rising home prices and equity investments, and still low borrowing costs. The US housing sector improved during the year with an increase in existing home sales and a 10% increase in new home starts. The supply of existing homes for sale is at an 18-year low. Business investment has become an increasingly important driver of industrial activity. US capital goods orders increased over 5% in 2017, the largest increase in more than 5 years, and were driven by a surge in machinery demand for the extractive sectors as well as recent federal tax reforms. Tight labor markets, continued economic growth, and a more stable US Dollar have resulted in inflation nearing the Federal Reserve's 2% target.

ii) FINANCIAL MARKET REVIEW

Fixed income markets had mixed results in 2017 and were affected by three interest rate increases from the US Federal Reserve during the course of the year, and solid earnings growth from US corporations. Money market securities benefited from an increase in the yield of the 3-Month US Treasury Bill from 0.51% to 1.39% and had a return, as measured by the ICE BofAML 0-3M US T-Bill Index, of 0.82% in 2017. The yield on the 2-Year US Treasury Bond increased from 1.20% to 1.89% during the year and US short-term bonds, as measured by the ICE BofAML 1-3Yr US Treasury Index, had a return of 0.42% in 2017. The return on longer-term Treasury Bonds, as per the ICE BofAML 10+Yr US Treasury Index, had a return of 8.2% as the yield on the 10-Year US Treasury Bond decreased from 2.45% to 2.40%. US investment grade corporate bonds, as per the ICE BofAML US Corporate TR Index, returned 6.48% in 2017 as credit spreads dropped from 1.30% to 0.98%, a 19-year low. Lower rated investment grade bonds and high yield bonds outperformed due to increased investor demand.

iii) INVESTMENT PERFORMANCE REVIEW

The Scotiabank Short-Term Income Fund Inc.

The Class A shares of the Fund had a total return of 1.20% in 2017 and included a dividend of \$0.12 per share.

Fund returns were primarily generated from the stable running yield of the portfolio, which increased to 2.00% at year-end due to increases in the Federal Funds rate. Credit spreads on the Fund's holdings of investment and non-investment grade bonds also contributed to returns as yields narrowed due to improved earnings, strong investor demand for yield and a favorable investment environment. Additional returns were generated from credit roll down, with bond prices increasing as they neared maturity. Interest rate increases had a minimal impact on Fund returns due to its very low duration of 0.6 years and its use of interest rate swaps to reduce risk. The Fund continues to invest in high quality North American corporate bonds with a weighted average credit rating of "A" and 5 years and less to maturity in order to minimize volatility. Currency movements on the Fund's holdings of non-US Dollar-denominated bonds had little impact on performance due to the use of currency hedges.

Continued market volatility is expected given the potential for further interest rate increases. The Fund will continue to invest in short-term bonds to reduce volatility. Changes in interest rates by the US Federal Reserve or the Bank of Canada may potentially affect future distribution amounts. The Fund's primary focus remains on selecting securities with high liquidity and issues by companies with strong credit fundamentals, while hedging to reduce interest rate and currency risk.

iv) FINANCIAL RESULTS REVIEW

Scotiabank Short-Term Income Fund Inc.

Summary of Results

The Fund's net asset value decreased by 35.5% to US\$8.9 million at December 31, 2017 from US\$13.8 million at December 31, 2016. The decrease is attributed to investment performance of US\$0.2 million and net sales of -US\$5.0 million, offset by distributions of US\$0.1 million. The investment performance of the Fund includes earned income and expenses which vary year over year due to portfolio activity. The Fund's expenses decreased as compared to the previous period mainly as a result of changes in average net assets and portfolio activity. Income decreased as compared to the previous period due to changes in the Fund's income earning investments. The Fund had US\$0.5 million in cash at December 31, 2017, which the manager believed was sufficient to manage liquidity.

Financial Highlights

	2017	2016
	US\$ (000's)	US\$ (000's)
Total Assets	8,994	13,923
Total Liabilities	103	132
Net Assets attributable to holders of investment shares	8,891	13,791
Net Income (before distributions / dividends)	200	306
Net Income (after distributions / dividends)	74	121

As at December 31, 2017

	Class A	Class NU	Class IU
NAV	3,182,567	842,256	4,866,616
Shares	330,615	88,596	492,417
NAV per Share	9.63	9.51	9.88

As at December 31, 2016

	Class A	Class NU	Class IU
NAV	2,625,245	1,451,291	9,714,918
Shares	272,569	152,210	992,553
NAV per Share	9.63	9.53	9.79

v) RELATED PARTY TRANSACTIONS

All related party transactions are documented in “Management Agreement” in Note 5 and “Other Related Party Transactions” in Note 6 of the Notes to Financial Statements.

