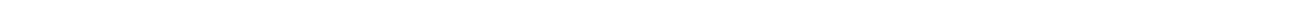


Consolidated Financial Statements of

**Capita Financial Services Inc.**

March 31, 2020



## **Capita Financial Services Inc.**

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**KPMG**

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**INDEPENDENT AUDITORS' REPORT**

**To the Shareholder of Capita Financial Services Inc.**

**Report on the Audit of the Consolidated Financial Statements*****Opinion***

We have audited the consolidated financial statements of Capita Financial Services Inc. and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at March 31, 2020, the consolidated statements of changes in equity, comprehensive income, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS).

***Basis for Opinion***

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Barbados, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



## **INDEPENDENT AUDITORS' REPORT (CONTINUED)**

**To the Shareholder of Capita Financial Services Inc. (continued)**

**Report on the Audit of the Consolidated Financial Statements (continued)**

### ***Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### ***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***

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



## **INDEPENDENT AUDITORS' REPORT (CONTINUED)**

**To the Shareholder of Capita Financial Services Inc. (continued)**

**Report on the Audit of the Consolidated Financial Statements (continued)**

### ***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements, continued***

- 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.



## **INDEPENDENT AUDITORS' REPORT (CONTINUED)**

**To the Shareholder of Capita Financial Services Inc. (continued)**

**Report on the Audit of the Consolidated Financial Statements (continued)**

### **Other Matter**

This report is made solely to the Group's shareholder in accordance with Section 147 of the Companies Act of Barbados. Our audit work has been undertaken so that we might state to the Group's shareholder those matters we are required to state to the shareholder in an auditors' report and for no other purpose. To the fullest extent permitted by law and subject to any enactment or rule of law to the contrary, we do not accept or assume responsibility to anyone other than the Group and the Group's shareholder, for our audit work, for this report, or for the opinion we have formed.

A handwritten signature of the KPMG firm, written in black ink.

Chartered Accountants  
Bridgetown, Barbados  
September 18, 2020

# CAPITA FINANCIAL SERVICES INC.

## Consolidated Statement of Financial Position

As at March 31, 2020

With comparative figures for 2019

(Expressed in Barbados dollars)

	Notes	2020	2019
<b>Assets</b>			
Cash resources	5	\$ 25,555,432	31,205,032
Investment securities:			
FVOCI	6	406,414	472,258
Amortized cost	6	3,785,761	2,961,815
Loans and advances	7	265,770,793	238,224,633
Corporation tax recoverable		326,788	313,104
Due from related company	8	270,841	435,431
Property and equipment	9	7,197,258	3,950,050
Other assets	10	<u>3,778,300</u>	<u>3,419,346</u>
<b>Total Assets</b>		<b>\$ <u>307,091,587</u></b>	<b><u>280,981,669</u></b>
<b>Liabilities and Equity</b>			
<b>Liabilities</b>			
Customer deposits	11	\$ 263,623,928	240,378,074
Other liabilities	12	5,318,657	2,834,819
Due to related company	8	6,004	31,835
Loans payable	13	12,282,195	13,520,176
Corporation tax payable		123,583	-
Deferred loan commitment fees		466,650	399,824
Tax on asset payable	14	314,378	391,611
Deferred taxation	15	<u>66,052</u>	<u>60,326</u>
<b>Total liabilities</b>		<b><u>282,201,447</u></b>	<b><u>257,616,665</u></b>
<b>Equity</b>			
Share capital	16	10,297,059	10,297,059
Other reserves	17	5,375,642	4,266,641
Retained earnings		<u>9,217,439</u>	<u>8,801,304</u>
<b>Total equity</b>		<b><u>24,890,140</u></b>	<b><u>23,365,004</u></b>
<b>Total Liabilities and Equity</b>		<b>\$ <u>307,091,587</u></b>	<b><u>280,981,669</u></b>

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, 2020

With comparative figures for 2019

(Expressed in Barbados dollars)

	<u>Notes</u>	<u>Share Capital</u>	<u>Other Reserves</u>	<u>Retained Earnings</u>	<u>Total</u>
Balance at April 1, 2018		\$ 10,297,059	4,161,327	9,663,441	24,121,827
Adjustment on initial application of IFRS 9		-	-	(1,385,905)	(1,385,905)
Restated balance at April 1, 2018		10,297,059	4,161,327	8,277,536	22,735,922
Net income for the year		-	-	733,845	733,845
Dividend declared		-	-	(100,000)	(100,000)
Transfer to statutory reserve	17	-	110,077	(110,077)	-
Total other comprehensive income		-	(4,763)	-	(4,763)
Balance at March 31, 2019		\$ <u>10,297,059</u>	<u>4,266,641</u>	<u>8,801,304</u>	<u>23,365,004</u>
Balance at April 1, 2019		\$ 10,297,059	4,266,641	8,801,304	23,365,004
Adjustment on initial application of IFRS 16	4	-	-	13,858	13,858
Restated balance at April 1, 2019		\$ 10,297,059	4,266,641	8,815,162	23,378,862
Net income for the year		-	-	1,636,542	1,636,542
Dividend declared		-	-	(110,268)	(110,268)
Transfer to statutory reserve	17	-	244,218	(244,218)	-
Transfer to general reserve		-	879,779	(879,779)	-
Total other comprehensive income		-	(14,996)	-	(14,996)
Balance at March 31, 2020		\$ <u>10,297,059</u>	<u>5,375,642</u>	<u>9,217,439</u>	<u>24,890,140</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, 2020

With comparative figures for 2019

(Expressed in Barbados dollars)

	Notes	2020	2019
Interest income	19	\$ 16,789,568	15,718,526
Interest expense	20	<u>(7,884,280)</u>	<u>(7,795,486)</u>
<b>Net interest income</b>		8,905,288	7,923,040
Other income	21	<u>2,525,541</u>	<u>2,288,212</u>
<b>Net interest and other income</b>		<u>11,430,829</u>	<u>10,211,252</u>
<b>Operating expenses</b>			
Salaries and other staff costs	22	3,112,818	2,600,338
Occupancy costs		150,277	937,377
Debt impairment (recovery) charge	6	(156,834)	73,296
Loan impairment charge	7	391,933	307,552
Receivable write off		167,054	-
Other operating expenses	23	3,478,049	3,624,085
Depreciation	9	<u>1,639,731</u>	<u>759,725</u>
<b>Total operating expenses</b>		<u>8,783,028</u>	<u>8,302,373</u>
<b>Income before levies and de- recognition of Government Debt and taxation</b>		2,647,801	1,908,879
Loss on De-recognition of Government Securities	6	-	(403,280)
Tax on assets	14	<u>(842,378)</u>	<u>(799,800)</u>
<b>Income before taxation</b>		1,805,423	705,799
Taxation	15	<u>(168,881)</u>	<u>28,046</u>
<b>Net income for the year</b>		<u>1,636,542</u>	<u>733,845</u>
<b>Other comprehensive income</b>			
<i>Items that are or may be reclassified to profit or loss</i>			
Unrealised fair value gain on FVOCI investment securities, net		<u>(14,996)</u>	<u>(4,763)</u>
<b>Comprehensive income for the year</b>		\$ <u>1,621,546</u>	<u>729,082</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, 2020

