

Consolidated Financial Statements of

CAPITA FINANCIAL SERVICES INC.

March 31, 2015

(Expressed in Barbados Dollars)



CAPITA FINANCIAL SERVICES INC.

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Capita Financial Services Inc.

We have audited the accompanying consolidated financial statements of Capita Financial Services Inc., which comprise the consolidated statement of financial position as at March 31, 2015, the consolidated statement of changes in equity, consolidated statement of comprehensive income, and the consolidated statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Capita Financial Services Inc. as at March 31, 2015, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Chartered Accountants
Bridgetown, Barbados
July 2, 2015

CAPITA FINANCIAL SERVICES INC.

Consolidated Statement of Financial Position

As of March 31, 2015

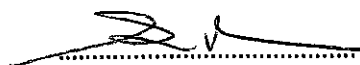
With comparative figures for 2014

(Expressed in Barbados dollars)

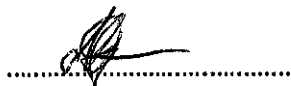
	<u>Notes</u>	<u>2015</u>	<u>2014</u>
Assets			
Cash resources	4	\$ 34,077,104	30,904,033
Investment securities			
Available-for-sale	5	145,698	153,169
Loans and receivables	5	3,112,780	3,181,576
Loans and advances	6	159,562,592	140,817,645
Corporation tax recoverable		438,105	366,281
Property and equipment	8	998,286	948,601
Due from related company	7	203,982	158,084
Other assets	9	<u>3,014,750</u>	<u>2,772,556</u>
Total Assets		\$ <u>201,553,297</u>	<u>179,301,945</u>
Liabilities and Equity			
Liabilities			
Customer deposits	10	\$ 160,251,479	137,067,768
Other liabilities	11	2,330,318	2,313,488
Due to related company	7	53,860	58,053
Loans payable	12	18,589,810	20,277,671
Corporation tax payable		-	41,022
Deferred loan commitment fees		444,432	482,203
Tax on asset payable	13	168,562	-
Deferred taxation	14	<u>65,233</u>	<u>81,785</u>
Total Liabilities		<u>181,903,694</u>	<u>160,321,990</u>
Equity			
Share capital	15	7,297,059	7,297,059
Other reserves	16	3,563,496	3,422,591
Retained earnings		<u>8,789,048</u>	<u>8,260,305</u>
Total Equity		<u>19,649,603</u>	<u>18,979,955</u>
Total Liabilities and Equity		\$ <u>201,553,297</u>	<u>179,301,945</u>

The accompanying notes form an integral part of these consolidated financial statements.

Approved by the Board of Directors



Director



Director

CAPITA FINANCIAL SERVICES INC.

Consolidated Statement of Changes in Equity

For the year ended March 31, 2015
With comparative figures for 2014

(Expressed in Barbados dollars)

	<u>Share Capital</u>	<u>Other Reserves</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance as of March 31, 2013	\$ 2,797,059	3,255,882	7,309,743	13,362,684
Net income for the year	-	-	1,118,308	1,118,308
Issuance of common shares	4,500,000	-	-	4,500,000
Transfer to statutory reserve	-	167,746	(167,746)	-
Total other comprehensive income	<u>-</u>	<u>(1,037)</u>	<u>-</u>	<u>(1,037)</u>
Balance as of March 31, 2014	7,297,059	3,422,591	8,260,305	18,979,955
Net income for the year	-	-	974,992	974,992
Dividend declared	-	-	(300,000)	(300,000)
Transfer to statutory reserve	-	146,249	(146,249)	-
Total other comprehensive income	<u>-</u>	<u>(5,344)</u>	<u>-</u>	<u>(5,344)</u>
Balance as of March 31, 2015	\$ <u>7,297,059</u>	<u>3,563,496</u>	<u>8,789,048</u>	<u>19,649,603</u>

The accompanying notes form an integral part of these consolidated financial statements.

CAPITA FINANCIAL SERVICES INC.

Consolidated Statement of Comprehensive Income

For the year ended March 31, 2015
With comparative figures for 2014

(Expressed in Barbados dollars)

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
Interest income	18	\$ 12,396,191	11,394,004
Interest expense	19	<u>(7,090,182)</u>	<u>(6,425,505)</u>
Net interest income		5,306,009	4,968,499
Other income	20	<u>1,307,574</u>	<u>1,171,661</u>
Net interest and other income		<u>6,613,583</u>	<u>6,140,160</u>
Operating expenses			
Salaries and other staff costs	21	1,799,095	1,535,649
Occupancy costs		775,473	732,771
Loan impairment charge	6	239,339	290,000
Other operating expenses		2,203,304	2,002,864
Tax on asset	13	253,204	-
Depreciation	8	<u>326,255</u>	<u>240,882</u>
Total operating expenses		<u>5,596,670</u>	<u>4,802,166</u>
Income before taxation		1,016,913	1,337,994
Taxation charge	14	<u>(41,921)</u>	<u>(219,686)</u>
Net income for the year		974,992	1,118,308
Other comprehensive income			
<i>Items that are or may be reclassified to profit or loss</i>			
Unrealised fair value gain (loss) on available for-sale investment securities, net		<u>(5,344)</u>	<u>(1,037)</u>
Net comprehensive income for the year		\$ <u>969,648</u>	<u>1,117,271</u>

The accompanying notes form an integral part of these consolidated financial statements.

CAPITA FINANCIAL SERVICES INC.

Consolidated Statement of Cash Flows

For the year ended March 31, 2015
With comparative figures for 2014

(Expressed in Barbados dollars)

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
Cash flows from operating activities			
Income before taxation		\$ 1,016,913	1,337,994
Adjustments for:			
Depreciation		326,255	240,882
Interest income		(12,396,191)	(11,394,004)
Interest expense		7,090,182	6,425,505
Dividend income		(6,504)	(8,472)
Loan impairment charge		239,339	290,000
Gain on disposal of equipment		(29,710)	(35,500)
Gain on disposal of asset		-	(4,945)
		<u> </u>	<u> </u>
Changes in operating assets and liabilities		(3,759,716)	(3,148,540)
Increase in mandatory reserve deposits with Central Bank		(250,000)	(549,999)
Increase in loans and advances		(18,602,790)	(17,530,053)
Increase in other assets		(242,194)	(781,102)
Increase in customer deposits		22,108,087	15,599,801
(Decrease) increase in other liabilities		(283,170)	791,740
(Decrease) increase in net due from/to related company		(50,091)	155,969
Decrease in deferred loan commitment fees		(37,771)	(35,360)
Increase in tax on asset		168,562	-
		<u> </u>	<u> </u>
Net cash used in operations		(949,083)	(5,497,544)
Interest received		12,008,866	11,036,379
Interest paid		(6,014,558)	(6,139,395)
Taxes paid		(169,192)	(283,887)
		<u> </u>	<u> </u>
Net cash from (used in) operating activities		<u>4,876,033</u>	<u>(884,447)</u>
Cash flows from investing activities			
(Increase) decrease of other term deposits		(4,014,306)	598,098
Purchase of investment securities		-	(1,250,000)
Sale of investment securities		74,625	1,364,702
Purchase of equipment		(390,921)	(657,351)
Sale of asset		44,691	50,085
Dividend income received		6,504	8,472
		<u> </u>	<u> </u>
Net cash (used in) from investing activities		<u>(4,279,407)</u>	<u>114,006</u>

CAPITA FINANCIAL SERVICES INC.