AUDITED FINANCIAL STATEMENTS

The Scotiabank Short-Term Income Fund Inc.

As at December 31, 2017

SCOTIABANK SHORT-TERM INCOME FUND INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2017

SCOTIABANK SHORT-TERM INCOME FUND INC.

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DECEMBER 31, 2017

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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

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, 2017, 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, 2017;
- the statement of comprehensive income 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.

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.

Our audit approach

Overview



- Overall materiality was determined based on the net assets attributable to holders of redeemable participating 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 judgments; 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 to ensure that we performed enough work to be able to give 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 judgment 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 judgment, 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.

<i>Overall materiality</i>	USD 89,000
<i>How we determined it</i>	1% of net assets attributable to holders of redeemable participating shares of the Fund
<i>Rationale for the materiality benchmark applied</i>	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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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 data-bbox="151 394 613 426"><i>Valuation and existence of investments</i></p> <p data-bbox="151 478 617 541">Refer to notes 3, 4 and 9 to the financial statements.</p> <p data-bbox="151 594 698 793">The investment portfolio at December 31, 2017 is comprised of corporate bonds (USD 5.9m), corporate commercial paper (USD 1.5m), Government T-bills (USD 627k), interest rate swaps (USD 68k) and forward foreign currency contracts (USD -33k).</p> <p data-bbox="151 846 698 1003">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 data-bbox="725 394 1356 457">We tested the valuation of the investment portfolio as follows:</p> <ul data-bbox="725 478 1453 709" style="list-style-type: none"><li data-bbox="725 478 1453 573">• for corporate bonds and corporate commercial paper we compared the prices used by the Fund to prices provided by third party data vendors;<li data-bbox="725 583 1453 709">• 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. <p data-bbox="725 720 1234 741">No material misstatements were identified.</p> <p data-bbox="725 793 1356 856">We tested the existence of the investment portfolio as follows:</p> <ul data-bbox="725 877 1453 1098" style="list-style-type: none"><li data-bbox="725 877 1453 1098">• for corporate bonds and corporate commercial paper 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. <p data-bbox="725 1108 1234 1129">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.



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.

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 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 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.

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.

The engagement leader 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 27, 2018

SCOTIABANK SHORT-TERM INCOME FUND INC.

STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2017

(Expressed in United States dollars)

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 505,967	\$ 294,882
Financial assets at fair value through profit or loss:		
Debt securities (Cost: \$8,075,171; 2016: \$13,514,406) (Notes 3, 8 and 9)	8,102,476	13,256,086
Derivatives (Note 4)	68,497	53,350
Cash collateral receivable	239,864	223,705
Interest receivable	74,092	90,367
Receivable from Manager (Note 5)	3,494	4,895
	<u>8,994,390</u>	<u>13,923,285</u>
LIABILITIES		
Financial liabilities at fair value through profit or loss:		
Derivatives (Note 4)	33,736	28,210
Accrued expenses	46,192	62,345
Interest payable	19,020	37,139
Management fees (Note 5)	3,903	4,037
	<u>102,851</u>	<u>131,731</u>
Liabilities (excluding net assets attributable to holders of redeemable investment shares)		
	<u>102,851</u>	<u>131,731</u>
Governance shares	<u>100</u>	<u>100</u>
Net assets attributable to holders of redeemable investment shares (Notes 7 and 8)	<u>\$ 8,891,439</u>	<u>\$ 13,791,454</u>
Net asset value per redeemable investment shares (Note 7)		
Class A		
\$3,182,567/330,615 shares (2016: \$2,625,245/272,569 shares)	<u>\$ 9.63</u>	<u>\$ 9.63</u>
Class NU		
\$842,256/88,596 shares (2016: \$1,451,291/152,210 shares)	<u>\$ 9.51</u>	<u>\$ 9.53</u>
Class IU		
\$4,866,616/492,417 shares (2016: \$9,714,918/992,553 shares)	<u>\$ 9.88</u>	<u>\$ 9.79</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 27, 2018

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

SCOTIABANK SHORT-TERM INCOME FUND INC.

STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31, 2017

(Expressed in United States dollars)

	<u>2017</u>	<u>2016</u>
Income		
Interest income	\$ 246,149	\$ 340,232
Net realized loss on financial assets and liabilities at fair through profit or loss, foreign currencies and swap contracts	(264,478)	(239,416)
Net change in unrealized appreciation on financial assets and liabilities at fair value through profit or loss, foreign currencies	<u>315,867</u>	<u>340,433</u>
Total net income	<u>297,538</u>	<u>441,249</u>
Expenses		
Custodian and administration fees	81,380	74,244
Management fees (Note 5)	48,462	64,160
Other expenses	42,826	25,559
Professional fees	<u>18,477</u>	<u>27,238</u>
Total operating expenses	<u>191,145</u>	<u>191,201</u>
Less: expenses reimbursed (Note 5)	<u>(93,994)</u>	<u>(56,792)</u>
Withholding taxes	<u>-</u>	<u>(750)</u>
Operating profit	<u>200,387</u>	<u>306,090</u>
Finance costs		
Distributions to holders of redeemable shares (Notes 2 and 7)	<u>126,651</u>	<u>184,728</u>
Profit after distributions	<u>73,736</u>	<u>121,362</u>
Increase in net assets from operations attributable to holders of redeemable investment shares	<u>\$ 73,736</u>	<u>\$ 121,362</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, 2017

(Expressed in United States dollars)

	<u>Share Capital</u>	<u>Share Premium</u>	<u>Increase 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, 2015	\$ 15,797	\$ 15,805,318	\$ (597,686)	\$ 15,223,429
Issue of redeemable investment shares	257	249,010	-	249,267
Redemption of redeemable investment shares	(1,881)	(1,800,723)	-	(1,802,604)
Increase in net assets from operations attributable to holders of redeemable investment shares	<u>-</u>	<u>-</u>	<u>121,362</u>	<u>121,362</u>
Balance as at December 31, 2016	\$ 14,173	\$ 14,253,605	\$ (476,324)	\$ 13,791,454
Issue of redeemable investment shares	1,724	1,662,682	-	1,664,406
Redemption of redeemable investment shares	(6,780)	(6,631,377)	-	(6,638,157)
Increase in net assets from operations attributable to holders of redeemable investment shares	<u>-</u>	<u>-</u>	<u>73,736</u>	<u>73,736</u>
Balance as at December 31, 2017	\$ <u>9,117</u>	\$ <u>9,284,910</u>	\$ <u>(402,588)</u>	\$ <u>8,891,439</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, 2017

(Expressed in United States dollars)

Cash flows from operating activities	<u>2017</u>	<u>2016</u>
Interest received	\$ 270,625	\$ 332,243
Interest paid	(18,119)	(2,533)
Operating expenses paid	(207,432)	(201,377)
Operating expense paid on behalf of manager	-	(8,812)
Reimbursements received from manger	95,395	144,232
Purchase of financial assets and settlement of financial liabilities at fair value through profit or loss	(4,647,823)	(2,794,053)
Proceeds from sale of financial assets and financial liabilities at fair value through profit or loss	9,946,985	3,781,319
Net realized loss on foreign currencies and swap contracts	(128,144)	(154,666)
	<u>5,311,487</u>	<u>1,096,353</u>
Net cash provided by operating activities		
Cash flows from financing activities		
Distributions paid	(2,137)	(141,872)
Proceeds from subscriptions of redeemable investment shares	1,539,892	206,782
Payments for redemption of redeemable investment shares	(6,638,157)	(1,802,604)
	<u>(5,100,402)</u>	<u>(1,737,748)</u>
Net cash used in financing activities		
Net change in cash and cash equivalents	211,085	(641,395)
Cash and cash equivalents at beginning of the year	<u>294,882</u>	<u>936,277</u>
Cash and cash equivalents at end of the year	<u>\$ 505,967</u>	<u>\$ 294,882</u>
Supplemental cash flow disclosures:		
Non-cash - reinvested distributions	<u>\$ 124,514</u>	<u>\$ 42,856</u>

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

SCOTIABANK SHORT-TERM INCOME FUND INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

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.