With comparative figures for 2019

(Expressed in Barbados dollars)

	<u>Notes</u>	<u>2020</u>	<u>2019</u>
<b>Cash flows from operating activities</b>			
Income before taxation		\$ 1,805,423	705,799
Adjustments for:			
Depreciation	9	1,639,731	759,725
Interest income		(16,789,568)	(15,718,526)
Interest expense		7,884,280	7,795,486
Debt impairment (recovery) charge		(156,834)	73,296
Loan impairment charge		391,933	307,552
Receivable write off		167,054	-
Loss (gain) on sale of assets		19,531	(27,458)
Loss on de-recognition of Government Securities		-	403,280
		(5,038,450)	(5,700,846)
Changes in operating assets and liabilities:			
Increase in mandatory reserve deposits with Central Bank		(1,000,015)	(550,000)
Increase in loans and advances		(27,713,990)	(22,825,190)
Increase in other assets		(358,954)	(586,783)
Increase in customer deposits		23,262,986	20,329,975
(Decrease) increase in other liabilities		(377,773)	952,172
Increase (decrease) in net due to/from related company		138,759	(100,650)
Increase (Decrease) in deferred loan commitment fees		66,826	(10,266)
(Decrease) Increase in tax on asset payable		(77,233)	129,112
<b>Net cash used in operations</b>		(11,097,844)	(8,362,476)
Interest received		16,565,465	15,600,038
Interest paid		(7,901,412)	(6,685,456)
Taxes paid		(54,395)	(177,521)
<b>Net cash from operating activities</b>		(2,488,186)	374,585
<b>Cash flows from investing activities</b>			
Decrease of other term deposits		6,842,972	3,251,199
Purchase of investment securities		(1,212,000)	177,859
Sale of investment securities		592,000	-
Purchase of asset	9	(1,691,069)	(2,170,029)
Sale of asset		145,000	75,249
<b>Net cash from investing activities</b>		4,676,903	1,334,278
<b>Cash flows from financing activities</b>			
Dividend paid		(110,268)	(100,000)
Payment of lease liability		(647,110)	-
Repayment of loans payable		(1,237,981)	(1,709,622)
<b>Net cash used in financing activities</b>		\$ (1,995,359)	(1,809,622)

## CAPITA FINANCIAL SERVICES INC.

### Consolidated Statement of Cash Flows (continued)

For the year ended March 31, 2020

With comparative figures for 2019

*(Expressed in Barbados dollars)*

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	<u>Notes</u>	<u>2020</u>	<u>2019</u>
Net increase (decrease) in cash and cash equivalents for the year		\$ 193,358	(100,759)
Cash and cash equivalents - beginning of year		<u>15,340,610</u>	<u>15,441,369</u>
Cash and cash equivalents - end of year	5	\$ <u>15,533,968</u>	<u>15,340,610</u>

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

# CAPITA FINANCIAL SERVICES INC.

## Notes to the Consolidated Financial Statements

For the year ended March 31, 2020

(Expressed in Barbados dollars)

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### 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 (BPWCCUL), 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-operators General Insurance Building, Upper Collymore Rock, St. Michael and its registered office is at Olive Trotman House, Keith Bourne Complex, Belmont Road, 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 August 2010, the Parent Company purchased a branch in St. Lucia, which was established in October 2005. These consolidated financial statements include the activities of that branch.

On September 11, 2016, the Parent Company incorporated a 100% owned subsidiary, Capita Insurance Brokers Inc. ("the Subsidiary"), the principal activity of which is provision of insurance brokerage services. The subsidiary is registered as a composite insurance broker under the Insurance Act, Cap 310.

### 2. Significant Accounting Policies

#### (a) *Basis of accounting*

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

The financial statements were authorised for issue by the Board of Directors on August 29, 2020.

This is the first set of the Group's annual financial statements in which IFRS 16 *Leases* has been applied. The related changes to significant accounting policies are described in Note 4.

#### *Basis of consolidation*

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiary as 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, 2020

(Expressed in Barbados dollars)

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## 2. Significant Accounting Policies...continued

### (a) Basis of accounting... 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.

#### *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 January 2020	Amendments to IFRS 3 – Definition of a Business
1 January 2020	Amendments to References to Conceptual Framework in IFRS Standards
1 January 2020	Amendments to IAS 1 and IAS 8 – Definition of Material
1 January 2020	Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform
1 January 2021	IFRS 17 Insurance Contracts
1 January 2022	Amendments to IAS 1 – Classification of liabilities as current or non-current

None of these are expected to have a significant effect on the consolidated financial statements of the Company in the period of adoption.

# CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2020

(Expressed in Barbados dollars)

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## 2. Significant Accounting Policies...continued

### (b) Financial assets and financial liabilities

#### (i) Recognition and initial measurement

The Group initially recognises loans and advances, deposits and loans payable on the date on which they are originated. All other financial instruments are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

#### (ii) Classification

##### Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income (FVOCI), or fair value through profit or loss (FVTPL).

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI).

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

# CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2020

(Expressed in Barbados dollars)

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## 2. Significant Accounting Policies...continued

### (b) Financial assets and financial liabilities... continued

#### (ii) Classification... continued

##### **Business model assessment**

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reason for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

##### **Assessment of whether contractual cash flows are solely payments of principal and interest**

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets; and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

# CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2020

(Expressed in Barbados dollars)

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## 2. Significant Accounting Policies...continued

### (b) Financial assets and liabilities... continued

#### (ii) Classification... continued

##### **Assessment of whether contractual cash flows are solely payments of principal and interest... continued**

The Group holds a portfolio of long-term fixed-rate loans for which the Group has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Group has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

##### **Reclassifications**

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

##### **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.

#### (iii) Derecognition

##### *Financial assets*

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised.



# CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2020

(Expressed in Barbados dollars)

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## 2. Significant Accounting Policies...continued

### (b) Financial assets and liabilities... continued

#### (iii) Derecognition... continued

##### Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

#### (iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

#### (v) Impairment

The Group recognises loss allowance for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- loan commitments issued

No impairment loss is recognised on equity investments

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'. Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired.

# CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2020

(Expressed in Barbados dollars)

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## 2. Significant Accounting Policies...continued

### (b) Financial assets and liabilities... continued

#### (v) Impairment ...continued

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments for which lifetime ECL are recognised but that are not credit-impaired are referred to as 'Stage 2 financial instruments'. Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as 'Stage 3 financial instruments'.

#### Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *financial assets that are not credit-impaired at the reporting date*: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- *financial assets that are credit-impaired at the reporting date*: as the difference between the gross carrying amount and the present value of estimated future cash flows; and
- *undrawn loan commitments*: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive.

#### Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- if the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- if the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flows from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

# CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2020

(Expressed in Barbados dollars)

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## 2. Significant Accounting Policies...continued

### (b) Financial assets and liabilities... continued

#### (v) Impairment... continued

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

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors:

- The market's assessment of creditworthiness as reflected in bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

# CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

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## 2. Significant Accounting Policies...continued

### (b) Financial assets and liabilities... continued

#### (v) Impairment

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

Loss allowances for ECL are presented in the consolidated statement of financial position as follows:

- *financial assets measured at amortised cost*: as a deduction from the gross carrying amount of the assets;
- *loan commitments and financial guarantee contracts*: generally as a provision
- *debt instruments measured at FVOCI*: no loss allowance is recognised in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

##### **Write-off**

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are recognised when cash is received and are included in 'impairment losses on financial instruments' in the consolidated statement of comprehensive income.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

# CAPITA FINANCIAL SERVICES INC.

## Notes to the Consolidated Financial Statements

For the year ended March 31, 2020

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### 2. Significant Accounting Policies...continued

(c) *Cash and cash equivalents*

For the purpose of the consolidated 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.

(d) *Property and equipment*

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

Subsequent expenditure is capitalised, only if it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as 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% - 33⅓%
Motor vehicles	-	20%
Leased vehicles	-	Life of the lease
Land & Building	-	Life of the lease

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

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

(e) *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.

(f) *Leases*

The Group has applied IFRS 16 using the modified retrospective approach, and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

# CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2020

(Expressed in Barbados dollars)

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## 2. Significant Accounting Policies...continued

### (f) Leases... continued

#### *Policy applicable from April 1, 2019*

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into (or changed) on or after April 1, 2019.

#### **Group acting as a lessee**

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative standalone price. However, for leases of branches and office premises the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and the type of the asset leased.

# CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2020

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## 2. Significant Accounting Policies...continued

### (f) Leases... continued

*Policy applicable from April 1, 2019... continued*

#### **Group acting as a lessee**

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property and equipment' and lease liabilities in 'other liabilities' in the consolidated statement of financial position.

#### **Short term leases and leases of low-value assets**

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

#### **Group acting as a lessor**

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative standalone selling prices.

When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

# CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

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## 2. Significant Accounting Policies...continued

### (f) Leases... continued

*Policy applicable from April 1, 2019... continued*

#### **Group acting as a lessor... continued**

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

#### *Policy applicable before April 1, 2019*

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).

For assets leased out under operating leases, the total payments received are included as other operating income in the consolidated statement of comprehensive income 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.

### (g) 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.

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.



# CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2020

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## 2. Significant Accounting Policies...continued

(h) *Fees 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.

(i) *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.

(j) *Dividend income*

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

(k) *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.

(l) *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 in the year to which they relate.

# CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2020

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## 2. Significant Accounting Policies ...continued

### (m) *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 the shareholder are recognised in equity in the period in which they are approved by the Group's Board of Directors.

### (n) *Provisions*

Provisions for restructuring costs and legal claims are recognised 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) *Classification of financial assets:*

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

### (b) *Expected credit losses (ECL)*

Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

Impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information.

### (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 categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as disclosed in Note 25.

# CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2020

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## 3. Critical Accounting Estimates and Judgments ...continued

### (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. Changes in Accounting Policies

The Group has initially adopted IFRS 16 *Leases* from April 1, 2019. A number of other new standards are also effective from April 1, 2019 but they do not have a material effect on the Group's consolidated financial statements.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at April 1, 2019. Accordingly, the comparative information presented for 2019 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

### **Definition of a lease**

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 2(f).

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16.

### **As a lessee**

As a lessee, the Group leases some branch and office space. The Group previously classified leases as operating or finance leases under IAS 17 based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative standalone price.

# CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2020

*(Expressed in Barbados dollars)*

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## 4. Changes in Accounting Policies... continued

### As a lessee...continued

However, for leases of branch and office space the Group has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at April 1, 2019.

Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- relied on its assessment of whether leases are onerous under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review;
- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment);
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

### As a lessor

The Group leases out certain property and equipment. These leases were classified as finance leases under IAS 17. The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor.

The Group has applied IFRS 15 Revenue from Contracts with Customers to allocate consideration in the contract to each lease and non-lease component.

# CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

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## 4. Changes in Accounting Policies... continued

### Impact on financial statements

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below:

	April 1 2019
Right-of-use assets	\$ 2,973,483
Lease liabilities	2,959,624
Retained earnings	13,858

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at April 1, 2019. The weighted-average rate applied is 4.95%.

	April 1 2019
Operating lease commitments at March 31, 2019 as disclosed under IAS 17 in the Group's consolidated financial statements	\$ 899,176
Discounted using the incremental borrowing rate at April 1, 2019	2,959,624
- Recognition example for leases of low-value assets	-
- Recognition example of leases with less than 12 months of lease term at transition	-
Lease liabilities recognised at April 1, 2019	\$ <u>2,959,624</u>

# CAPITA FINANCIAL SERVICES INC.

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## 5. Cash Resources

Cash resources consist of the following:

	<u>2020</u>	<u>2019</u>
Bank balances	\$ 12,524,978	14,502,429
Short term deposits	<u>3,008,990</u>	<u>838,181</u>
Cash and cash equivalents	15,533,968	15,340,610
Other term deposits (net of impairment)	2,670,621	9,513,594
Mandatory reserve deposits with Central Bank of Barbados	<u>7,350,843</u>	<u>6,350,828</u>
<b>Total cash resources</b>	<b>\$ <u>25,555,432</u></b>	<b><u>31,205,032</u></b>

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, 2020, cash resources with the exception of mandatory reserve deposits with Central Bank carry interest at rates varying between 0% to 4.5 % per annum (2019 - 0% to 4.5%).

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## 6. Investment Securities

	2020		2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>FVOCI</b>				
<i>Quoted investments</i>				
Scotia Investments Ltd Jamaica \$	-	-	49,976	49,976
Guardian Holdings	22,883	22,883	24,252	24,252
Royal Bank of Canada	64,966	64,966	79,465	79,465
<i>Unquoted investments</i>				
Barbados Stock Exchange	<u>318,565</u>	<u>318,565</u>	<u>318,565</u>	<u>318,565</u>
\$	<u>406,414</u>	<u>406,414</u>	<u>472,258</u>	<u>472,258</u>
<b>Amortised cost</b>				
<i>Government of Barbados</i>				
1.00% Series B2 Bond	2,138,880	2,138,880	2,051,499	2,051,499
1.00% Series B Bond	1,223,953	1,223,953	-	-
0.50% Treasury Bills	482,948	482,948	482,948	482,948
<i>Government of St. Lucia</i>				
7.00% August 2018	<u>-</u>	<u>-</u>	<u>560,761</u>	<u>594,733</u>
	3,845,781	3,845,781	3,095,208	3,129,180
Accrued interest receivable	<u>6,740</u>	<u>6,740</u>	<u>129</u>	<u>129</u>
	3,852,521	3,852,521	3,095,337	3,129,309
Expected credit loss allowance	<u>(66,760)</u>	<u>(66,760)</u>	<u>(133,522)</u>	<u>(133,522)</u>
	<u>3,785,761</u>	<u>3,785,761</u>	<u>2,961,815</u>	<u>2,995,787</u>
<b>Total Investment Securities</b> \$	<u>4,192,175</u>	<u>4,192,175</u>	<u>3,434,073</u>	<u>3,468,045</u>

The Group has a regulatory requirement to maintain 1.5% of total domestic deposits as a security reserve. The security reserve was held in Government of Barbados Debt which was restructured on September 30, 2018, with a new Series B2 being issued. This restructuring resulted in a loss on de-recognition of the original issues net of amortisation of discount in the amount of \$403,280.

