

SCOTIABANK TRINIDAD & TOBAGO FIXED INCOME FUND INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2018

SCOTIABANK TRINIDAD & TOBAGO FIXED INCOME FUND INC.

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DECEMBER 31, 2018

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Independent Auditor's Report

To the Board of Directors of Scotiabank Trinidad & Tobago Fixed Income Fund Inc.

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Scotiabank Trinidad & Tobago Fixed Income Fund Inc. (the "Fund") as at December 31, 2018, 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 Trinidad & Tobago Fixed Income Fund Inc.'s financial statements comprise:

- the statement of financial position as at December 31, 2018;
 - 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 a summary of significant accounting policies.
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Basis for opinion

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

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

Independence

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



Responsibilities of management 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.

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



Auditor's responsibilities for the audit of the financial statements (continued)

- 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.

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.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive script.

March 25, 2019

SCOTIABANK TRINIDAD & TOBAGO FIXED INCOME FUND INC.

STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2018

(Expressed in Trinidad and Tobago dollars)

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	TT\$ 7,825,901	TT\$ 61,665,186
Financial assets at fair value through profit or loss (Cost: TT\$458,218,501; 2017: TT\$406,104,959) (Notes 3, 7 and 8)	458,365,356	409,864,125
Receivable for Investments Sold	9,250,000	-
Interest receivable	4,489,619	5,466,320
Subscriptions receivable	605,000	3,521,284
Receivable from Manager (Note 4)	172,231	29,354
	<hr/>	<hr/>
Total assets	480,708,107	480,546,269
LIABILITIES		
Redemptions payable	3,308,322	1,791,165
Management fees (Note 4)	605,307	595,867
Accrued expenses	576,032	627,075
Tax withholding liability	387,184	1,303,865
Payable for investments purchased	-	100,000
	<hr/>	<hr/>
Liabilities (excluding net assets attributable to holders of redeemable investment shares)	4,876,845	4,417,972
Net assets attributable to holders of redeemable investment shares (Notes 6 and 7)		
	TT\$ <u>475,831,262</u>	TT\$ <u>476,128,297</u>
Net asset value per redeemable investment shares (Note 6)		
Class AT TT\$473,330,236/46,409,436 shares; (2017: TT\$475,906,845/46,712,215 shares)	TT\$ <u>10.20</u>	TT\$ <u>10.19</u>
Class NT TT\$7,097/667 shares; (2017: TT\$7,093/664 shares)	TT\$ <u>10.64</u>	TT\$ <u>10.68</u>
Class IT TT\$2,493,929/229,675 shares; (2017: TT\$214,359/20,067 shares)	TT\$ <u>10.86</u>	TT\$ <u>10.68</u>

Approved for issuance on behalf of Scotiabank Trinidad & Tobago Fixed Income Fund Inc.'s Board of Directors by:

Rhory McNamara
Rhory McNamara
Director

Chester Hinkson
Chester Hinkson
Director

Date : March 25, 2019

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

SCOTIABANK TRINIDAD & TOBAGO FIXED INCOME FUND INC.

STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31, 2018

(Expressed in Trinidad and Tobago dollars)

	<u>2018</u>	<u>2017</u>
Income		
Interest income	TT\$ 18,197,309	TT\$ 14,904,763
Other income	17,358	42,412
Dividend income	154,054	19,202
Net realized (loss) gain on financial assets at fair value through profit or loss and foreign currencies	(420,069)	133,199
Net change in unrealized (depreciation) appreciation on financial assets at fair value through profit or loss and foreign currencies	<u>(3,654,600)</u>	<u>2,853,144</u>
Total net income	<u>14,294,052</u>	<u>17,952,720</u>
Expenses		
Management fees (Note 4)	7,444,926	5,882,351
Custodian and administration fees	2,413,147	2,041,193
Other expenses	351,976	335,288
Professional fees	<u>268,503</u>	<u>220,438</u>
Total operating expenses	<u>10,478,552</u>	<u>8,479,270</u>
Less: expenses reimbursed (Note 4)	(523,195)	(585,114)
Net operating expenses	<u>9,955,357</u>	<u>7,894,156</u>
Operating profit	<u>4,338,695</u>	<u>10,058,564</u>
Withholding taxes	<u>(1,888,889)</u>	<u>(1,169,881)</u>
Finance costs		
Distributions to holders of redeemable investment shares	<u>(1,955,474)</u>	<u>(1,640,147)</u>
Gain after distributions	<u>494,332</u>	<u>7,248,536</u>
Increase in net assets from operations attributable to holders of redeemable investment shares	TT\$ <u><u>494,332</u></u>	TT\$ <u><u>7,248,536</u></u>

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

SCOTIABANK TRINIDAD & TOBAGO FIXED INCOME FUND INC.