Consolidated Statement of Cash Flows

For the year ended March 31, 2015
With comparative figures for 2014

(Expressed in Barbados dollars)

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
Cash flows from financing activities			
Loans payable increase		-	2,500,000
Increase in share capital		-	4,500,000
Repayment of loans payable		<u>(1,687,861)</u>	<u>(1,266,102)</u>
Net cash (used in) from financing activities		<u>(1,687,861)</u>	<u>5,733,898</u>
Net (decrease) increase in cash and cash equivalents for the year		(1,091,235)	4,963,457
Cash and cash equivalents - beginning of year		<u>16,902,035</u>	<u>11,938,578</u>
Cash and cash equivalents - end of year:	4	\$ <u>15,810,800</u>	<u>16,902,035</u>

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

CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2015

(Expressed in Barbados dollars)

1. Reporting Entity

Capita Financial Services Inc. and its subsidiary ("the Group") are registered under the relevant financial and corporate legislations within the countries in which they operate.

Capita Financial Services Inc. ("the Parent Company") is incorporated in Barbados and is a wholly-owned subsidiary of BPW Financial Holdings Inc., a Barbados company. Its ultimate parent is Barbados Public Workers' Cooperative Credit Union Limited (BPWCCU), a company incorporated in Barbados. The Parent Company is registered under Part III of the Financial Institutions Act, Cap 324A. The Group's principal place of business is at 2nd Floor, Co-operative General Insurance Building, Upper Collymore Rock, St. Michael.

The principal activities of the Parent Company are the provision of long-term mortgage financing, short-term loans, lease financing and stock brokerage in accordance with the provisions of the Financial Institutions Act, Cap 324A.

In October 2005, the Company established a branch in St. Lucia. These consolidated financial statements include the activities of that branch.

On September 11, 2014, the Parent Company incorporated a 100% owned subsidiary, Capita Insurance Brokers Inc. ("the Subsidiary"), the principal activity of which is provision of insurance broker services. The subsidiary is registered as a composite insurance broker under the Insurance Act, Cap 310.

2. Significant Accounting Policies

(a) *Basis of preparation*

The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale investment securities which have been measured at fair value.

Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the Board of Directors on July 2, 2015.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiary, disclosed in Note 1. The financial statements of the subsidiary are prepared for the same reporting year end as the Parent Company, using consistent accounting policies. All intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2015

(Expressed in Barbados dollars)

2. Significant Accounting Policies...continued

(a) Basis of preparation... continued

Basis of consolidation...continued

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Changes in accounting policies and disclosures

New and amended standards adopted by the Group

The accounting policies adopted are consistent with those used in the previous financial year except for the adoption of the following amendments.

<i>Effective date</i>	<i>Standards</i>
1 January 2014	Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
	Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)
	Recoverable Amount Disclosures for Non-Financial Liabilities (Amendments to IAS 36)
	IFRIC 21 Levies

The nature and effects of the relevant changes are explained below:

(a) Levies

IFRIC 21 provides interpretive guidance on the accounting for levies based on the recognition criteria in IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Based on the interpretation provided, the Group has applied this to the recognition of the government levy on taxable assets.

CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2015

(Expressed in Barbados dollars)

2. Significant Accounting Policies...continued

Changes in accounting policies and disclosures...continued

Standards in issue but not yet effective

New standards, interpretations and amendments to existing standards that are not yet effective and have not been early adopted by the Group are as follows:

<i>Effective date</i>	<i>Standards</i>
1 July 2015	Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)
1 January 2016	IFRS 14 Regulatory Deferral Accounts
	Accounting for Acquisitions of Interests in Joint Operations (Amendments to IAS 16 and IAS 38)
	Classification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)
	Equity Method in Separate Financial Statements (Amendments to IAS 27)
	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)
	Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
1 January 2017	IFRS 15 Revenue from Contracts with Customers
1 January 2018	IFRS 9 Financial Instruments

None of these is expected to have a significant effect on the financial statements of the Group in the period of adoption, except for IFRS 9 Financial Instruments, which tentatively becomes mandatory for the Group's 2019 consolidated financial statements, and is expected to impact the classification and measurement of financial assets and financial liabilities.

(b) *Financial assets*

The Group classifies its financial assets in the following categories: available-for-sale investment securities and loans and receivables. Financial assets are initially recognized at fair value plus transaction costs. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or when the Group has transferred substantially all risk and rewards of ownership. Management determines the classification of its investments at initial recognition.

Available-for-sale investment securities

Available-for-sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates. Investment securities classified as available-for-sale are carried at fair value. Gains and losses arising from changes in the fair value of these securities are recognised in equity (other comprehensive income) in the fair value reserve. When the securities are disposed, the cumulative gain or loss previously recognised in equity is recognised in the consolidated statement of comprehensive income (loss). Losses arising from the impairment of such investments are recognised in the consolidated statement of comprehensive income (loss).

CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2015

(Expressed in Barbados dollars)

2. Significant Accounting Policies...continued

(b) Financial assets...continued

Available-for-sale investment securities...continued

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for the financial asset, and where no other methods of determining fair value result in a reasonable estimate, the financial asset is measured at cost less impairment losses.

Loans and receivables

Non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market, and other than those that the Group designates as available-for-sale upon initial recognition, are classified as loans and receivables. Management determines the appropriate classification of its investments at the time of the purchase.

Loans and receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method. Loans and receivables are reported in the statement of financial position as loans and advances or as investment securities. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the consolidated statement of comprehensive income (loss) as provision for impairment charge.

(c) Financial liabilities

Financial liabilities are measured at amortised cost and include deposits from customers, loans payable and related company balances. Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expires.

(d) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash and bank balances, term deposits and deposits with Central Bank other than mandatory reserves with maturity dates less than or equal to 90 days from the date of acquisition.

(e) Impairment of financial assets

(i) Assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate.

CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2015

(Expressed in Barbados dollars)

2. Significant Accounting Policies ...continued

(e) Impairment of financial assets...continued

(i) Assets carried at amortised cost...continued

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

(ii) Assets classified as available-for-sale

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss - is removed from equity and recognised in the consolidated statement of comprehensive income (loss). Impairment losses recognised in the consolidated statement of comprehensive income (loss) on equity instruments are not reversed through the consolidated statement of comprehensive income (loss).