2. Summary of 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.

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.

New standards and amendments to published standards and interpretations:

(a) Standards and amendments to existing standards effective January 1, 2017 that are adopted by the Fund.

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning January 1, 2017 that would be expected to have a material impact on the Fund.

SCOTIABANK SHORT-TERM INCOME FUND INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

2. Summary of Significant Accounting Policies (continued)

(b) New standards, amendments and interpretations effective after 1 January 2017 and have not been early adopted.

IFRS 9 'Financial Instruments' addresses the classification, measurement and derecognition of financial assets and liabilities. It replaces the multiple classification and measurement models in IAS 39 and is effective for reporting periods beginning on or after 1 January 2018.

Classification and measurement of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and the contractual cash flows under the instrument solely represent payments of principal and interest (SPPI). A debt instrument is measured at fair value through other comprehensive income if the objective of the business model is to hold the financial asset both to collect contractual cash flows from SPPI and to sell. All other debt instruments must be recognised at fair value through profit or loss. An entity may however, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Derivative and equity instruments are measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income. IFRS 9 also introduces a new expected credit loss (ECL) impairment model.

On adoption of IFRS 9 the Fund's investment portfolio will continue to be classified as fair value through profit or loss. Other financial assets which are held for collection will continue to be measured at amortised cost with no material impact expected from application of the new impairment model. As a result, the adoption of IFRS 9 is not expected to have a material impact on the Fund's financial statements.

In addition to the above, a number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2017, and have not been applied 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's debt and other securities are considered trading securities and consequently categorized as financial assets and liabilities 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 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. 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, 2017

2. Summary of 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.

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 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 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.

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 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

SCOTIABANK SHORT-TERM INCOME FUND INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

2. Summary of Significant Accounting Policies (continued)

Translation of foreign currency amounts (continued):

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, 2017, the fund had cash collateral receivable on swap contracts in the amounts of \$239,864 (2016: \$223,705) 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, 2017 and 2016 the financial assets and liabilities comprised the following securities:

	<u>2017</u>		<u>2016</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
<u>Assets</u>				
Corporate Bonds	\$ 5,906,200	\$ 5,944,500	\$ 11,051,608	\$ 10,802,922
Corporate Commercial Paper	1,538,492	1,530,942	2,462,798	2,453,164
Government T-bills	630,479	627,034	-	-
Interest Rate Swaps	-	68,190	-	16,077
Forward Foreign Currency Contracts	-	307	-	37,273
	<u>\$ 8,075,171</u>	<u>\$ 8,170,973</u>	<u>\$ 13,514,406</u>	<u>\$ 13,309,436</u>
<u>Liabilities</u>				
Interest Rate Swaps		\$ (2)		\$ (22,273)
Forward Foreign Currency Contracts		(33,734)		(5,937)
		<u>\$ (33,736)</u>		<u>\$ (28,210)</u>
		<u>\$ 8,137,237</u>		<u>\$ 13,281,226</u>

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

DECEMBER 31, 2017

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

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

	<u>2017</u>		<u>2016</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	\$ 3,546,252	43.58%	\$ 4,095,742	30.84%
Cayman Islands	-	0.00%	250,450	1.89%
Luxembourg	-	0.00%	507,306	3.82%
United States	<u>4,624,721</u>	<u>56.83%</u>	<u>8,455,938</u>	<u>63.66%</u>
Total financial assets at fair value through profit or loss	<u>\$ 8,170,973</u>	<u>100.41%</u>	<u>\$ 13,309,436</u>	<u>100.21%</u>
<u>Financial Liabilities at fair value</u>				
Canada	\$ (2)	0.00%	\$ (17,491)	-0.13%
United States	<u>(33,734)</u>	<u>-0.41%</u>	<u>(10,719)</u>	<u>-0.08%</u>
Total financial liabilities at fair value through profit or loss	<u>\$ (33,736)</u>	<u>-0.41%</u>	<u>\$ (28,210)</u>	<u>-0.21%</u>
Total net financial assets and liabilities at fair value through profit or loss	<u>\$ 8,137,237</u>	<u>100.00%</u>	<u>\$ 13,281,226</u>	<u>100.00%</u>