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

YEAR ENDED DECEMBER 31, 2018

(Expressed in Trinidad and Tobago dollars)

		<u>Share Capital</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, 2016	TT\$	298,095,818	TT\$	1,390,706	TT\$	299,486,524
Issue of redeemable investment shares		246,713,585		-		246,713,585
Redemption of redeemable investment shares		(77,320,348)		-		(77,320,348)
Increase in net assets from operations attributable to holders of redeemable investment shares		<u>-</u>		<u>7,248,536</u>		<u>7,248,536</u>
Balance as at December 31, 2017	TT\$	467,489,055	TT\$	8,639,242	TT\$	476,128,297
Issue of redeemable investment shares		143,911,425		-		143,911,425
Redemption of redeemable investment shares		(144,702,792)		-		(144,702,792)
Increase in net assets from operations attributable to holders of redeemable investment shares		<u>-</u>		<u>494,332</u>		<u>494,332</u>
Balance as at December 31, 2018	TT\$	<u><u>466,697,688</u></u>	TT\$	<u><u>9,133,574</u></u>	TT\$	<u><u>475,831,262</u></u>

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

SCOTIABANK TRINIDAD & TOBAGO FIXED INCOME FUND INC.

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2018

(Expressed in Trinidad and Tobago dollars)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Interest received (net of withholding taxes)	TT\$ 16,126,449	TT\$ 13,158,469
Other income received	17,358	42,412
Dividend received (net of withholding taxes)	154,054	19,202
Operating expenses paid	(10,520,155)	(8,232,545)
Reimbursements received from manager	380,318	641,781
Purchase of financial assets at fair value through profit or loss	(361,316,271)	(345,381,061)
Proceeds from sale and maturity of financial assets at fair value through profit or loss	<u>299,632,362</u>	<u>196,037,979</u>
Net cash used in operating activities	<u>(55,525,885)</u>	<u>(143,713,763)</u>
Cash flows from financing activities		
Proceeds from subscriptions of redeemable investment shares	144,984,297	242,752,709
Payments for redemption of redeemable investment shares	(143,185,635)	(75,602,521)
Distribution paid to holders of redeemable investments	<u>(112,062)</u>	<u>(117,055)</u>
Net cash provided by financing activities	<u>1,686,600</u>	<u>167,033,133</u>
Net change in cash and cash equivalents	(53,839,285)	23,319,370
Cash and cash equivalents at beginning of the year	<u>61,665,186</u>	<u>38,345,816</u>
Cash and cash equivalents at end of the year	TT\$ <u><u>7,825,901</u></u>	TT\$ <u><u>61,665,186</u></u>
Non-cash transaction reinvested distributions	TT\$ <u><u>(1,843,412)</u></u>	TT\$ <u><u>(1,523,092)</u></u>
Supplementary information on cash flows from operating activities		
Tax Withheld	TT\$ <u><u>1,888,889</u></u>	TT\$ <u><u>1,169,881</u></u>

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

SCOTIABANK TRINIDAD & TOBAGO FIXED INCOME FUND INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

1. Incorporation and Principal Activities

Scotiabank Trinidad & Tobago Fixed Income Fund Inc. (the “Fund”) was incorporated under the laws of Saint Lucia on September 20, 2012 and is licensed in Saint Lucia by the Financial Services Regulatory Authority, Ministry of Finance of Saint Lucia, as a public international mutual fund. On January 22, 2013, the Fund also registered under The Mutual Funds Law (revised) of the Cayman Islands. The Fund commenced operations on October 17, 2013.

The Fund is a Trinidad and Tobago Dollar-denominated open-ended investment Fund. The registered office of the Fund is located at 20 Micoud Street, Castries, Saint Lucia. No application has been made for the Fund to be listed on any stock exchange.

The Fund’s investment objective is to provide income and modest capital gains. The Fund is designed to invest primarily in fixed income securities, issued or guaranteed by the Trinidadian or foreign governments, or issued by Trinidadian or foreign corporations.

Scotia Asset Management (St. Lucia) Inc. is the Manager (the “Manager”), Scotiabank and Trust (Cayman) Ltd. is the Sub-Manager (the “Sub-Manager”), Scotia Investments Trinidad & Tobago Limited is the Portfolio Manager (the “Portfolio Manager”).

ADCO Fund Administrators Inc. is the Fund Administrator (the “Fund Administrator”). State Street Cayman Trust Company, Ltd. is the sub-administrator, (the “Sub-Administrator”) and State Street Bank and Trust Company is the custodian (the “Custodian”).

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 8.

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 6 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.

(a) Standards and amendments to existing standards effective January 1, 2018.

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

Classification and measurement of debt assets is 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

SCOTIABANK TRINIDAD & TOBAGO FIXED INCOME FUND INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

2. Summary of Significant Accounting Policies (continued)

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.