(iii) Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2015

(Expressed in Barbados dollars)

2. Significant Accounting Policies ...continued

(f) Property and equipment

Property and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income (loss) during the financial period in which they are incurred.

Depreciation is provided on the straight-line basis at rates which are expected to write off the cost of equipment less salvage over their expected useful lives as follows:

Leasehold improvements	-	10%
Furniture and equipment	-	10% - 33 $\frac{1}{3}$ %
Motor vehicles	-	20%

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each reporting date.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Where the carrying amounts of plant and equipment are greater than their estimated recoverable amount, they are written down immediately to their recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income (loss).

(g) Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(h) Leases

For assets leased out under finance leases, the present value of the lease payments at the start of the lease is recognised as a receivable and is included in loans and advances. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the effective interest method (which reflects a constant periodic rate of return).

CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2015

(Expressed in Barbados dollars)

2. Significant Accounting Policies ...continued

(h) Leases...continued

For assets leased out under operating leases, the total payments received are included as other operating income in the consolidated statement of comprehensive income (loss) on the straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made by the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(i) Foreign currency translation

The consolidated financial statements are presented in Barbados dollars which is the Group's presentation currency. The functional currency of the St. Lucia branch is Eastern Caribbean dollars.

Monetary assets and liabilities denominated in foreign currencies are translated into Barbados dollars at the rates of exchange ruling at the reporting date. Transactions arising during the year denominated in foreign currencies are translated into Barbados dollars and recorded at the rates of exchange prevailing on the dates of the transactions. Differences arising from fluctuations in exchange rates are included in the consolidated statement of comprehensive income (loss).

Assets and liabilities of the St. Lucia branch are translated into the Group's presentation currency at the rate of exchange as at the reporting date, and the consolidated statement of comprehensive income is translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. No such exchange differences have arisen to date.

(j) Fee and commission income

Fees and commission income is generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

Insurance agency commissions and other interest are recognised on an accrual basis.

(k) Interest income and expense

Interest income and expense are recognised on an accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. In calculating this rate, cash flows are estimated considering all contractual terms of the financial instrument but not considering future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate as well as transaction costs.

Once a financial asset has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2015

(Expressed in Barbados dollars)

2. Significant Accounting Policies ...continued

(l) *Dividend income*

Dividend income is recognised when the Group's right to receive the dividend is established.

(m) *Taxation*

Deferred income taxes are accounted for under tax effect accounting using the liability method. Deferred tax is provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes using the rates that have been enacted or substantially enacted by the reporting date and are expected to apply when the asset is realised or liability settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the asset can be utilised.

(n) *Defined contribution plan*

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligation to pay further contributions if the plan does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The Group's contributions to its defined contribution plan are charged to the consolidated statement of comprehensive income (loss) in the year to which they relate.

(o) *Share capital*

Common shares are classified as equity. Redeemable preference shares are treated as equity because they cannot be converted by the holders thereof at any time nor is the Group mandatorily required to redeem them on a specific date.

Dividends to shareholder are recognised in equity in the period in which they are approved by the Group's Board of Directors.

(p) *Provisions*

Provisions for restructuring costs and legal claims are recognized when the Group has a present legal or constructive obligation as a result of past events or it is more likely than not that an outflow of resources will be required to settle the obligations and the amount has been reliably estimated.

3. Critical Accounting Estimates and Judgments

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most significant uses of judgment and estimates are as follows:

(a) *Impairment losses on loans and advances*

Management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2015

(Expressed in Barbados dollars)

3. Critical Accounting Estimates and Judgments ...continued

(b) Impairment of available for-sale equity investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment.

(c) Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible.

Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as disclosed in Note 23.

(d) Income taxes

The Group is subject to income taxes in Barbados and St. Lucia. Significant estimates are required in determining the provision for income taxes. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4. Cash Resources

Cash resources consist of the following:

	<u>2015</u>	<u>2014</u>
Bank balances	\$ 11,725,128	4,868,116
Short term deposits	<u>4,085,672</u>	<u>12,033,919</u>
Cash and cash equivalents	15,810,800	16,902,035
Other term deposits	14,090,476	10,076,170
Mandatory reserve deposits with Central Bank of Barbados	<u>4,175,828</u>	<u>3,925,828</u>
Total cash resources	\$ <u>34,077,104</u>	<u>30,904,033</u>

Mandatory reserve deposits with the Central Bank of Barbados represent the Parent Company's regulatory requirement to maintain 3% of total average deposit liabilities as a cash reserve with the Central Bank of Barbados. These funds are not available to finance the Parent Company's day-to-day operations and as such, are excluded from cash resources to arrive at cash and cash equivalents for the purposes of the statement of cash flows.

At March 31, 2015, cash resources with the exception of mandatory reserve deposits with Central Bank carry interest at rates varying between 0.50% to 5% per annum (2014 - 0.50% to 5%).

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5. Investment Securities

Investment securities consist of:

	<u>Carrying Value</u>		<u>Fair Value</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Available-for-sale				
Quoted investments				
Fortress – Value Fund	\$ 12,775	11,328	12,775	11,328
Fortress – Development Fund	4,821	4,821	4,821	4,821
Insurance Corporation of Barbados	19,839	21,239	19,839	21,239
Scotia Investments Ltd Jamaica	22,903	26,511	22,903	26,511
Guardian Holdings	20,561	18,921	20,561	18,921
Royal Bank of Canada	<u>64,799</u>	<u>70,349</u>	<u>64,799</u>	<u>70,349</u>
	<u>\$ 145,698</u>	<u>153,169</u>	<u>145,698</u>	<u>153,169</u>

Loans and receivables

	<u>Carrying Value</u>		<u>Fair Value</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
7% Government of Barbados Bond	\$ 400,000	400,000	386,720	372,600
7.38% Government of Barbados Bond	500,000	500,000	472,550	457,450
7% Government of St. Lucia	895,493	970,118	922,896	972,252
7.25% Government of Barbados Bond	250,000	250,000	227,300	216,275
6.12% Government of Barbados Bond	<u>1,000,000</u>	<u>1,000,000</u>	<u>954,500</u>	<u>908,400</u>
	3,045,493	3,120,118	2,963,966	2,926,977
Accrued interest receivable	<u>67,287</u>	<u>61,458</u>	<u>67,287</u>	<u>61,458</u>
	3,112,780	3,181,576	3,031,253	2,988,435
Less impairment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>3,112,780</u>	<u>3,181,576</u>	<u>3,031,253</u>	<u>2,988,435</u>
Total Investment Securities	<u>\$ 3,258,478</u>	<u>3,334,745</u>	<u>3,176,951</u>	<u>3,141,604</u>

The Company has a regulatory requirement to maintain 1.5% of total domestic deposits as a security reserve. At March 31, 2015, the amount reserved was \$2,150,000 (2014 - \$2,150,000).