During the year, the Group purchased an additional Series B Bond for \$1,212,000. At March 31, 2020, the amount reserved was \$3,595,781 (2019 - \$2,284,447).

# CAPITA FINANCIAL SERVICES INC.

## Notes to the Consolidated Financial Statements

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### 7. Loans and Advances

	<u>2020</u>	<u>2019</u>
Mortgages:		
Third party	\$ 197,244,432	178,929,348
Related party	1,683,826	1,284,776
Consumer loans	67,989,084	59,173,219
Interest receivable	<u>2,543,647</u>	<u>2,319,544</u>
	269,460,989	241,706,887
Less: Provision for loan impairment	<u>(3,690,196)</u>	<u>(3,482,254)</u>
	<u>\$ 265,770,793</u>	<u>238,224,633</u>

In October 2015, the Group entered into a Deed of Sale and Administration agreement with the Eastern Caribbean Home Mortgage Bank (ECHMB), wherein the Group sold its rights to 100% of the cash flows arising on a portfolio of loans amounting to \$2,424,473. The agreement provides that the Group could repurchase and replace any loan included in the loan portfolio subject to the mutual agreement of the parties. The Group has determined that substantially all the risks and rewards of the said loan portfolio have been retained by the Group and consequently, the loans were not derecognised. The Group accounted for the transaction as collateralised borrowing and recorded the cash received from such agreement as loans payable reported in the consolidated statement of financial position (see Note 13).

In November 2015, the Group entered into a Deed of Sale and Administration agreement with the Barbados Public Workers' Co-operative Credit Union Limited (BPWCCUL), its ultimate parent, for the acquisition of a portfolio of real estate loans amounting to \$20 million over a two year period at a rate of \$10 million a year starting the fiscal year 2015 - 2016. The Group has determined that substantially all the risks and rewards of the said loan portfolio have been transferred to the Group and consequently, the loans were recognised in the consolidated statement of financial position of the Group.



# CAPITA FINANCIAL SERVICES INC.

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### 7. Loans and Advances...continued

The movement in the expected credit loss allowance during the year is as follows:

	<u>2020</u>	<u>2019</u>
Balance - beginning of year	\$ 3,482,254	2,403,847
IFRS 9 transition expected credit loss adjustment	<u>-</u>	<u>1,036,741</u>
Adjusted balance – beginning of year	3,482,254	3,440,588
Charge during the year	391,933	307,552
Amount written off during year	<u>(183,991)</u>	<u>(265,886)</u>
Balance - end of year	\$ <u>3,690,196</u>	<u>3,482,254</u>

The effective rate of interest on mortgages and land loans varies between 4% and 12.5% (2019 - 4% and 13%) per annum while the rates on consumer loans vary between 4.5% and 21% (2019 – 5% and 22%) per annum. The term of mortgage loans does not exceed 25 years.

Vehicle and equipment loans are secured by individual bills of sale, while land loans are secured by first legal mortgages.

### 8. 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>2020</u>	<u>2019</u>
Salaries and allowances	\$ 563,071	633,444
National insurance	28,078	30,249
Pension costs	24,868	24,338
Other costs	34,822	67,236

# CAPITA FINANCIAL SERVICES INC.

## Notes to the Consolidated Financial Statements

For the year ended March 31, 2020

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### 8. Related Party Balances and Transactions...continued

(ii) Key management loans:

	<u>2020</u>	<u>2019</u>
Beginning of the year	\$ 1,410,132	1,427,925
Additional loans disbursed	550,740	499,872
Loan repayments during the year	(122,619)	(187,453)
Other movement	(17,057)	(330,212)
Interest charged	66,432	76,002
Interest received	<u>(66,432)</u>	<u>(76,002)</u>
End of the year	\$ <u>1,821,196</u>	<u>1,410,132</u>

The rate of interest on loans ranged between 4% and 8% (2019 - 4% and 7%).

Key management loans include both mortgages and consumer loans.

(iii) Related company balances and transactions:

	<u>2020</u>	<u>2019</u>
Due to related company	\$ <u>(6,004)</u>	<u>(31,835)</u>
Due from related company	\$ <u>270,841</u>	<u>435,431</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 2020 (2019 - \$144,000).

Customer deposit balance and interest charged to the related party are disclosed in Note 11.

# CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

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## 9. Property and Equipment

	<u>Right-of-Use Assets</u>	<u>Leased Vehicles</u>	<u>Leasehold Improvements</u>	<u>Furniture and Equipment</u>	<u>Motor Vehicles</u>	<u>Total</u>
<b>Cost</b>						
Balance, April 1, 2018	-	1,759,622	344,141	1,765,046	829,234	4,698,043
Additions	-	2,043,898	-	126,131	-	2,170,029
Disposals	-	-	(204,278)	(56,303)	(124,674)	(385,255)
Balance, March 31, 2019	-	<u>3,803,520</u>	<u>139,863</u>	<u>1,834,874</u>	<u>704,560</u>	<u>6,482,817</u>
Balance, April 1, 2019	-	3,803,520	139,863	1,834,874	704,560	6,482,817
Impact of Implementation of IFRS 16	<u>2,973,483</u>	-	-	-	-	<u>2,973,483</u>
Adjusted balance, April 1, 2019	2,973,483	3,803,520	139,863	1,834,874	704,560	9,456,300
Additions	368,184	1,550,233	-	140,836	-	2,059,253
Disposals	-	(191,475)	-	-	-	(191,475)
Balance, March 31, 2020	<u>3,341,667</u>	<u>5,162,278</u>	<u>139,863</u>	<u>1,975,710</u>	<u>704,560</u>	<u>11,324,078</u>
<b>Accumulated Depreciation</b>						
Balance, April 1, 2018	-	203,972	239,486	1,262,626	404,422	2,110,506
Depreciation charge	-	423,294	25,546	155,428	155,457	759,725
Disposals	-	-	(204,278)	(56,303)	(76,883)	(337,463)
Balance, March 31, 2019	-	<u>627,266</u>	<u>60,754</u>	<u>1,361,751</u>	<u>482,996</u>	<u>2,532,767</u>
Balance, April 1, 2019	-	627,266	60,754	1,361,751	482,996	2,532,767
Depreciation charge	689,105	662,669	26,506	158,840	102,611	1,639,731
Disposals	-	(45,478)	-	-	-	(45,678)
Balance, March 31, 2020	<u>1,255,483</u>	<u>1,244,457</u>	<u>87,260</u>	<u>1,520,591</u>	<u>585,608</u>	<u>4,126,820</u>
<b>Net Book Value</b>						
March 31, 2019	-	<u>3,176,256</u>	<u>79,109</u>	<u>473,123</u>	<u>221,564</u>	<u>3,950,050</u>
March 31, 2020	<u>2,652,562</u>	<u>3,918,021</u>	<u>52,603</u>	<u>455,119</u>	<u>118,953</u>	<u>7,197,258</u>

# Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

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## 10. Other Assets

	<u>2020</u>	<u>2019</u>
Prepayments and deferred expenses	\$ 327,355	259,920
Premiums receivable	618,152	878,326
Other receivables	<u>2,832,793</u>	<u>2,281,100</u>
	<u>\$ 3,778,300</u>	<u>3,419,346</u>

## 11. Customer Deposits

These amounts are categorised as follows:

	<u>2020</u>	<u>2019</u>
Time deposits	\$ 243,812,624	220,855,417
Related party	15,344,669	15,038,890
Interest payable	<u>4,466,635</u>	<u>4,483,767</u>
	<u>\$ 263,623,928</u>	<u>240,378,074</u>

The rate of interest on deposits varied between 0.35% and 6% for the year (2019 - 0% to 6%).