IFRS 9 has been applied retrospectively by the Fund and did not result in a change to the classification or measurement of financial instruments. The Fund's investment portfolio continues to be classified as fair value through profit or loss and other financial assets which are held for collection continue to be measured at amortised cost. There was no material impact on adoption from the application of the new impairment model.

There are no other standards, amendments to standards or interpretations that are effective for annual periods beginning on 1 January 2018 that have a material effect on the financial statements of the Fund.

(b) New standards, amendments and interpretations effective after 1 January 2018 and have not been early adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Fund.

Valuation of financial assets at fair value through profit or loss: The Fund classifies its investments based on both the Fund's business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The portfolio of financial assets is managed and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. The Fund has not taken the option to irrevocably designate any equity securities as fair value through other comprehensive income. The contractual cash flows of the Fund's debt securities are solely principal and interest, however, these securities are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund's business model's objective. Consequently, all investments are measured at fair value through profit or loss. Financial assets 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 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. 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.

SCOTIABANK TRINIDAD & TOBAGO FIXED INCOME FUND INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

2. Summary of Significant Accounting Policies (continued)

Valuation of investments in other funds: The Fund's investments in other funds ("Investee Funds") are subject to the terms and conditions of the respective Investee Fund's offering documentation. The investments in Investee Funds are valued based on the latest available redemption prices of such units for each Investee Fund, as determined by the Investee Funds' administrators. The Fund reviews the details of the reported information obtained from the Investee Funds and considers:

- The liquidity of the Investee Fund or its underlying investments;
- The value date of the net asset value ("NAV") provided;
- Any restrictions on redemptions; and
- The basis of accounting and, in instances where the basis of accounting is other than fair value, fair valuation information provided by the Investee Fund's advisors.

If necessary, the Fund makes adjustments to the NAV of various Investee Funds to obtain the best estimate of fair value. Other net changes in fair value on financial assets and financial liabilities at fair value through profit or loss in the statement of comprehensive income include the change in fair value of each Investee Fund.

Fair value estimation: The fair value of financial assets and liabilities that are not traded in an active market (for example, structured notes and mortgages) is determined using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques used include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models, and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

Functional and presentation currency: Items included in the Fund's financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the Trinidad and Tobago Dollar ("TT\$"), which reflects the Fund's primary activity of investing in TT\$ denominated investment grade securities issued or guaranteed by the Trinidadian or foreign government, or issued by Trinidadian or foreign corporations. The Fund has adopted the TT\$ as its presentation currency.

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.

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.

Dividends are recorded on the ex-dividend date and are included as income on the Statement of Comprehensive Income.

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.

SCOTIABANK TRINIDAD & TOBAGO FIXED INCOME FUND INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

2. Summary of Significant Accounting Policies (continued)

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

Allocation of gains and losses: Other than the different fee rates discussed in Note 4, profits and losses of the Fund are allocated to each class of shares according to their proportionate interest in the Fund.

Translation of foreign currency amounts: Assets and liabilities denominated in currencies other than the TT\$ ("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 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 on financial assets at fair value through profit or loss.

Distribution policy: The Fund will only distribute income and/or capital gains when determined by the Board of Directors of the Fund. 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.

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.

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.

Reverse Repurchase Agreements

Securities purchased under agreements to resell ("Reverse Repurchase Agreements" or "Reverse Repo") are treated as collateralized financing transactions and are recorded at their contracted resell amounts plus accrued interest.

The Fund receives collateral under reverse repurchase agreements which is valued daily.

At December 31, 2018 an investment with a fair value of TT\$10,000,000 (2017: TT\$29,436,211) has been recorded as investments purchased under agreements to resell in the statement of assets and liabilities. Securities with a fair value of TT\$10,402,708 (2017: TT\$29,634,212) have been pledged as collateral for the Reverse Repurchase Agreement.

SCOTIABANK TRINIDAD & TOBAGO FIXED INCOME FUND INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

3. Financial Assets at Fair Value through Profit or Loss

At December 31, 2018 and 2017 the financial assets comprised the following debt securities:

		<u>2018</u>		<u>2017</u>	
		<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Corporate Bonds and Notes	TTS	163,620,413	TTS 163,580,469	TTS 135,126,385	TTS 136,149,413
Government and Agency Bonds and Notes		220,796,400	221,179,331	160,736,844	163,421,323
Short-Term Investments		48,754,234	48,754,234	92,867,421	92,867,421
Mortgages		12,928,938	12,928,938	15,310,768	15,310,768
Mutual Funds		<u>12,118,516</u>	<u>11,922,384</u>	<u>2,063,541</u>	<u>2,115,200</u>
Total financial assets at fair value through profit and loss	TTS	<u>458,218,501</u>	TTS <u>458,365,356</u>	TTS <u>406,104,959</u>	TTS <u>409,864,125</u>