CAPITA FINANCIAL SERVICES INC.

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6. Loans and Advances

	<u>2015</u>	<u>2014</u>
Mortgages:		
Third party	\$ 126,161,167	118,415,491
Related party	537,552	547,457
Car/consumer loans	31,937,076	21,271,528
Leases	-	28,770
Interest receivable	<u>2,212,578</u>	<u>1,831,082</u>
	160,848,373	142,094,328
Less: Provision for loan impairment	<u>(1,285,781)</u>	<u>(1,276,683)</u>
	<u>\$ 159,562,592</u>	<u>140,817,645</u>

The movement in the provision for loan impairment during the year is as follows:

	<u>2015</u>	<u>2014</u>
Balance - beginning of year	\$ 1,276,683	986,683
Charge during the year	239,339	290,000
Amount written off during year	<u>(230,241)</u>	<u>-</u>
Balance - end of year	<u>\$ 1,285,781</u>	<u>1,276,683</u>
Individual impairment	\$ 1,095,781	1,086,683
Collective impairment	<u>190,000</u>	<u>190,000</u>
Balance - end of year	<u>\$ 1,285,781</u>	<u>1,276,683</u>

The effective rate of interest on mortgages varies between 5.5% and 10% (2014 - 6% and 10%) per annum while the rates on car and land loans vary between 7.5% and 12% (2014 - 9.5% and 12%) per annum. The term of mortgage loans does not exceed 25 years.

Car loans are secured by individual bills of sale, while land loans are secured by first legal mortgages.

CAPITA FINANCIAL SERVICES INC.

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7. Related Party Balances and Transactions

Related parties include those entities and individuals that have the ability to control or exercise significant influence over the Group in making financial or operational decisions, and entities that are controlled, jointly controlled or significantly influenced by them.

(i) Key management compensation:

		<u>2015</u>	<u>2014</u>
Salaries and allowances	\$	591,836	571,353
National insurance		29,430	23,058
Pension costs		36,752	36,752
Other costs		9,454	8,018

(ii) Key management loans:

		<u>2015</u>	<u>2014</u>
Beginning of the year	\$	690,353	201,179
Additional loans disbursed		90,930	527,500
Loan repayments during the year		(58,134)	(38,326)
Interest charged		40,971	31,881
Interest received		<u>(40,971)</u>	<u>(31,881)</u>
End of the year	\$	<u>723,149</u>	<u>690,353</u>

The rate of interest on loans ranged between 5.5% to 7.0% (2014 - 6% to 10%).

Key management loans include both mortgages and consumer loans.

No impairment provision has been recognised in respect of the above loans for 2015 or 2014.

(iii) Related company balances and transactions:

		<u>2015</u>	<u>2014</u>
Due to related company	\$	<u>53,860</u>	<u>58,053</u>
Due from related company	\$	<u>203,982</u>	<u>158,084</u>

Due from/to related company balances are unsecured, interest free and repayable within a year.

Management fees of \$144,000 were paid to a related company during 2015 (2014 - \$144,000).

Customer deposit balance and interest charged to related party are disclosed in Note 10.

CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

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(Expressed in Barbados dollars)

8. Property and Equipment

	Leasehold Improvements	Furniture and Equipment	Motor Vehicles	Total
Cost				
Balance, April 1, 2013	\$ 626,747	1,136,051	1,268,110	3,030,908
Additions	-	657,351	-	657,351
Disposals	<u>(2,085)</u>	<u>-</u>	<u>(250,000)</u>	<u>(252,085)</u>
Balance, March 31, 2014	<u>624,662</u>	<u>1,793,402</u>	<u>1,018,110</u>	<u>3,436,174</u>
Balance, April 1, 2014	624,662	1,793,402	1,018,110	3,436,174
Additions	1,027	90,114	299,780	390,921
Disposal	<u>-</u>	<u>(500)</u>	<u>(231,893)</u>	<u>(232,393)</u>
Balance, March 31, 2015	<u>625,689</u>	<u>1,883,016</u>	<u>1,085,997</u>	<u>3,594,702</u>
Accumulated Depreciation				
Balance, April 1, 2013	540,527	956,023	987,641	2,484,191
Depreciation charge	17,727	87,946	135,209	240,882
Disposal	<u>-</u>	<u>-</u>	<u>(237,500)</u>	<u>(237,500)</u>
Balance, March 31, 2014	<u>558,254</u>	<u>1,043,969</u>	<u>885,350</u>	<u>2,487,573</u>
Balance, April 1, 2014	558,254	1,043,969	885,350	2,487,573
Depreciation charge	17,599	205,895	102,761	326,255
Disposal	<u>-</u>	<u>(500)</u>	<u>(216,912)</u>	<u>(217,412)</u>
Balance, March 31, 2015	<u>575,853</u>	<u>1,249,364</u>	<u>771,199</u>	<u>2,596,416</u>
Net Book Value				
March 31, 2013	\$ <u>86,220</u>	<u>180,028</u>	<u>280,469</u>	<u>546,717</u>
March 31, 2014	\$ <u>66,408</u>	<u>749,433</u>	<u>132,760</u>	<u>948,601</u>
March 31, 2015	\$ <u>49,836</u>	<u>633,652</u>	<u>314,798</u>	<u>998,286</u>

CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

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9. Other Assets

	<u>2015</u>	<u>2014</u>
Prepayments and deferred expenses	\$ 187,777	178,966
Premiums receivable	1,283,994	1,364,848
Other receivables	<u>1,542,979</u>	<u>1,228,742</u>
	\$ <u>3,014,750</u>	<u>2,772,556</u>

10. Customer Deposits

These amounts are categorised as follows:

	<u>2015</u>	<u>2014</u>
Time deposits	\$ 139,928,316	115,688,184
Related party	17,142,992	19,275,038
Interest payable	<u>3,180,171</u>	<u>2,104,546</u>
	\$ <u>160,251,479</u>	<u>137,067,768</u>

The rate of interest on deposits varied between 3.00% to 6.75% for the year (2014 - 3.00% to 6.75%).

Interest charged on related party balances was \$630,057 (2014 - \$1,007,802).

A portfolio of mortgage loans has been pledged as security for certain customer deposits totalling \$18,800,000 (2014 - \$18,800,000).

11. Other Liabilities

	<u>2015</u>	<u>2013</u>
Insurance premiums	\$ 1,875,480	1,989,158
Other	65,066	179,189
Withholding tax (recoverable) payable	112,992	2,726
Accrued expenses	<u>276,780</u>	<u>142,415</u>
	\$ <u>2,330,318</u>	<u>2,313,488</u>

CAPITA FINANCIAL SERVICES INC.