Interest charged on related party balances was \$208,772 (2019 - \$216,016).

A portfolio of mortgage loans has been pledged as security for certain customer deposits totalling \$18,850,000. (2019 - \$18,850,000).

## 12. Other Liabilities

	<u>2020</u>	<u>2019</u>
Insurance premiums	\$ 1,360,995	1,264,121
Other	1,064,281	1,313,204
Withholding tax payable	15,179	44,546
Lease liability	2,694,557	-
Accrued expenses	<u>183,645</u>	<u>212,948</u>
	<u>\$ 5,318,657</u>	<u>2,834,819</u>

# Capita Financial Services Inc.

## Notes to the Consolidated Financial Statements

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### 13. Loans Payable

	<u>2020</u>	<u>2019</u>
Related party (i)	\$ 10,940,609	-
Housing Credit Fund (ii)	-	11,967,302
Eastern Caribbean Home Mortgage Bank (iii)	<u>1,341,586</u>	<u>1,552,874</u>
	\$ <u>12,282,195</u>	<u>13,520,176</u>

(i) The Group entered into a loan with a related party with a term of 10 years and an interest rate of 1.25% per annum. Fixed annual repayments are \$1,242,528 over the life of the loan.

(ii) The Housing Credit Fund loan was comprised of several individual loans. Interest on these loans was charged at the rate of 3% (2019 - 3%) per annum and each loan is for a term of 25 years. The loan was repaid during the year.

(iii) The Eastern Caribbean Home Mortgage Bank loan is comprised of the cash proceeds from the collateralised borrowing as discussed in Note 7.

The Group has not had any defaults of principal, interest or other breaches with respect to its loans payable during the years ended March 31, 2019 and 2020.

### 14. 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, levy of 0.20% per annum on the average domestic assets of the deposit taking licensee. This Act came into effect on June 1, 2016.

In 2017, the Tax on Asset Act, 2017, came into effect increasing the levy to 0.35%. Tax on assets expense for this Group amounted to \$842,378 (2019: \$799,800).

### 15. Taxation

The corporation tax expense for the year is as follows:

	<u>2020</u>	<u>2019</u>
Current tax	\$ 128,366	71,028
Under provision of prior year current tax	33,922	-
Deferred tax charge (release)	<u>6,593</u>	<u>(99,074)</u>
Taxation charge	\$ <u>168,881</u>	<u>(28,046)</u>

# Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

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## 15. 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>2020</u>	<u>2019</u>
Income before taxation	\$ <u>1,805,423</u>	<u>705,799</u>
Tax calculated at a rate of 5.5% (2019 – 5.5%)	\$ 118,582	38,819
Income not subject to tax	(64,630)	(12,522)
Change in tax rate	-	(98,701)
Effect of different tax rates	3,264	8,751
Items not deductible in determining taxable profits	44,678	-
Expiration of tax losses	-	2,516
Expenses not deductible for tax purposes	-	13,820
Movement on deferred tax asset not recognized	33,065	19,206
Prior year under provision – current tax	<u>33,922</u>	<u>65</u>
Taxation charge	\$ <u>168,881</u>	<u>(28,046)</u>

### Deferred taxation

Deferred tax liability relates to the following items:

	<u>2020</u>	<u>2019</u>
Accelerated tax depreciation	\$ 68,196	61,763
Unrealised fair value loss on available-for-sale	<u>(2,144)</u>	<u>(1,437)</u>
	\$ <u>66,052</u>	<u>60,326</u>
	<u>2020</u>	<u>2019</u>
Beginning of year	\$ 60,326	154,140
Deferred tax charge (release)	6,599	(99,074)
Deferred tax on fair value (loss) gain	<u>(873)</u>	<u>5,260</u>
End of year	\$ <u>66,052</u>	<u>60,326</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>2020</u>	<u>2019</u>
Accelerated tax depreciation	\$ (4,820)	82
Unutilised tax losses	<u>(92,388)</u>	<u>(79,485)</u>
	\$ <u>(97,208)</u>	<u>(79,403)</u>

# Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

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## 15. 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 Loss	Losses B/fwd	Incurred	Utilised	Expired	Losses C/fwd	Expiry Date
2017	\$ 62,450	-	-	-	62,450	2023
2018	100,491	-	-	-	100,491	2024
2012	51,144	-	-	-	51,144	2025
2020	-	93,874	-	-	93,874	2026
	\$ 214,085	93,874	-	-	307,959	

These losses are as computed by the Group in its corporation tax returns and have as yet neither been confirmed nor disputed by the tax authority.

## 16. 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			
	2020	2019	2020	2019
Common shares	8,734,032	8,734,032	\$ 8,734,032	8,734,032
8.5% Cumulative preference shares	1,563,027	1,563,027	1,563,027	1,563,027
	10,297,059	10,297,059	\$ 10,297,059	10,297,059

The preference shares are redeemable at the option of the Group. Dividends of \$110,268 (2019: \$100,000) were declared and paid during the year.

# Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

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## 17. 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 \$244,218 was required during 2020 (2019 - \$110,077).

	<u>2020</u>	<u>2019</u>
Balance – beginning of year	\$ 3,471,655	3,361,578
Transfer to statutory reserve	<u>244,218</u>	<u>110,077</u>
Balance – end of year	\$ <u>3,715,873</u>	<u>3,471,655</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 expected credit loss allowance on loans and advances calculated in accordance with IFRS. The transfer during the year was for accumulated interest on certain non-performing loans where requirements were met in accordance to IFRS 9.

	<u>2020</u>	<u>2019</u>
Balance – beginning of year	\$ 500,000	500,000
Transfer from retained earnings	<u>879,779</u>	<u>-</u>
Balance – end of year	\$ <u>1,379,779</u>	<u>500,000</u>

### iii) Fair value reserve

The fair value reserve represents the net effect of fair value gains/ (losses) on FVOCI securities held.