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

<u>Financial Assets at fair value</u>		<u>2018</u>		<u>2017</u>	
		<u>Fair Value</u>	<u>% of total portfolio</u>	<u>Fair Value</u>	<u>% of total portfolio</u>
Aruba	TTS	7,799,358	1.70%	TTS 8,198,894	2.00%
Bahamas		2,756,903	0.60%	2,830,660	0.69%
Bermuda		2,832,645	0.62%	-	0.00%
Cayman Islands		15,057,852	3.29%	16,094,508	3.93%
Chile		1,372,863	0.30%	-	0.00%
Colombia		1,371,344	0.30%	-	0.00%
Dominican Republic		6,668,451	1.45%	5,165,813	1.26%
El Salvador		1,417,448	0.31%	1,471,061	0.36%
Jamaica		2,047,049	0.45%	4,370,234	1.07%
Mexico		4,159,465	0.91%	5,160,551	1.26%
Panama		13,463,420	2.94%	18,393,998	4.49%
Poland		4,604,834	1.00%	4,763,979	1.16%
Trinidad & Tobago		364,997,342	79.63%	320,156,372	78.11%
United States		<u>29,816,382</u>	<u>6.50%</u>	<u>23,258,055</u>	<u>5.67%</u>
Total financial assets at fair value through profit or loss	TTS	<u>458,365,356</u>	<u>100.00%</u>	TTS <u>409,864,125</u>	<u>100.00%</u>

As at December 31, 2018 the portfolio consists of 83 (2017: 78) positions, primarily located in Trinidad and Tobago. The three largest concentrations are in First Citizens Bank LTD (6%), Guardian Holdings Limited (5%), and Trinidad and Tobago Housing Development (5%) (2017: Guardian Holdings Limited (6%), Trinidad and Tobago Water & Sewerage Authority (6%) and Trinidad and Tobago Government Debt (5%). The contractual interest rates range from 0% to 9.75% (2017: from 0.01% to 9.75%) and maturity dates of the securities range from 2019 to 2039 (2017: 2018 to 2039). The current year yields range from 0.44% to 6.75% (2017: 0.01% to 8.44%).

Mortgages comprise 3% (2017: 4%) of the portfolio. All of the 22 (2017: 25) mortgage positions held by the Fund are fully secured by mortgage liens. No individual mortgage exceeds 1% of the Fund's portfolio. The amount to be lent in respect of any individual property is based on the appraised value and the type of property involved. All of the Fund's mortgage investments are either advanced to customers in Trinidad and Tobago or are secured by property in Trinidad and Tobago.

SCOTIABANK TRINIDAD & TOBAGO FIXED INCOME FUND INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

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

Fair value of investment in mortgages was determined by management using a portfolio approach. As such, all mortgages are fair valued which approximates amortized cost.

There is no quoted price in an active market for the mortgage investments. The Manager makes its determination of fair value based on its assessment of the current lending market for mortgage investments of same or similar terms. Typically, the fair value of these mortgages investments approximate their carrying values given all mortgages have variable rates that re-price with market rate changes, and the maximum period between re-pricing dates is twelve months.

The interest rates on mortgages range from 5.50% to 6.75% (2017: 5.50% to 6.75%) and maturity dates range from 2023 to 2039 (2017: 2023 to 2039).

The Fund considers all of its Investee Funds to be investments in unconsolidated structured entities. The Fund invests in Investee Funds whose objectives are to seek income through investment in a range of short to intermediate term high quality debt instruments. The Investee Funds finance their operations by issuing redeemable shares which are puttable at the holder's option and entitles the holder to a proportional stake in the respective fund's net assets. The Fund holds redeemable shares in each of its Investee Funds.

The change in fair value of each Investee Fund is included in the Statement of Comprehensive Income in "Net change in unrealized appreciation on financial assets at fair value through profit or loss and foreign currencies".

The Fund's investments in Investee Funds are subject to the terms and conditions of the respective Investee Fund's offering documentation and are susceptible to market price risk arising from uncertainties about future values of those Investee Funds. The Manager makes investment decisions after extensive due diligence of the underlying fund, its strategy and the overall quality of the underlying fund's manager. All of the Investee Funds in the investment portfolio are managed by portfolio managers who are compensated by the respective Investee Funds for their services. Such compensation generally consists of an asset based fee and a performance based incentive fee and is reflected in the valuation of the Fund's investment in each of the Investee Funds.

The Fund has the right to request daily redemptions of its investments in Investee Funds.

The exposure to investments in Investee Funds at fair value by strategy employed is disclosed in the following table. These investments are included in financial assets at fair value through profit or loss in the Statement of Financial Position.