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12. Loans Payable

	<u>2015</u>	<u>2014</u>
National Insurance Board (i)	\$ 2,050,968	2,500,000
Housing Credit Fund (ii)	<u>16,538,842</u>	<u>17,777,671</u>
	\$ <u>18,589,810</u>	<u>20,277,671</u>

(i) The National Insurance Board loan has a term of 5 years and interest on this loan is 5.25% per annum.

(ii) The Housing Credit Fund loan is comprised of several individual loans. Interest on these loans is charged at the rate of 4.25% (2014 - 4.25%) per annum and each loan is for a term of 25 years.

The Company has not had any defaults of principal, interest or other breaches with respect to its loans payable during the years ended March 31, 2015 and 2014.

13. Tax on Asset Payable

Under the Tax on Asset Act, 2015, every entity licensed under Section 22 of the Financial Institutions Act, Cap 324A with total gross assets of which is \$40 million or more and accepts deposits from third parties, shall pay by the 15th of the sixth (6th) month after each assessment quarter, a levy of 0.20% per annum on the average domestic assets of the deposit taking licensee. This Act came into effect on June 1, 2014 and is expected to expire on March 31, 2016. Tax on assets expense for this Group amounted to \$253,204.

14. Taxation

The corporation tax expense for the year is as follows:

	<u>2015</u>	<u>2014</u>
Current tax	\$ 39,950	166,882
Under provision of prior year current tax	16,396	-
Deferred tax (release) charge	<u>(14,425)</u>	<u>52,804</u>
Taxation charge	\$ <u>41,921</u>	<u>219,686</u>

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14. Taxation...continued

The tax on the Group's income before taxation differs from the theoretical amount that would arise using the statutory rate of corporation tax as follows:

	<u>2015</u>	<u>2014</u>
Income before taxation	\$ <u>1,016,913</u>	<u>1,337,994</u>
Tax calculated at a rate of 25% (2014 - 25%)	\$ 254,229	334,498
Income not subject to tax	(96,635)	(88,431)
Effect of different tax rates	(13,221)	(6,454)
Group relief	(141,169)	(104,490)
Expenses not deductible for tax purposes	21,020	22,244
Movement on deferred tax asset not recognised	1,301	35,234
Prior year under provision - current tax	16,396	-
Prior year under provision - deferred tax	-	25,938
Other	-	<u>1,147</u>
Taxation charge	\$ <u>41,921</u>	<u>219,686</u>

Deferred taxation

	<u>2015</u>	<u>2014</u>
Beginning of year	\$ 81,785	29,326
Deferred tax charge (release)	(14,425)	52,804
Deferred tax on fair value (loss) gain	<u>(2,127)</u>	<u>(345)</u>
End of year	\$ <u>65,233</u>	<u>81,785</u>

The deferred tax asset not recognised in the financial statements relates to the St. Lucia branch and consists of the following components (calculated at a tax rate of 30%):

	<u>2015</u>	<u>2014</u>
Accelerated tax depreciation	\$ (6,393)	(1,576)
Unutilised tax losses	<u>(105,936)</u>	<u>(135,151)</u>
	\$ <u>(112,329)</u>	<u>(136,727)</u>

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14. Taxation...continued

Deferred taxation...continued

The Group has accumulated losses in the St. Lucia branch for tax purposes which may be carried forward and set off against future taxable income as follows:

Year of <u>Loss</u>	Losses <u>B/fwd</u>	<u>Incurred</u>	<u>Utilised</u>	<u>Expired</u>	Losses <u>C/Fwd</u>	Expiry <u>Date</u>
2009	\$ 97,383	-	11,721	85,662	-	2015
2010	44,017	-	-	-	44,017	2016
2011	57,777	-	-	-	57,777	2017
2012	205,852	-	-	-	205,852	2018
2013	45,474	-	-	-	45,474	2019
	\$ <u>450,503</u>	<u>-</u>	<u>11,721</u>	<u>85,662</u>	<u>353,120</u>	

These losses are as computed by the Company in its corporation tax returns and have as yet neither been confirmed nor disputed by the Commissioner of the Barbados Revenue Authority.

15. Share Capital

Authorised

Unlimited number of common shares of no par value

Unlimited number of 8.5% cumulative preference shares of no par value

Issued

At the reporting date, the following shares were issued and outstanding:

	Shares		\$	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Common shares	5,734,032	5,734,032	5,734,032	5,734,032
8.5% Cumulative preference shares	<u>1,563,027</u>	<u>1,563,027</u>	<u>1,563,027</u>	<u>1,563,027</u>
	<u>7,297,059</u>	<u>7,297,059</u>	<u>7,297,059</u>	<u>7,297,059</u>

The preference shares are redeemable at the option of the Company and no dividends were paid during the year.

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Notes to the Consolidated Financial Statements

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16. Other Reserves

i) Statutory reserve

Under the provisions of the Financial Institutions Act, the Company is required to transfer a minimum of 15% of its after tax profits to a reserve fund until such fund equals the share capital. A transfer of \$146,249 was required during 2015 (2014 - \$167,746).

	<u>2015</u>	<u>2014</u>
Balance – beginning of year	\$ 2,964,805	2,797,059
Transfer to statutory reserve	<u>146,249</u>	<u>167,746</u>
Balance – end of year	\$ <u>3,111,054</u>	<u>2,964,805</u>

ii) General reserve

The general banking reserve represents the difference between the loan loss reserve requirements in accordance with statutory requirements compared to the loan loss provision calculated in accordance with IFRS.

	<u>2015</u>	<u>2014</u>
Balance – beginning of year	\$ 500,000	500,000
Transfer from general banking reserve	<u>-</u>	<u>-</u>
Balance – end of year	\$ <u>500,000</u>	<u>500,000</u>

iii) Fair value reserve

The fair value reserve represents the net effect of fair value gains/ (losses) on available-for-sale investment securities held.

The movement on the fair value reserve for the year is as follows:

	<u>2015</u>	<u>2014</u>
Balance – beginning of year	\$ (42,214)	(41,177)
Unrealized fair value (loss) gain – net of tax	<u>(5,344)</u>	<u>(1,037)</u>
Balance – end of year	<u>(47,558)</u>	<u>(42,214)</u>
Total other reserves	\$ <u>3,563,496</u>	<u>3,422,591</u>

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17. Commitments and Contingent Liabilities

Contingent liabilities

At March 31, 2015, unutilised commitments to extend credit for mortgages and other loans amounted to \$15,056,267 (2014 - \$17,725,387).