As at December 31, 2017, the portfolio consists of 58 (2016: 56) positions, primarily located in United States and Canada. The three largest concentrations are in JP Morgan Chase & Co. (6%), Royal Bank of Canada (6%), and U.S. Treasury Notes and Bonds (5%) (2016: AT&T Inc. (8%), Capital One NA (8%) and Verizon communications (5%). The contractual interest rates on bonds and notes range from 0.88% to 6.50% (2016: 1.34% to 5.20%) and maturity dates of the securities range from 2018 to 2077 (2016: 2018 to 2026). The current period yields on bonds and notes range from 0.88% to 6.12% (2016: 1.34% to 7.09%).

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, 2017

4. Derivatives (continued)

At December 31, 2017 and 2016, the Fund has the following derivatives outstanding:

Type of contract	<u>2017</u> Unrealized Appreciation/ (Depreciation)	<u>2016</u> Unrealized Appreciation/ (Depreciation)
Assets	USD	USD
Interest rate swaps	68,190	16,077
Forward foreign currency contracts	307	37,273
Total Derivatives - Assets	<u>68,497</u>	<u>53,350</u>
Liabilities		
Interest rate swaps	(2)	(22,273)
Forward foreign currency contracts	(33,734)	(5,937)
Total Derivatives - Liabilities	<u>(33,736)</u>	<u>(28,210)</u>

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 through the lifetime of the swap as net realized gains or losses.

SCOTIABANK SHORT-TERM INCOME FUND INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

4. Derivatives (continued)

(a) Interest rate swaps (continued)

Interest rate swap contracts outstanding as at December 31, 2017:

	Currency	Notional Amount	Unrealized Appreciation/ (Depreciation)
Assets		USD	USD
Pay Fixed, CAD receive floating	CAD	600,000	5,418
Pay Fixed, USD receive floating	USD	1,700,000	15,612
Pay Fixed, USD receive floating	USD	800,000	16,642
Pay Fixed, USD receive floating	USD	200,000	2,745
Pay Fixed, USD receive floating	USD	300,000	3,658
Pay Fixed, USD receive floating	USD	150,000	686
Pay Fixed, USD receive floating	USD	500,000	2,786
Pay Fixed, USD receive floating	USD	1,000,000	14,629
Pay Fixed, USD receive floating	USD	1,000,000	6,014
Total Interest Rate Swaps - Assets		<u>6,250,000</u>	<u>68,190</u>
Liabilities			
Pay Fixed, CAD receive floating	CAD	1,000,000	(2)
Total Interest Rate Swaps - Liabilities		<u>1,000,000</u>	<u>(2)</u>

Interest rate swap contracts outstanding as at December 31, 2016:

	Currency	Notional Amount	Unrealized Appreciation/ (Depreciation)
Assets		USD	USD
Pay Fixed, USD receive floating	USD	1,000,000	4,084
Pay Fixed, USD receive floating	USD	4,000,000	4,786
Pay Fixed, USD receive floating	USD	1,000,000	7,207
Total Interest Rate Swaps - Assets		<u>6,000,000</u>	<u>16,077</u>
Liabilities			
Pay Fixed, CAD receive floating	CAD	600,000	(4,452)
Pay Fixed, CAD receive floating	CAD	1,000,000	(6,194)
Pay Fixed, CAD receive floating	CAD	500,000	(6,845)
Pay Fixed, USD receive floating	USD	150,000	(682)
Pay Fixed, USD receive floating	USD	500,000	(1,317)
Pay Fixed, USD receive floating	USD	1,000,000	(2,783)
Total Interest Rate Swaps - Liabilities		<u>3,750,000</u>	<u>(22,273)</u>

SCOTIABANK SHORT-TERM INCOME FUND INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017

4. Derivatives (continued)

(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, 2017:

Settlement Date	Currency to be received	Value as at December 31, 2017		Currency to be delivered	Value as at December 31, 2017		Unrealized Appreciation USD
		USD	USD		USD	USD	
January 24, 2018	USD	519,705	519,705	CAD	650,000	519,432	273
February 21, 2018	USD	131,934	131,934	CAD	165,000	131,900	34
							<u>307</u>