As at December 31, 2018:

<u>Country</u>	<u>Strategy</u>	<u>Currency</u>	<u>Number of Investee Funds</u>	<u>Investment Fair Value</u>	<u>% of Net Assets Attributable to Holders of Investment Shares</u>
Trinidad And Tobago	Fixed Income	TTD	3	11,922,384	2.51%

As at December 31, 2017:

<u>Country</u>	<u>Strategy</u>	<u>Currency</u>	<u>Number of Investee Funds</u>	<u>Investment Fair Value</u>	<u>% of Net Assets Attributable to Holders of Investment Shares</u>
Trinidad And Tobago	Fixed Income	TTD	3	2,115,200	0.44%

The Fund's holding in an Investee Fund, as a percentage of the Investee Fund's total net asset value may vary from time to time dependent on the volume of subscriptions and redemptions at the Investee Fund level. It is possible that the Fund may, at any point in time, hold a majority of an Investee Fund's total units in issue.

SCOTIABANK TRINIDAD & TOBAGO FIXED INCOME FUND INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

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

The Fund's maximum exposure to loss from its interests in Investee Funds is equal to the total fair value of its investments in Investee Funds. Once the Fund has disposed of its shares in an Investee Fund the Fund ceases to be exposed to any risk from that Investee Fund.

The Fund's investment strategy entails trading in other funds on a regular basis. Total purchases and sales in Investee Funds during the year ended December 31, 2018 was \$10,054,975 and \$NIL (2017: \$524,124 and \$4,043,704). The Fund intends to continue opportunistic trading in other funds. As at December 31, 2018 and 2017, there were no capital commitment obligations and no amounts due to Investee Funds for unsettled purchases.

During the year ended December 31, 2018 total net realized gains incurred on investments in Investee Funds were \$NIL (2017: \$170,164).

At December 31, 2018 and 2017, the Fund held investments in the following Investee Funds in the amounts illustrated below.

As at December 31, 2018

Fund Name	Share Class	Investment Fair Value	Investment Objectives
The Abercrombie TTD Monthly Fixed Income Fund		510,386	The Fund's objective is to provide investors with a relatively attractive yield while simultaneously preserving capital and maintaining liquidity.
The Paria Fund		1,105,482	The Fund's investment objective is to seek in the first instance, income through investment in range of short to intermediate term high quality debt instruments such as treasury bills and notes, certificates of deposits and securities of all kinds including bonds in U.S. Dollars.
Roytrin TT Dollar Income Fund		10,306,516	The Fund's investment objective is to provide a high level of interest income in keeping with the highest short-term interest rates available whilst ensuring greater safety of capital.
Total		11,922,384	

As at December 31, 2017

Fund Name	Share Class	Investment Fair Value	Investment Objectives
The Abercrombie TTD Monthly Fixed Income Fund		508,102	The Fund's objective is to provide investors with a relatively attractive yield while simultaneously preserving capital and maintaining liquidity.
The Paria Fund		1,098,072	The Fund's investment objective is to seek in the first instance, income through investment in range of short to intermediate term high quality debt instruments such as treasury bills and notes, certificates of deposits and securities of all kinds including bonds in U.S. Dollars.
Roytrin TT Dollar Income Fund		509,026	The Fund's investment objective is to provide a high level of interest income in keeping with the highest short-term interest rates available whilst ensuring greater safety of capital.
Total		2,115,200	

SCOTIABANK TRINIDAD & TOBAGO FIXED INCOME FUND INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

4. Management Agreement

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 and 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 Distributors out of the management fee. The Manager and/or Sub-Manager may choose from time to time to absorb any portion of the annual management fee on any class of shares of the Fund.

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

<u>Class</u>	<u>Management fee per annum</u>
AT	Up to 1.90%
NT	Up to 2.35%
IT	NIL

No management fees are charged on Class IT shares. Instead, Class IT investors negotiate a separate fee that is paid directly to the Manager. For the year ended December 31, 2018, the management fee was set at 1.50% (2017: 1.50%) for Class AT shares and 1.95% (2017: 1.95%) for Class NT shares, which amounted to TT\$7,444,926 (2017: TT\$5,882,351), of which TT\$605,307 (2017: TT\$595,867) was payable as at December 31, 2018.

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, 2018, the Manager voluntarily applied a management expense ratio cap on management fees and operating expenses of 2.00% (2017: 2.00%) for Class AT shares, 2.45% (2017: 2.45%) for Class NT shares, and 0.50% (2017: 0.50%) for Class IT shares. 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, 2018 was TT\$523,195 (2017: TT\$585,114), of which TT\$172,231 (2017: TT\$29,354) was receivable as at December 31, 2018 and was subsequently paid to the Fund.

5. Other Related Party Transactions

At December 31, 2018, the Sub-Manager held 100 (2017: 100) Governance Shares. All fees payable to the Sub-Manager are being borne by the Manager.