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

	<u>2020</u>	<u>2019</u>
Balance – beginning of year	\$ 294,986	299,749
Unrealised fair value loss – net of tax	<u>(14,996)</u>	<u>(4,763)</u>
Balance – end of year	\$ <u>279,990</u>	<u>294,986</u>
Total other reserves	\$ <u>5,375,642</u>	<u>4,266,641</u>



# Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

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## 18. Commitments and Contingent Liabilities

### Contingent liabilities

At March 31, 2020, unutilised commitments to extend credit for mortgages and other loans amounted to \$25,567,115 (2019 - \$21,054,191).

### Operating lease commitments

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

	<u>2020</u>	<u>2019</u>
No later than 1 year	\$ <u>-</u>	<u>899,176</u>

## 19. Interest Income

	<u>2020</u>	<u>2019</u>
Loans and advances	\$ 16,297,967	15,054,659
Fixed deposits	115,151	123,213
Debt securities	<u>376,450</u>	<u>540,654</u>
	\$ <u>16,789,568</u>	<u>15,718,526</u>

## 20. Interest Expense

	<u>2020</u>	<u>2019</u>
Customer deposits	\$ 7,524,258	7,397,798
Loans payable	208,394	397,688
Other interest expense	<u>151,628</u>	<u>-</u>
	\$ <u>7,884,280</u>	<u>7,795,486</u>

## 21. Other Income

	<u>2020</u>	<u>2019</u>
Brokerage commissions	\$ 1,268,303	1,174,469
Fees and commissions	422,685	493,262
Leases	848,693	549,728
(Loss) gain on disposal of assets	(19,735)	27,458
Other operating income	<u>5,595</u>	<u>43,295</u>
	\$ <u>2,525,541</u>	<u>2,288,212</u>

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## Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

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### 21. Other Income...continued

The Group derives income from the leasing of vehicles (see Note 9). The future minimum lease payments due to the Group are as follows:

		<u>Within 1 year</u>	<u>Between 1 to 2 years</u>	<u>Between 2 to 3 years</u>	<u>Between 3 to 4 years</u>	<u>Between 4 to 5 years</u>	<u>Over 5 Years</u>
2020	\$	<u>1,064,268</u>	<u>1,057,332</u>	<u>844,314</u>	<u>464,523</u>	<u>128,652</u>	<u>-</u>
2019	\$	<u>844,801</u>	<u>844,801</u>	<u>711,556</u>	<u>461,436</u>	<u>17,495</u>	<u>-</u>

# Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

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## 22. Salaries and Other Staff Costs

	<u>2020</u>	<u>2019</u>
Salaries and wages	\$ 2,613,008	2,136,636
National Insurance	239,590	184,630
Pension costs	71,516	83,706
Other costs	<u>188,704</u>	<u>195,366</u>
	<u>\$ 3,112,818</u>	<u>2,600,338</u>

## 23. Other Operating Expenses

	<u>2020</u>	<u>2019</u>
Professional fees	\$ 637,502	642,543
Office expenses	682,245	523,498
Marketing	265,235	680,988
Insurance	335,503	326,587
Travel	158,625	108,675
Utilities	226,865	228,830
Licence fees	390,682	351,835
Bank charges	151,384	114,753
Commissions	161,165	109,048
Vehicle expenses	78,291	95,884
Directors expenses	116,800	91,737
Training	74,900	74,344
Sundry	<u>198,852</u>	<u>275,363</u>
	<u>\$ 3,478,049</u>	<u>3,624,085</u>

## 24. 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.

# Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

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## 24. Financial Risk Management...continued

### Impact of COVID-19

The Coronavirus now renamed COVID-19 which originated in Wuhan, China is now a world-wide pandemic and so far has had a crippling effect on the global economy. Its impact on global tourism led to reduced incoming flights to Barbados and a decline in business activity of hotels, restaurants, and other ancillary sectors. This resulted in a surge of unemployment claims of over 33,000 between the period March and June 2020. As a consequence of job cuts and reduced disposable income, which would reduce persons' ability to service their loan commitments and other obligations, management has adopted several measures specifically around financial risk management. These measures include:

- i. the respective committees across the Group meet monthly to discuss strategies and plans around managing the liquidity and capital needs of the Group;
- ii. robust stress testing of the liquidity buffer at levels above regulatory requirements:
  - assessing the monthly inflow and outflow of funds (liquidity forecasting);
  - identifying and assessing the adequacy of contingency liquidity funding across the Group;
  - revisiting measures geared at strengthening the Group's capital base, and the monitoring of portfolio behavioural matrices in reference to clients servicing their loans
- iii. the implementation of measures to assist clientele during this crisis, such as:
  - **loan moratoriums** – it is not expected that there will be reclassification of loans from Stage 1 to Stage 2, as these payment moratoriums should not trigger a significant increase in the credit risk (SICR) unless other criteria indicating SICR are identified;
  - **special payment arrangements** – such as payment plan solutions and debt restructuring, based on approval by the relevant Boards and Committees.

### 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-balance sheet 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.

# Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

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## **24. Financial Risk Management...continued**

### **Credit risk management...continued**

#### **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.

### **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.

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## 24. Financial Risk Management...continued

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

	<u>2020</u>	<u>2019</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	\$ 63,314,745	54,888,611
- Mortgages	168,737,595	164,558,162
Loans to corporate entities	34,865,002	19,940,570
Leases and interest receivable	<u>2,543,647</u>	<u>2,319,544</u>
	<u>269,460,989</u>	<u>241,706,887</u>
Investment securities		
- Government and other Corporate Bonds	3,785,761	2,961,815
Credit risk exposures relating to off-balance sheet items are as follows:		
- Loan commitments	<u>25,567,115</u>	<u>21,054,191</u>
	<u>\$ 298,813,865</u>	<u>265,722,895</u>

The above table represents a worst case scenario of credit risk exposure to the Group at March 31, 2020 and 2019, without taking account of any collateral held or other credit enhancements attached. For assets, the exposures set out above are based on gross carrying amounts as reported in the consolidated 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:

- 56% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2019 - 76%);
- Mortgage loans, which represent the biggest group in the portfolio, are backed by collateral;
- 56% of the loans and advances portfolio are considered to be neither past due nor impaired (2019 - 76%);
- 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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## 24. Financial Risk Management...continued

### Credit quality analysis

The following tables set out information about the credit quality of financial assets measured at amortised cost, FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments, the amounts in the table represent the amounts committed.

Explanation of the terms 'Stage 1', 'Stage 2' and 'Stage 3' is included in Note 2(b)(v).