Operating lease commitments

Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	<u>2015</u>	<u>2014</u>
No later than 1 year	\$ <u>670,848</u>	<u>570,931</u>

18. Interest Income

	<u>2015</u>	<u>2014</u>
Loans and advances	\$ 11,389,133	10,532,461
Fixed deposits	116,542	181,043
Debt securities	<u>890,516</u>	<u>680,500</u>
	\$ <u>12,396,191</u>	<u>11,394,004</u>

19. Interest Expense

	<u>2015</u>	<u>2014</u>
Customer deposits	\$ 6,228,246	5,638,688
Other borrowings	<u>861,936</u>	<u>786,817</u>
	\$ <u>7,090,182</u>	<u>6,425,505</u>

20. Other Income

	<u>2015</u>	<u>2014</u>
Brokerage commissions	\$ 742,877	556,625
Fees and commissions	513,915	525,080
Leases	2,260	13,560
Gain on disposal of equipment	29,710	35,500
Dividend income	6,504	8,472
Other operating income	12,308	27,479
Gain on disposal of asset	<u>-</u>	<u>4,945</u>
	\$ <u>1,307,574</u>	<u>1,171,661</u>

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21. Salaries and Other Staff Costs

	<u>2015</u>	<u>2014</u>
Salaries and wages	\$ 1,493,071	1,271,485
National Insurance	90,058	83,847
Pension costs	92,820	89,681
Other costs	<u>123,146</u>	<u>90,636</u>
	\$ <u>1,799,095</u>	<u>1,535,649</u>

22. Financial Risk Management

The Group's activities expose it to a variety of risks which include credit risk, foreign exchange risk, interest rate risk, liquidity risk and operational risk. The Group's risk management policies are designed to identify and analyse these risks, to set appropriate limits and controls, and to monitor the risks and adherence limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes and emerging best practices.

Risk management is carried out by management under policies approved by the Board of Directors. The Board provides written principles and policies for overall risk management.

Credit risk management

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Group by failing to discharge its obligation. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities into the Group's asset portfolio. There is also credit risk in off-statement of financial position financial instruments, such as commitments. Credit risk management and control are performed by the credit risk management team of the Group and reported to the Board of Directors regularly.

a) Loans and advances

In measuring credit risk of loans and advances to customers, the Group considers the 'probability of default' by the client and the likely recovery ratio on the defaulted obligations (the 'loss given default'). The Group assesses the probability of default of individual customers using internal delinquency reports showing loan in arrears.

b) Debt securities

For debt securities, credit risk exposure is managed by investing in low risk Government Bonds and monitoring the credit rating of the bonds and the related sovereign.

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Notes to the Consolidated Financial Statements

For the year ended March 31, 2015

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22. Financial Risk Management...continued

Risk limit control and mitigation policies

The Group manages limits and controls concentrations of credit risk wherever they are identified.

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Bills of sale over vehicles and equipment;
- Mortgages over residential and commercial properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as cash, debt securities and equities.

Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Impairment and provisioning policies

Impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment (see Note 2e).

The Group's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the reporting date on a case-by-case basis, and are applied to all individually significant accounts.

The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

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22. Financial Risk Management ...continued

Maximum exposure to credit risk before collateral held or other credit enhancements

	<u>2015</u>	<u>2014</u>
Credit risk exposures relating to on-statement of financial position assets are as follows:		
Loans and advances to customers		
Loans to individuals		
- Consumer loans	\$ 31,937,076	21,093,562
- Mortgages	120,076,788	110,493,163
Loans to corporate entities	6,621,931	8,647,751
Leases and interest receivable	<u>2,212,578</u>	<u>1,859,852</u>
	<u>160,848,373</u>	<u>142,094,328</u>
Investment securities		
- Government and other Corporate Bonds	3,112,780	3,181,576
Credit risk exposures relating to off-statement of financial position items are as follows:		
- Loan commitments	<u>15,056,267</u>	<u>17,725,387</u>
	<u>\$ 179,017,420</u>	<u>163,001,291</u>

The above table represents a worst case scenario of credit risk exposure to the Group at March 31, 2015 and 2014, without taking account of any collateral held or other credit enhancements attached. For statement of financial position assets, the exposures set out above are based on gross carrying amounts as reported in the statement of financial position.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from both its loan and advances portfolio and debt securities based on the following:

- 93% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2014 - 93%);
- Mortgage loans, which represent the biggest group in the portfolio, are backed by collateral;
- 57% of the loans and advances portfolio are considered to be neither past due nor impaired (2014 - 52%);
- The Group has introduced a more stringent selection process upon granting loans and advances;
- 100% of the investment in debt securities is low risk government bonds.

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22. Financial Risk Management ...continued

Loans and advances

The credit quality of loans and advances are summarised as follows:

	<u>2015</u>	<u>2014</u>
Neither past due nor impaired	\$ 91,915,716	73,379,286
Past due but not impaired	64,812,106	65,420,292
Impaired	<u>4,120,551</u>	<u>3,294,750</u>
Gross	160,848,373	142,094,328
Less allowance for impairment	<u>(1,285,781)</u>	<u>(1,276,683)</u>
Net	\$ <u>159,562,592</u>	<u>140,817,645</u>

a) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group.

2015

	<u>Term Loans</u>	<u>Mortgages</u>	<u>Total</u>
Grades			
1. Pass	\$ 24,991,504	61,436,559	86,428,063
2. Special Mention	<u>2,829</u>	<u>5,484,824</u>	<u>5,487,653</u>
Total	\$ <u>24,994,333</u>	<u>66,921,383</u>	<u>91,915,716</u>

2014

	<u>Term Loans</u>	<u>Mortgages</u>	<u>Total</u>
Grades			
1. Pass	\$ 9,730,406	58,263,247	67,993,653
2. Special Mention	<u>12,581</u>	<u>5,373,052</u>	<u>5,385,633</u>
Total	\$ <u>9,742,987</u>	<u>63,636,299</u>	<u>73,379,286</u>

CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2015

(Expressed in Barbados dollars)

22. Financial Risk Management ...continued

Loans and advances ...continued

b) Loans and advances past due but not impaired

Loans and advances that are past due but not impaired are those for which contractual interest or principal repayments are past due but the Group believes that impairment is not appropriate on the basis of level of security or collateral available and/or the stage of collection of amounts owed to the Group.

Gross amount of loans and advances by class of customers that were past due but not impaired were as follows:

	2015			2014		
	Term Loans	Mortgages	Total	Term Loans	Mortgages	Total
1 to 90 days	\$ 4,230,373	33,082,593	37,312,966	9,595,183	35,656,184	45,251,367
91 - 180 days	448,046	7,799,475	8,247,521	483,733	7,130,142	7,613,875
Over 180 days	<u>806,574</u>	<u>18,445,045</u>	<u>19,251,619</u>	<u>231,559</u>	<u>12,323,491</u>	<u>12,555,050</u>
Total	\$ <u>5,484,993</u>	<u>59,327,113</u>	<u>64,812,106</u>	<u>10,310,475</u>	<u>55,109,817</u>	<u>65,420,292</u>

c) Individually impaired loans and advances

The breakdown of the gross amount of individually impaired loans and advances by class, are as follows:

	2015	2014
Term loans	\$ 1,457,750	1,246,836
Mortgages	<u>2,662,801</u>	<u>2,047,914</u>
	\$ <u>4,120,551</u>	<u>3,294,750</u>

Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans and modification of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Renegotiated loans that would otherwise be past due or impaired totalled \$998,774 at March 31, 2015 (2014 - \$1,430,961).

CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

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(Expressed in Barbados dollars)

22. Financial Risk Management ...continued

Repossessed collateral

The Group took possession of collateral held as security in the amount of \$456,690 during 2015 (2014 - \$690,730).

Interest rate risk

Interest rate risk arises when there is a mismatch between the size and maturity of interest earning assets and deposit liabilities such that interest rate changes can expose the Group to earning volatility.

Differences in contractual re-pricing or maturity dates and changes in interest rates may expose the Group to interest rate risk. The table below summarises the Group's exposure to interest rate risk on its interest bearing assets and liabilities:

	<u>Total</u>	<u>Within 3 months</u>	<u>Within 3 to 6 months</u>	<u>Within 6 months to 1 year</u>	<u>Between 1 to 5 years</u>	<u>Over 5 years</u>	<u>Non- interest bearing</u>
2015							
Assets							
Cash resources	\$ 34,077,104	20,703,434	4,513,665	3,195,197	1,488,980	-	4,175,828
Investment securities - loans and receivables	3,112,780	-	-	67,287	895,493	2,150,000	-
Loans and advances to customers	159,562,592	3,219,497	1,153,889	2,496,391	23,789,706	128,903,109	-
Due from related company	203,982	-	-	-	-	-	203,982
Other assets	2,826,973	-	-	-	-	-	2,826,973
Total financial assets	199,783,431	23,922,931	5,667,554	5,758,875	26,174,179	131,053,109	7,206,783
Liabilities							
Customers deposits	160,251,479	54,291,219	11,799,686	62,555,128	31,479,018	126,428	-
Due to related company	53,860	-	-	-	-	-	53,860
Loans payable	18,589,810	14,105	13,668	-	2,050,968	16,511,069	-
Other liabilities	2,217,326	-	-	-	-	-	2,217,326
Total financial liabilities	181,112,475	54,305,324	11,813,354	62,555,128	33,529,986	16,637,497	2,271,186
Total interest repricing gap	\$	(30,382,393)	(6,145,800)	(56,796,253)	(7,355,807)	114,415,612	

CAPITA FINANCIAL SERVICES INC.

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22. Financial Risk Management ...continued

Interest rate risk ...continued

	<u>Total</u>	<u>Within 3 months</u>	<u>Within 3 to 6 months</u>	<u>Within 6 months to 1 year</u>	<u>Between 1 to 5 years</u>	<u>Over 5 years</u>	<u>Non- interest bearing</u>
2014							
Assets							
Cash resources	\$ 30,904,033	21,460,384	3,881,174	1,636,647	-	-	3,925,828
Investment securities							
- loans and receivables	3,181,576	-	-	61,458	970,118	2,150,000	-
Loans and advances to customers	140,817,645	3,322,122	2,573,507	681,711	23,224,540	111,015,765	-
Due from related company	158,084	-	-	-	-	-	158,084
Other assets	2,593,590	-	-	-	-	-	2,593,590
Total financial assets	177,654,928	24,782,506	6,454,681	2,379,816	24,194,658	113,165,765	6,677,502
Liabilities							
Customers deposits	137,067,768	37,787,971	18,754,845	44,397,973	36,008,449	118,530	-
Due to related company	58,053	58,053	-	-	-	-	-
Loans payable	20,277,671	26,919	-	18,578	2,611,530	17,620,644	-
Other liabilities	2,310,762	-	-	-	-	-	2,310,762
Total financial liabilities	159,714,254	37,872,943	18,754,845	44,416,551	38,619,979	17,739,174	2,310,762
Total interest repricing gap	\$	(13,090,437)	(12,300,164)	(42,036,735)	(14,425,321)	95,426,591	

An interest rate sensitivity analysis was performed to determine the impact on profit of reasonable possible changes in the interest rates prevailing as at March 31, 2015, with all other variables held constant.

The impact is illustrated and shown in the table below:

	<u>2015</u>	<u>2014</u>
Increase / decrease of 100 bps		
Impact on profit + 100 bps	\$ (23,118)	-
Impact on profit - 100 bps	23,118	-

CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2015

(Expressed in Barbados dollars)

22. Financial Risk Management ...continued

Currency risk

Currency risk arises when future commercial transactions, recognized assets and liabilities are denominated in a currency that is not the Group's functional currency.

The Group is exposed to foreign exchange risk primarily with respect to EC dollars.

Management monitors economic and political conditions in the countries in which it operates for risks of currency fluctuations.

2015

	<u>Barbados</u>	<u>East Caribbean</u>	<u>Total</u>
Assets			
Cash resources	\$ 19,899,037	14,178,067	34,077,104
Investment securities			
- loans and receivables	2,186,031	926,749	3,112,780
- available-for-sale	145,698	-	145,698
Loans and advances	148,443,963	11,118,629	159,562,592
Due from related company	203,982	-	203,982
Other assets	<u>2,613,201</u>	<u>213,772</u>	<u>2,826,793</u>
Total financial assets	\$ <u>173,491,912</u>	<u>26,437,217</u>	<u>199,929,129</u>
Liabilities			
Customer deposits	\$ 144,014,713	16,236,766	160,251,479
Loans payable	18,589,810	-	18,589,810
Other liabilities	<u>2,084,220</u>	<u>133,106</u>	<u>2,217,326</u>
Total financial liabilities	\$ <u>164,688,743</u>	<u>16,369,872</u>	<u>181,058,615</u>

CAPITA FINANCIAL SERVICES INC.

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(Expressed in Barbados dollars)

22. Financial Risk Management ...continued

Currency risk ...continued

2014

	<u>Barbados</u>	<u>East Caribbean</u>	<u>Total</u>
Assets			
Cash resources	\$ 20,242,094	10,661,939	30,904,033
Investment securities			
- loans and receivables	2,211,458	970,118	3,181,576
- available-for-sale	153,169	-	153,169
Loans and advances	131,343,683	9,473,962	140,817,645
Due from related company	158,084	-	158,084
Other assets	<u>2,416,678</u>	<u>176,912</u>	<u>2,593,590</u>
Total financial assets	\$ <u>156,525,166</u>	<u>21,282,931</u>	<u>177,808,097</u>
Liabilities			
Customer deposits	\$ 126,005,916	11,061,852	137,067,768
Loans payable	20,277,671	-	20,277,671
Other liabilities	<u>2,282,496</u>	<u>28,266</u>	<u>2,310,762</u>
Total financial liabilities	\$ <u>148,566,083</u>	<u>11,090,118</u>	<u>159,656,201</u>

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

Management of the Group's liquidity is the responsibility of the Asset and Liability Management Committee. Management of this liquidity is performed on a daily basis.