At December 31, 2018, a related party fund, Scotiabank Trinidad & Tobago Growth Fund Inc. held 19,495 (2017: 19,424) units of class IT shares valued at TT\$211,697 (2017: TT\$207,491). The Manager of the Fund is also the manager of Scotiabank Trinidad & Tobago Growth Fund Inc.

The mortgage investments held by the Fund are purchased from and administered by Scotiabank Trinidad & Tobago Limited.

SCOTIABANK TRINIDAD & TOBAGO FIXED INCOME FUND INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

5. Other Related Party Transactions (continued)

Under the terms of the sub-distributorship agreement dated December 18, 2012, 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% (2017: 5%) of the total amount paid by the subscriber for Class AT shares. No initial subscription charge is levied against Class NT and Class IT subscribers.

6. Share Capital

Authorized:

100 Governance Shares of no par value
300,000,000 Redeemable Investment Shares of no par value

Issued:

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

	<u>2018</u>		<u>2017</u>	
Governance Shares	<u>Shares</u>	<u>TTS</u>	<u>Shares</u>	<u>TTS</u>
Shares issued during the year	-	-	-	-
Shares redeemed during the year	-	-	-	-
Redeemable Investment Shares				
Class AT				
Shares issued during the year	13,716,922	139,807,977	24,268,630	245,190,493
Shares redeemed during the year	(14,200,309)	(144,702,792)	(6,573,275)	(66,454,634)
Reinvestment	180,608	1,840,488	149,188	1,511,914
Class NT				
Shares issued during the year	-	-	-	-
Shares redeemed during the year	-	-	-	-
Reinvestment	3	27	2	27
Class IT				
Shares issued during the year	209,341	2,260,036	-	-
Shares redeemed during the year	-	-	(1,036,034)	(10,865,714)
Reinvestment	267	2,897	1,070	11,151

The Governance Shares are held exclusively by the Sub-Manager, who has full voting rights.

Shares that are redeemed within 90 days of purchase may be subject to a redemption fee up to 2% of the redemption amount. TT\$NIL redemption fees were levied during the years ended December 31, 2018 and 2017.

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 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.

SCOTIABANK TRINIDAD & TOBAGO FIXED INCOME FUND INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

6. Share Capital (continued)

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 7, 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.

7. 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.

The overall market exposures as at December 31, 2018 are presented in Note 3.

The Fund invests in other funds and is susceptible to market price risk arising from uncertainties about future values of those Investee Funds. The investment manager makes investment decisions after an extensive assessment of the underlying fund, its strategy and the overall quality of the underlying fund's manager. The Fund's policy requires the Portfolio Manager to complete a full reassessment of each of the Investee Funds on a regular basis and track the performance of each Investee Fund on a daily basis.

At December 31, 2018, the exposure to investments in Investee Funds at fair value by strategy employed is disclosed in Note 3. These investments are included in financial assets at fair value through profit or loss in the Statement of Financial Position.

The performance of investments held by the Fund is monitored by the Fund's Manager on a daily basis.

The table below summarises the impact on the Fund's net assets attributable to holders of redeemable investment shares, of reasonable possible changes in the returns of each of the strategies to which the Fund is exposed through the 3 funds (2017: 3) in which it invests at year end. A reasonably possible change is management's assessment, based on historical data sourced from the underlying Investee Funds, of what a reasonably possible percentage movement is in the value of a fund following each respective strategy over a 12-month period. The impact on net assets attributable to holders of redeemable investment shares is calculated by applying the reasonably possible movement determined for each strategy to the value of each Investee Fund held by the Fund.

The analysis is based on the assumption that returns on each strategy have increased or decreased, as disclosed, with all other variables held constant. The underlying risk disclosures represent the market risks to which the underlying funds are directly exposed. I, F, O represents interest rate, foreign currency and other price risks, respectively.

As at December 31, 2018

Strategy	Underlying risk exposures	Number of Funds	Reasonable possible change (%)	Impact on profit (+ or - \$)
Fixed Income	I, F, O	3	5%	596,119

As at December 31, 2017

Strategy	Underlying risk exposures	Number of Funds	Reasonable possible change (%)	Impact on profit (+ or - \$)
Fixed Income	I, F, O	3	5%	105,760

SCOTIABANK TRINIDAD & TOBAGO FIXED INCOME FUND INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

7. Financial Risk Management (continued)

Currency risk: When the Fund buys or holds an investment that is denominated in a currency other than TT\$, changes in the exchange rate between that foreign currency and the TT\$ 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. TT\$108,678,966 (2017: 109,733,071) of the financial assets at fair value through profit and loss are denominated in United States dollars (USD).