Settlement Date	Currency to be received	Value as at December 31, 2017		Currency to be delivered	Value as at December 31, 2017		Unrealized depreciation USD
		USD	USD		USD	USD	
January 24, 2018	USD	23,588	23,588	CAD	30,000	23,974	(386)
February 21, 2018	USD	401,106	401,106	CAD	510,000	407,692	(6,586)
March 15, 2018	USD	302,853	302,853	CAD	385,000	307,844	(4,991)
March 15, 2018	USD	248,744	248,744	CAD	320,000	255,870	(7,126)
April 18, 2018	USD	513,265	513,265	CAD	660,000	527,910	(14,645)
							<u>(33,734)</u>

Forward foreign currency contracts outstanding per currency as at December 31, 2016:

Settlement Date	Currency to be received	Value as at December 31, 2016		Currency to be delivered	Value as at December 31, 2016		Unrealized Appreciation USD
		USD	USD		USD	USD	
January 19, 2017	USD	685,040	685,040	CAD	895,000	667,562	17,478
January 19, 2017	USD	30,130	30,130	CAD	40,000	29,835	295
January 19, 2017	USD	15,011	15,011	CAD	20,000	14,918	93
February 24, 2017	USD	780,856	780,856	CAD	1,025,000	764,832	16,024
April 20, 2017	USD	712,751	712,751	CAD	950,000	709,368	3,383
							<u>37,273</u>

Settlement Date	Currency to be received	Value as at December 31, 2016		Currency to be delivered	Value as at December 31, 2016		Unrealized depreciation USD
		USD	USD		USD	USD	
March 22, 2017	USD	785,276	785,276	CAD	1,060,000	791,213	(5,937)
							<u>(5,937)</u>

SCOTIABANK SHORT-TERM INCOME FUND INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

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, 2017 and 2016.

As of December 31, 2017

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	\$ 68,190	\$ -	\$ 68,190	\$ (2)	\$ -	\$ 68,188
State Street Trust Canada	307	-	307	(307)	-	-
Total	\$ 68,497	\$ -	\$ 68,497	\$ (309)	\$ -	\$ 68,188

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	\$ 2	\$ -	\$ 2	\$ (2)	\$ -	\$ -
State Street Trust Canada	33,734	-	33,734	(307)	(33,427)	-
Total	\$ 33,736	\$ -	\$ 33,736	\$ (309)	\$ (33,427)	\$ -

As of December 31, 2016

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	\$ 16,077	\$ -	\$ 16,077	\$ (16,077)	\$ -	\$ -
State Street Trust Canada	37,273	-	37,273	(5,937)	-	31,336
Total	\$ 53,350	\$ -	\$ 53,350	\$ (22,014)	\$ -	\$ 31,336

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	\$ 22,273	\$ -	\$ 22,273	\$ (16,077)	\$ (6,196)	\$ -
State Street Trust Canada	5,937	-	5,937	(5,937)	-	-
Total	\$ 28,210	\$ -	\$ 28,210	\$ (22,014)	\$ (6,196)	\$ -

SCOTIABANK SHORT-TERM INCOME FUND INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

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 (Note 6). 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:

<u>Class</u>	<u>Management fee per annum</u>
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, 2017, the management fee was set at 1.10% for Class A shares (2016: 1.10%) and 1.30% for Class NU shares (2016: 1.30%), which amounted to \$48,462 (2016: \$64,160).

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, 2017, the Manager voluntarily applied a management expense ratio cap on management fees and operating expenses of 1.50% for Class A shares (2016: 1.50%), 1.70% for Class NU shares (2016: 1.70%), and 0.50% for Class IU shares (2016: 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, 2017 was \$93,994 (2016: \$56,792), of which \$3,494 (2016: \$4,895) was receivable as of December 31, 2017 and was subsequently paid to the Fund.

6. Other Related Party Transactions

At December 31, 2017, the Sub-Manager held 100 (2016: 100) Governance Shares. All fees payable to the Sub-Manager are being borne by the Manager.

For the year ended December 31, 2017, the Fund paid on behalf of the Manager \$NIL (2016: \$5,325) to the Portfolio Manager and \$NIL (2016: \$3,487) to sub-distributors, which was reimbursed during the year.