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22. Financial Risk Management ...continued

Liquidity risk management approach

The Group manages its liquidity risk by performing the following:

- Day-to-day funding, managed by monitoring future cash flows to ensure that the requirements can be met;
- Monitoring statement of financial position liquidity ratios against internal and regulatory requirements;
- Managing the concentration and profile of debt securities; and
- Monitoring and reporting using monthly cash flow measurement and projections including an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The table below analyses the contractual undiscounted cash flows of the Group's financial assets and liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

	<u>Total</u>	<u>Within 3 months</u>	<u>Within 3 to 6 months</u>	<u>Within 1 year</u>	<u>Between 1 to 5 years</u>	<u>Over 5 years</u>
2015						
Assets						
Cash resources	\$ 34,077,104	24,879,262	4,513,665	3,195,197	1,488,980	-
Investment securities:						
- loans and receivables	3,112,780	-	-	67,287	895,493	2,150,000
Loans and advances to customers	247,199,875	4,987,756	1,787,645	3,867,495	36,855,834	199,701,145
Due from related company	203,982	203,982	-	-	-	-
Other assets	2,826,973	2,826,973	-	-	-	-
Total assets	287,420,714	32,897,973	6,301,310	7,129,979	39,240,307	201,851,145
Liabilities						
Customer deposits	171,068,454	57,955,876	12,596,165	66,777,599	33,603,852	134,962
Loans payable	27,808,499	21,100	20,446	-	3,068,043	24,698,910
Due to related company	53,860	53,860	-	-	-	-
Other Liabilities	2,217,326	2,217,326	-	-	-	-
Total liabilities	201,148,139	60,248,162	12,616,611	66,777,599	36,671,895	24,833,872
Net liquidity gap	\$ (27,350,189)	(6,315,301)	(59,647,620)	2,568,412	177,017,273	

CAPITA FINANCIAL SERVICES INC.

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22. Financial Risk Management ...continued

Liquidity risk management approach ...continued

	<u>Total</u>	<u>Within 3 months</u>	<u>Within 3 to 6 months</u>	<u>Within 1 year</u>	<u>Between 1 to 5 years</u>	<u>Over 5 years</u>
2014						
Assets						
Cash resources	\$ 30,904,033	25,386,212	3,881,174	1,636,647	-	-
Investment securities:						
- loans and receivables	3,181,576	-	-	61,458	970,118	2,150,000
Loans and advances to customers	220,707,821	5,207,569	4,034,083	1,068,611	36,375,581	174,021,977
Due from related company	158,084	158,084	-	-	-	-
Other assets	2,593,590	2,593,590	-	-	-	-
Total assets	257,545,104	33,345,455	7,915,257	2,766,716	37,345,699	176,171,977
Liabilities						
Customer deposits	146,319,842	40,338,659	20,020,797	47,394,836	38,439,019	126,531
Other liabilities	2,282,496	2,282,496	-	-	-	-
Due to related company	58,053	58,053	-	-	-	-
Loans payable	30,100,200	39,959	-	27,577	3,876,558	26,156,106
Total liabilities	178,760,591	42,719,167	20,020,797	47,422,413	42,315,577	26,282,637
Net liquidity gap	\$ (9,373,712)	(12,105,540)	(44,655,697)	(4,969,878)	149,889,340	

Capital management

The Group's objectives when managing capital are:

- To comply with the capital requirements set by the regulators of financial institutions where the Group operates;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns to its shareholder and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

CAPITA FINANCIAL SERVICES INC.

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22. Financial Risk Management ...continued

Capital management...continued

Capital adequacy and the use of regulatory capital are monitored daily by the Group's management, employing techniques based on policies and guidelines regulated by the Financial Institutions Act. The required information is filed with the Central Bank of Barbados on a quarterly basis.

The Central Bank of Barbados requires the Group to: (a) hold the minimum level of the regulatory capital and (b) maintain a ratio of total regulatory capital to risk-weighted assets at or above the internationally agreed minimum of 8%.

The Group has complied with all externally imposed capital requirements.

23. Fair Value of Financial Instruments

The fair value of on and off balance sheet financial instruments is based on the valuation methods and assumptions set out in note 2 - significant accounting policies. Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and is best evidenced by a quoted market price, if one exists.

The carrying amounts reported in the statement of financial position for cash resources, due from related company, other assets, due to related company and other liabilities approximate their fair values, due to their short-term nature.

Loans and other advances result from transactions conducted in the normal course of business and their values are not adversely affected by unusual terms. The inherent rates of interest in the portfolio approximate market conditions. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Loans payable are carried at amounts which reflect contractual obligations and bear terms and conditions similar to those under market conditions.

The fair value of customer deposits with no stated maturity is assumed to be equal to their carrying values. Deposits with fixed rate characteristics are at rates which are not significantly different from current rates. The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

The fair value of available-for-sale securities is determined by reference to bid prices on the Security Exchange.

CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

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23. Fair Value of Financial Instruments ...continued

Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- 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).

The following table shows the fair value measurement hierarchy of the Group's assets and liabilities as at the reporting date.

2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>	<u>Total Carrying Amount</u>
Financial assets measured at fair value					
Investment securities - available-for-sale	\$ 145,698	-	-	145,698	145,698
Financial assets for which fair value is disclosed					
Investment securities - loans and receivables	-	-	3,112,780	3,112,780	3,112,780
Loan and advances	-	-	175,040,814	175,040,814	159,562,592
Financial liabilities for which fair value is disclosed					
Customer deposits	-	-	160,251,479	160,251,479	160,251,479
Loans payable	-	-	18,640,072	18,640,072	18,589,810

CAPITA FINANCIAL SERVICES INC.

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23. Fair Value of Financial Instruments ...continued

Determination of fair value and fair value hierarchy ...continued

2014

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>	<u>Total Carrying Amount</u>
Financial assets measured at fair value					
Investment securities - available-for-sale	\$ 153,169	-	-	153,169	153,169
Financial assets for which fair value is disclosed					
Investment securities - loans and receivables	-	-	3,181,576	3,181,576	3,181,576
Loan and advances	-	-	151,798,816	151,798,816	140,817,645
Financial liabilities for which fair value is disclosed					
Customer deposits	-	-	137,067,768	137,067,768	137,067,768
Loans payable	-	-	22,435,049	22,435,049	20,277,671

24. Comparatives

Prior year balances relating to the disclosure on credit quality of loans and advances have been reclassified to conform to the current year's presentation.