If the foreign currencies at December 31, 2018 had increased by 10% relative to the TT\$ with all other variables held constant, the impact on all investments would have been an increase in net assets attributable to holders of Redeemable Investment Shares of approximately TT\$11,232,275 (2017: TT\$10,973,307) ignoring the effects of any management fees. Conversely, if the foreign currencies at December 31, 2018 had decreased by 10% relative to the TT\$ this would have decreased net assets attributable to holders of Redeemable Investment Shares by approximately TT\$11,232,275 (2017: TT\$10,973,307) ignoring the effects of any management fees.

The Fund's currency exposure is actively managed, typically through the use of currency forward contracts. Investment decisions concerning currencies are made independently of equity investments. The Portfolio Manager's strategy involves defensively hedging back to the portfolio's base currency, when its models suggest a foreign currency is materially overvalued. At December 31, 2018 and 2017, the Fund did not hold any foreign currency forward contracts.

Interest rate risk: Funds that invest in fixed income securities, such as bonds, money market instruments, mortgages and loans, are affected by changes in the general level of interest rates. In general, when interest rates rise, the value of these investments tends to fall. When rates fall, 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.

Substantially all of the Fund's mortgage investments are subject to cash flow interest rate risk due to fluctuations in the prevailing levels of market interest rates. Substantially all mortgages issued bear variable interest rates linked to the Trinidad and Tobago prime rate and re-price as and when these rates (market rates) change. Accordingly the Fund is not exposed to significant market interest rate risk on mortgage investments.

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 TRINIDAD & TOBAGO FIXED INCOME FUND INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

7. 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, 2018

	Up to 1 year	1-5 years	Over 5 years	Non-interest bearing	Total
Assets					
Cash and cash equivalents	-	-	-	7,825,901	7,825,901
Financial assets at fair value through profit or loss	107,755,786	90,438,651	248,248,535	11,922,384	458,365,356
Other assets	-	-	-	14,516,850	14,516,850
Total assets	107,755,786	90,438,651	248,248,535	34,265,135	480,708,107
Liabilities					
Other liabilities	-	-	-	4,876,845	4,876,845
Redeemable investment shares	-	-	-	475,831,262	475,831,262
Total liabilities (including redeemable investment shares)	-	-	-	480,708,107	480,708,107
Interest sensitivity gap	107,755,786	90,438,651	248,248,535		

At December 31, 2017

	Up to 1 year	1-5 years	Over 5 years	Non-interest bearing	Total
Assets					
Cash and cash equivalents	-	-	-	76,796,486	76,796,486
Financial assets at fair value through profit or loss	133,750,718	115,257,694	158,740,513	2,115,200	409,864,125
Other assets	-	-	-	9,016,958	9,016,958
Total assets	133,750,718	115,257,694	158,740,513	87,928,644	495,677,569
Liabilities					
Other liabilities	-	-	-	19,549,272	19,549,272
Redeemable investment shares	-	-	-	476,128,297	476,128,297
Total liabilities (including redeemable investment shares)	-	-	-	495,677,569	495,677,569
Interest sensitivity gap	133,750,718	115,257,694	158,740,513		

SCOTIABANK TRINIDAD & TOBAGO FIXED INCOME FUND INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

7. Financial Risk Management (continued)

Interest rate risk (continued):

At December 31, 2018, 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 TT\$4,590,516 (2017: TT\$5,654,385) higher 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 TT\$4,488,130 (2017: TT\$5,523,926) higher arising substantially from the decrease in market values of debt securities.

Credit risk: Financial assets which potentially expose the Fund to credit risk consist primarily of cash and cash equivalents, interest receivable, and investments. The Fund takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Investments in debt securities, structured notes, and mortgages expose 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.

Scotiabank Trinidad & Tobago Limited services the mortgage investments on behalf of the Fund and performs ongoing monitoring of the performance and servicing of the mortgage investments, maintenance of the collateral and updating credit risk assessment based on the loan history and any changes in the mortgages circumstances. At December 31, 2018 and 2017 there are no mortgage investments in past due status (over 90 days overdue).

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 the 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, 2018 had a credit rating from S&P of AA- (2017: 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, 2018 and 2017, substantially all cash and cash equivalents balances are either held with or placed in custody with the Custodian.

The Fund's fixed income investments in financial assets at fair value through profit and loss have an investment grade provided by S&P or CariCRIS. The ratings are as follows:

S&P or CariCRIS Rating	2018	2017
AA-	1.67%	2.05%
A+	0.94%	2.32%
A-	1.03%	0.00%
BBB	0.30%	2.98%
BBB+	5.56%	7.69%
BBB-	5.18%	4.37%
BB	1.24%	1.51%
BB+	1.81%	1.96%
BB-	4.45%	4.73%
B	0.46%	1.07%
N/A (Not rated)*	77.36%	71.32%
Total	100.00%	100.00%

*Fixed income investments not rated have a total value of TT\$345,503,420 (2017: TT\$290,863,824). Of this, TT\$160,429,061 (2017: TT\$146,787,163) are backed and secured by the Government of Trinidad & Tobago.