SCOTIABANK SHORT-TERM INCOME FUND INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

6. Other Related Party Transactions (continued)

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% of the total amount paid by the subscriber for shares.

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>2017</u>		<u>2016</u>	
	<u>Shares</u>	<u>\$</u>	<u>Shares</u>	<u>\$</u>
Governance shares				
Shares issued during the year	-	-	-	-
Shares redeemed during the year	-	-	-	-
Redeemable Investment Shares				
Class A				
Shares issued during the year	158,004	1,524,892	3,223	31,200
Shares redeemed during the year	(103,874)	(1,002,555)	(15,511)	(147,995)
Reinvestment	3,916	37,792	3,353	32,297
Class NU				
Shares issued during the year	1,575	15,000	3,850	37,000
Shares redeemed during the year	(66,533)	(635,602)	(172,571)	(1,654,609)
Reinvestment	1,344	12,821	3,184	30,453
Class IU				
Shares issued during the year	-	-	-	-
Shares redeemed during the year	(507,635)	(5,000,000)	-	-
Reinvestment	7,499	73,901	12,144	118,317

SCOTIABANK SHORT-TERM INCOME FUND INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017

7. Share Capital (continued)

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, 2017.

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 9, 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.

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.

SCOTIABANK SHORT-TERM INCOME FUND INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

8. Financial Risk Management (continued)

Currency risk (continued)

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

As at December 31, 2017

Foreign Currency	Monetary & Non-monetary Investments \$	Forward Foreign Currency Contracts \$	Total \$	% Net Assets
Canadian Dollar	2,162,032	(2,141,195)	20,837	0.23%

As at December 31, 2016

Foreign Currency	Monetary & Non-monetary Investments \$	Forward Foreign Currency Contracts \$	Total \$	% Net Assets
Canadian Dollar	2,951,674	(3,009,064)	(57,390)	(0.42%)

As at December 31, 2017, 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 \$1,042 (2016: \$2,869).

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

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.

SCOTIABANK SHORT-TERM INCOME FUND INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

8. Financial Risk Management (continued)

Interest rate risk (continued)

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, 2017

	Up to 1 year	1-5 years	Over 5 years	Non-interest bearing	Total
Assets					
Cash and cash equivalents	-	-	-	505,967	505,967
Financial assets at fair value through profit or loss:					
Investments	449,449	7,264,637	388,390	-	8,102,476
Derivatives	68,190	-	-	307	68,497
Other assets	-	-	-	317,450	317,450
Total Assets	517,639	7,264,637	388,390	823,724	8,994,390
	Up to 1 year	1-5 years	Over 5 years	Non-interest bearing	Total
Liabilities					
Financial liabilities at fair value through profit or loss:					
Derivatives	2	-	-	33,734	33,736
Other liabilities	-	-	-	69,115	69,115
Redeemable investment shares	-	-	-	8,891,439	8,891,439
Total Liabilities (including redeemable investment shares)	2	-	-	8,994,288	8,994,290
Interest sensitivity gap	517,637	7,264,637	388,390		

SCOTIABANK SHORT-TERM INCOME FUND INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

8. Financial Risk Management (continued)

Interest rate risk (continued)

At December 31, 2016

	Up to 1 year	1-5 years	Over 5 years	Non-interest bearing	Total
Assets					
Cash and cash equivalents	-	-	-	294,882	294,882
Financial assets at fair value through profit or loss:					
Investments	-	12,667,999	588,087	-	13,256,086
Derivatives	16,077	-	-	37,273	53,350
Other assets	-	-	-	318,967	318,967
Total Assets	16,077	12,667,999	588,087	651,122	13,923,285
	Up to 1 year	1-5 years	Over 5 years	Non-interest bearing	Total
Liabilities					
Financial assets at fair value through profit or loss:					
Derivatives	22,273	-	-	5,937	28,210
Other liabilities	-	-	-	103,521	103,521
Redeemable investment shares	-	-	-	13,791,454	13,791,454
Total Liabilities (including redeemable investment shares)	22,273	-	-	13,900,912	13,923,185
Interest sensitivity gap	(6,196)	12,667,999	588,087		

At December 31, 2017, 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 \$61,212 (2016: \$107,341) 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 \$60,562 (2016: \$106,071) 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, 2017