SCOTIABANK TRINIDAD & TOBAGO FIXED INCOME FUND INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

7. Financial Risk Management (continued)

Credit risk (continued):

All remaining unrated fixed income investments have no history of default, have been assessed by management in the current year and are not considered to be at risk of default.

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 December 31, 2018 and 2017, all other receivables, amounts due from brokers, cash and short-term deposits are held with counterparties with a credit rating of AA- or higher and are due to be settled within 1 week. Management consider the probability of default to be close to zero as the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Fund.

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.

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.

The Fund invests in mortgage investments which are not realizable in the short term and it's the Fund's strategy to hold mortgages to maturity/repayment. As there is no active market the Fund is not able to readily liquidate such investments when it chooses.

All liabilities are due on demand or within one year.

The Fund is exposed to daily cash redemptions of Redeemable Investment Shares. Payment of redemption proceeds will normally be dispatched within seven business days after the relevant dealing day at the risk and expense of the shareholder, subject to delay where necessary to conduct an orderly liquidation of appropriate assets to satisfy the redemption requests.

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.

As of December 31, 2018, 2.6% (2017: 0.4%) of financial assets at fair value through profit or loss comprise investments in Investee Funds that have been fair valued in accordance with the policies set out in Note 2.

The shares of the Investee Funds are not publicly traded; redemption can only be made by the Fund on the redemption dates and subject to the required notice periods specified in the offering documents of each of the Investee Funds.

SCOTIABANK TRINIDAD & TOBAGO FIXED INCOME FUND INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

7. Financial Risk Management (continued)

Liquidity risk (continued)

Although the investments in Investee Funds offer daily redemptions, the Investee Fund may restrict its redemptions. As a result, the carrying values of the Investee Funds may not be indicative of the values ultimately realised on redemption. In addition, the Fund may be materially affected by the actions of other investors who have invested in the Investee Funds in which the Fund has invested.

Fair values: At December 31, 2018 and 2017, 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.

8. 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 TRINIDAD & TOBAGO FIXED INCOME FUND INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

8. Fair Value Disclosure (continued)

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

At December 31, 2018

		<u>Level 1</u>		<u>Level 2</u>		<u>Level 3</u>		<u>Total Balance</u>
<u>Financial assets at fair value</u>								
<u>through profit and loss</u>								
Government and Agency Bonds and Notes	TT\$	-	TT\$	221,179,331	TT\$	-	TT\$	221,179,331
Corporate Bonds and Notes		-		163,580,469		-		163,580,469
Short-Term Investments		-		48,754,234		-		48,754,234
Mortgages		-		12,928,938		-		12,928,938
Mutual Funds		11,922,384		-		-		11,922,384
<hr/>								
Total financial assets at fair value								
through profit and loss	TT\$	<u>11,922,384</u>	TT\$	<u>446,442,972</u>	TT\$	<u>-</u>	TT\$	<u>458,365,356</u>

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>								
Government and Agency Bonds and Notes	TT\$	-	TT\$	163,421,323	TT\$	-	TT\$	163,421,323
Corporate Bonds and Notes		-		136,149,413		-		136,149,413
Short-Term Investments		-		92,867,421		-		92,867,421
Mortgages		-		15,310,768		-		15,310,768
Mutual Funds		2,115,200		-		-		2,115,200
<hr/>								
Total financial assets at fair value								
through profit and loss	TT\$	<u>2,115,200</u>	TT\$	<u>407,748,925</u>	TT\$	<u>-</u>	TT\$	<u>409,864,125</u>

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

Financial assets 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, U.S. treasury bills, most investment-grade corporate bonds, investments in other funds where redemption is not restricted, certain non-U.S. sovereign obligations, structured notes, mortgages, 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.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all. Level 3 financial instruments 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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2018

8. Fair Value Disclosure (continued)

The Fund does not hold any investments classified within Level 3 as of December 31, 2018 and 2017.

There were no transfers between Levels during the period ended December 31, 2018 and 2017.

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.

At December 31, 2018 and 2017, there are no assets and liabilities subject to offsetting enforceable rights under a master netting arrangement.

9. Taxation

The Fund is liable to income tax in Saint Lucia on their taxable income at the rate of 1%. In addition, the Fund incurs withholding tax on interest income at a rate of 15% on their Trinidad & Tobago securities. Subscriptions and redemptions of shares are not subject to any duty or tax in Saint Lucia.

As at December 31, 2018, the Fund has measured tax liabilities with respect to foreign withholding taxes on interest income for \$1,888,889 (2017: \$1,169,881)

10. Subsequent Events

From January 1, 2019 to March 25, 2019 the Fund received subscriptions of TT\$21,502,833 and redemptions of TT\$20,858,675.

There are no other subsequent events.