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, 2017 had a credit rating from S&P of AA- (2016: 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, 2017, 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:

S&P Rating of Debt Securities	2017	2016
AAA	0.99%	0.58%
AA-	14.80%	13.34%
A	5.55%	4.90%
A+	6.22%	5.89%
A-	18.05%	15.04%
BBB	8.59%	12.84%
BBB+	9.22%	30.51%
BBB-	13.57%	7.29%
BB+	1.31%	0.58%
N/A (Not rated)*	21.70%	9.03%
Total	100.00%	100.00%

*Debt securities not rated have a total value of \$1,758,617 (2016: \$1,197,357). Of this, \$627,034 (2016: \$NIL) are Government T-bills.

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.

SCOTIABANK SHORT-TERM INCOME FUND INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2017

8. Financial Risk Management (continued)

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 aims to invest predominantly in financial assets that can be readily disposed of.

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.

Fair values: At December 31, 2017 and 2016, 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.

SCOTIABANK SHORT-TERM INCOME FUND INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017

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, 2017

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, 2017

	<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	\$ -	\$ 5,944,500	\$ -	\$ 5,944,500
Corporate Commercial Paper	-	1,530,942	-	1,530,942
Government T-bills	-	627,034	-	627,034
Interest Rate Swaps	-	68,190	-	68,190
Forward Foreign Currency Contracts	-	307	-	307
	<hr/>	<hr/>	<hr/>	<hr/>
Total financial assets at fair value through profit and loss	\$ <u>-</u>	\$ <u>8,170,973</u>	\$ <u>-</u>	\$ <u>8,170,973</u>
<u>Financial liabilities at fair value</u>				
<u>through profit and loss</u>				
Interest Rate Swaps	-	2	-	2
Forward Foreign Currency Contracts	-	33,734	-	33,734
	<hr/>	<hr/>	<hr/>	<hr/>
Total financial liabilities at fair value through profit and loss	\$ <u>-</u>	\$ <u>33,736</u>	\$ <u>-</u>	\$ <u>33,736</u>

At December 31, 2016

	<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	\$ -	\$ 10,802,922	\$ -	\$ 10,802,922
Corporate Commercial Paper	-	2,453,164	-	2,453,164
Interest Rate Swaps	-	16,077	-	16,077
Forward Foreign Currency Contracts	-	37,273	-	37,273
	<hr/>	<hr/>	<hr/>	<hr/>
Total financial assets at fair value through profit and loss	\$ <u>-</u>	\$ <u>13,309,436</u>	\$ <u>-</u>	\$ <u>13,309,436</u>
<u>Financial liabilities at fair value</u>				
<u>through profit and loss</u>				
Interest Rate Swaps	-	22,273	-	22,273
Forward Foreign Currency Contracts	-	5,937	-	5,937
	<hr/>	<hr/>	<hr/>	<hr/>
Total financial liabilities at fair value through profit and loss	\$ <u>-</u>	\$ <u>28,210</u>	\$ <u>-</u>	\$ <u>28,210</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, 2017

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, 2017 and 2016.

There were no transfers between Levels during the year ended December 31, 2017 and 2016.

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 liable to income tax in Saint Lucia on their taxable income at the rate of 1%. In addition, the Fund may incur withholding tax on income and proceeds of some of its investments, which may not be recoverable. The Fund is not obliged to withhold tax on dividends paid or accrued to shareholders, or from amounts paid to shareholders on the redemption of shares. Subscriptions and redemptions of shares are not subject to any duty or tax in Saint Lucia.

11. Subsequent Events

From January 1, 2018 to March 27, 2018 the Fund received subscriptions of \$478,702 and redemptions of \$807,615.

There are no other subsequent events.

Important information concerning the investment goals, risks, charges and expenses of investing in mutual funds is contained in the relevant prospectus*. Copies of the relevant prospectus are available from the financial institution where you purchased the fund. Investors should carefully consider these before investing. Share values and investment returns for the fund may fluctuate. Past performance is not indicative of future performance. Investments in mutual funds are not guaranteed or covered by your local deposit insurance corporation, other government deposit insurer or The Bank of Nova Scotia, or its subsidiaries/affiliates, their values change frequently, and you may not get back the original amount you invested.

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