2020				
	Stage 1	Stage 2	Stage 3	Total
<b>Loans and advances to customers at amortised cost:</b>				
Pass	202,575,646	23,801,778	4,974,758	231,352,182
Special Mention	4,487,407	856,658	4,148,704	9,492,769
Substandard	5,755,007	1,280,229	17,930,930	24,966,166
Doubtful	10,685	-	1,095,540	1,106,225
Loss	-	-	-	-
	212,828,745	25,938,665	28,149,932	266,917,342
Loss allowance	(972,104)	(319,328)	(2,398,764)	(3,690,196)
Carrying amount	<u>211,856,641</u>	<u>25,619,337</u>	<u>25,751,168</u>	<u>263,227,146</u>
2019				
	Stage 1	Stage 2	Stage 3	Total
<b>Loans and advances to customers at amortised cost:</b>				
Pass	171,961,760	-	-	171,961,760
Special Mention	9,590,292	-	-	9,590,292
Substandard	2,639,371	28,894,250	10,439,894	42,973,515
Doubtful	-	1,736,608	13,125,168	14,861,776
Loss	-	-	-	-
	184,191,423	31,630,858	23,565,062	239,387,343
Loss allowance	(614,337)	(391,191)	(2,476,726)	(3,482,254)
Carrying amount	<u>183,577,086</u>	<u>31,239,667</u>	<u>21,088,336</u>	<u>235,905,089</u>

# Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

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## 24. Financial Risk Management...continued

### Credit quality analysis...continued

The following tables set out information about the overdue status of loans and advances to customers in Stages 1, 2 and 3, and shows reconciliations from the opening balances.

	2020			
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
<b>Loans and advances to customers at amortised cost:</b>				
Current	131,326,917	16,714,524	2,417,744	150,459,185
Overdue <31 days	58,299,356	6,901,697	-	65,201,053
Overdue 31 – 89 days	23,202,472	2,322,444	-	25,524,916
Overdue >89 days	<u>-</u>	<u>-</u>	<u>25,732,188</u>	<u>25,732,188</u>
Gross carrying amount	<u>212,828,745</u>	<u>25,938,665</u>	<u>28,149,932</u>	<u>266,917,342</u>
<b>Sovereign securities at amortised cost:</b>				
Moody's Default (D):				
Central Bank of Barbados—Bonds	-	-	3,845,781	3,845,781
Not Rated:				
Government of St. Lucia	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Gross carrying amount	-	-	3,845,781	3,845,781
Loss allowance	<u>-</u>	<u>-</u>	<u>(66,760)</u>	<u>(66,760)</u>
Carrying amount	<u>-</u>	<u>-</u>	<u>3,779,021</u>	<u>3,779,021</u>



# Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

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## 24. Financial Risk Management...continued

### Credit quality analysis...continued

	2019			
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
<b>Loans and advances to customers at amortised cost:</b>				
Current	181,552,052	-	-	181,552,052
Overdue <31 days	2,639,371	-	-	2,639,371
Overdue 31 – 89 days	-	31,630,858	-	31,630,858
Overdue >89 days	-	-	23,565,062	23,565,062
Gross carrying amount	<u>184,191,423</u>	<u>31,630,858</u>	<u>23,565,062</u>	<u>239,387,343</u>
<b>Sovereign securities at amortised cost:</b>				
Moody's Default (D):				
Central Bank of Barbados–Bonds	-	-	2,534,447	2,534,447
Not Rated:				
Government of St. Lucia	<u>560,761</u>	<u>-</u>	<u>-</u>	<u>560,761</u>
Gross carrying amount	560,761	-	2,534,447	3,095,208
Loss allowance	<u>(60,226)</u>	<u>-</u>	<u>(73,296)</u>	<u>(133,522)</u>
Carrying amount	<u>500,535</u>	<u>-</u>	<u>2,461,151</u>	<u>2,961,686</u>

### Cash and cash equivalents

The Group held cash and cash equivalents of \$15,533,968 at March 31, 2020 (2019: \$15,340,610). The cash and cash equivalents are held with financial institution counterparties that are rated at least Aa1 to Baa2, based on Moody's ratings.

# Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2020

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## 24. Financial Risk Management...continued

### Amounts arising from Expected Credit Losses (ECL)

*Inputs, assumptions and techniques used for estimating impairment*

#### Measurements of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim and recovery costs of any collateral that is integral to the financial asset. LGD estimates are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

# Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

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## 24. Financial Risk Management...continued

### Amounts arising from Expected Credit Losses (ECL)...continued

#### Loss allowance

The following table shows reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument.

	2020			
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
<b>Loans and advances to customers at amortised cost:</b>				
<b>amortised cost:</b>				
Opening balance	614,337	391,191	2,476,726	3,482,254
Transfer to Stage 1	326,165	(196,735)	(129,430)	-
Transfer to Stage 2	(20,101)	29,678	(9,577)	-
Transfer to Stage 3	(2,464)	(39,266)	41,730	-
Net remeasurement of loss allowance	54,167	134,460	203,307	391,934
Amounts charged off	-	-	(183,992)	(183,992)
Ending balance	<u>972,104</u>	<u>391,328</u>	<u>2,398,764</u>	<u>3,690,196</u>
<b>Sovereign securities at amortised cost:</b>				
Opening balance	60,226	-	73,296	133,522
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Derecognition of financial assets	(60,226)	-	-	(60,226)
Net remeasurement of loss allowance	-	-	(6,536)	(6,536)
Ending balance	<u>-</u>	<u>-</u>	<u>66,760</u>	<u>66,760</u>

# Capita Financial Services Inc.

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## 24. Financial Risk Management...continued

### Amounts arising from Expected Credit Losses (ECL)...continued

*Loss allowance... continued*

	2019			
	Stage 1	Stage 2	Stage 3	Total
<b>Loans and advances to customers at amortised cost:</b>				
<b>amortised cost:</b>				
Opening balance	922,601	104,742	2,413,245	3,440,588
Transfer to Stage 1	8,470	-	(8,470)	-
Transfer to Stage 2	(22,482)	41,925	(19,443)	-
Transfer to Stage 3	(12,413)	(679)	13,092	-
Net remeasurement of loss allowance	(281,839)	245,203	344,188	307,552
Amounts charged off	-	-	(265,886)	(265,886)
Ending balance	<u>614,337</u>	<u>391,191</u>	<u>2,476,726</u>	<u>3,482,254</u>
<b>Sovereign securities at amortised cost:</b>				
Opening balance	60,226	-	281,925	342,151
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Derecognition of financial assets	-	-	(281,925)	(281,925)
Net remeasurement of loss of loss allowance	-	-	73,296	73,296
Ending balance	<u>60,226</u>	<u>-</u>	<u>73,296</u>	<u>133,522</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 \$5,215,536 at March 31, 2020 (2019 - \$2,863,252).

### Repossessed collateral

The Group took possession of collateral held as security in the amount of \$452,675 during 2020 (2019 - \$581,539).

# Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2020

*(Expressed in Barbados dollars)*

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## **24. Financial Risk Management...continued**

### **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 charges can expose the Group to earning volatility.

# CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

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## 24. Financial Risk Management ...continued

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:

<b>2020</b>		<u>Total</u>	<u>Within 3 months</u>	<u>Within 3 months to 1 year</u>	<u>Between 1 to 5 years</u>	<u>Over 5 Years</u>	<u>Non- Interest Bearing</u>
<b>Assets</b>							
Cash resources	\$	25,555,432	17,201,716	-	1,000,000	-	7,353,716
Investment securities – amortised cost		3,785,761	482,948	-	1,262,190	2,040,623	-
Loans and advances to customers		265,770,793	422,041	6,148,976	38,845,349	187,269,606	33,084,821
Due from related company		270,841	-	-	-	-	270,841
Other assets		<u>3,778,300</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,778,300</u>
Total financial assets	\$	<u>299,161,127</u>	<u>18,106,705</u>	<u>6,148,976</u>	<u>41,107,539</u>	<u>189,310,229</u>	<u>44,487,678</u>
<b>Liabilities</b>							
Customer deposits	\$	263,623,928	81,325,208	109,761,897	71,646,060	732,312	158,451
Due to related company		6,004	-	-	-	-	6,004
Loans payable		12,282,195	-	-	-	12,282,195	-
Other liabilities		<u>5,318,657</u>	<u>196,220</u>	<u>588,661</u>	<u>1,909,676</u>	<u>-</u>	<u>2,624,100</u>
Total financial liabilities	\$	<u>281,230,784</u>	<u>81,521,428</u>	<u>110,350,558</u>	<u>73,555,736</u>	<u>13,014,507</u>	<u>2,788,555</u>
Total interest Repricing gap	\$		<u>(63,414,723)</u>	<u>(104,201,582)</u>	<u>(32,448,197)</u>	<u>176,295,722</u>	

# CAPITA FINANCIAL SERVICES INC.

Notes to the Financial Statements (continued)

For the year ended March 31, 2020

(Expressed in United States dollars)

## 25. Financial Risk Management ...continued

2019		<u>Total</u>	<u>Within 3 months</u>	<u>Within 3 months to 1-year</u>	<u>Between 1 to 5 years</u>	<u>Over 5 Years</u>	<u>Non- Interest Bearing</u>
<b>Assets</b>							
Cash resources	\$	31,205,032	16,992,444	6,371,248	1,487,638	-	6,353,702
Investment securities – amortised cost		2,961,815	409,781	560,761	233,904	1,757,369	-
Loans and advances to customers		238,224,633	982,460	895,585	27,992,589	183,651,011	24,702,988
Due from related company		435,431	-	-	-	-	435,431
Other assets		<u>3,419,346</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,419,346</u>
Total financial assets	\$	<u>276,246,257</u>	<u>18,384,685</u>	<u>7,827,594</u>	<u>29,714,131</u>	<u>185,408,380</u>	<u>34,911,467</u>
<b>Liabilities</b>							
Customer deposits	\$	240,378,074	60,534,452	110,422,452	68,405,435	932,258	83,477
Due to related company		31,835	-	-	-	-	31,835
Loans payable		13,520,176	222,045	-	850,576	12,447,555	-
Other liabilities		<u>2,834,819</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,834,819</u>
Total financial liabilities	\$	<u>256,764,904</u>	<u>60,756,497</u>	<u>110,422,452</u>	<u>69,256,011</u>	<u>13,379,813</u>	<u>2,950,131</u>
Total interest Repricing gap	\$		<u>(42,371,812)</u>	<u>(102,594,858)</u>	<u>(39,541,880)</u>	<u>172,028,567</u>	

# CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2019

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## 24. Financial Risk Management ...continued

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, 2020, with all other variables held constant.

The impact is illustrated and shown in the table below:

		<u>2020</u>	<u>2019</u>
<b>Increase / decrease of 100 bps</b>			
Impact on profit + 100 bps	\$	(66,111)	(85,890)
Impact on profit – 100 bps		66,111	85,890

### Currency risk

Currency risk arises when future commercial transactions, recognised 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 Eastern Caribbean dollars.

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

<u>2020</u>		<u>Barbados</u>	<u>East Caribbean</u>	<u>Total</u>
<b>Assets</b>				
Cash resources	\$	19,722,298	5,833,134	25,555,432
Investment securities:				
- Amortised costs		3,785,761	-	3,785,761
- FVOCI		406,414	-	406,414
Loans and advances		247,702,985	18,067,808	265,770,793
Due from related company		270,841	-	270,841
Other assets		<u>2,685,424</u>	<u>1,092,876</u>	<u>3,778,300</u>
<b>Total financial assets</b>	\$	<u>274,573,723</u>	<u>24,993,818</u>	<u>299,567,541</u>
<b>Liabilities</b>				
Customer deposits	\$	239,316,891	24,307,037	263,623,928
Loans payable		10,940,609	1,341,586	12,282,195
Due to related company		6,004	-	6,004
Other liabilities		<u>5,098,086</u>	<u>220,571</u>	<u>5,318,657</u>
<b>Total financial liabilities</b>	\$	<u>255,361,590</u>	<u>25,869,194</u>	<u>281,230,784</u>



# CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2019

(Expressed in Barbados dollars)

## 24. Financial Risk Management ...continued

<u>2019</u>		<u>Barbados</u>	<u>East Caribbean</u>	<u>Total</u>
<b>Assets</b>				
Cash resources	\$	22,271,530	8,933,502	31,205,032
Investment securities:				
- amortised cost		2,461,151	500,664	2,961,815
- FVOCI		472,258	-	472,258
Loans and advances		220,859,569	17,365,064	238,224,633
Due from related company		435,431	-	435,431
Other assets		<u>2,759,484</u>	<u>659,862</u>	<u>3,419,346</u>
<b>Total financial assets</b>	\$	<u>249,259,423</u>	<u>27,459,092</u>	<u>276,718,515</u>
<b>Liabilities</b>				
Customer deposits	\$	213,874,588	26,503,486	240,378,074
Loans payable		11,967,302	1,552,874	13,520,176
Due to related company		31,835	-	31,835
Other liabilities		<u>2,735,067</u>	<u>99,752</u>	<u>2,834,819</u>
<b>Total financial liabilities</b>	\$	<u>228,608,792</u>	<u>28,156,112</u>	<u>256,764,904</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 fulfil 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.

# CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

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(Expressed in Barbados dollars)

## 24. 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.

<b>2020</b>			Within 3 months to 1 year	Between 1 to 5 years	over 5 years
	<u>Total</u>	<u>Within 3 months</u>			
<b>Assets</b>					
Cash resources	\$ 25,555,432	17,204,589	-	1,000,000	7,350,843
Investment securities:					
- amortised cost	3,785,761	482,948	-	1,262,190	2,040,623
Loans and advances to customers	397,551,701	7,380,380	7,560,392	66,209,824	316,401,105
Due from related company	270,841	270,841	-	-	-
Other assets	<u>3,778,300</u>	<u>3,778,300</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Assets</b>	<b>\$ <u>430,942,035</u></b>	<b><u>29,117,058</u></b>	<b><u>7,560,392</u></b>	<b><u>68,472,014</u></b>	<b><u>325,792,571</u></b>
<b>Liabilities</b>					
Customer deposits	\$ 276,408,447	83,153,349	116,028,473	76,445,188	781,437
Loans payable	15,412,964	-	-	-	15,412,964
Due to related company	6,004	6,004	-	-	-
Other liabilities	<u>\$ 5,318,657</u>	<u>2,820,320</u>	<u>588,662</u>	<u>1,909,675</u>	<u>-</u>
<b>Total liabilities</b>	<b>\$ <u>297,146,072</u></b>	<b><u>85,979,673</u></b>	<b><u>116,617,135</u></b>	<b><u>78,354,863</u></b>	<b><u>16,194,401</u></b>
<b>Net liquidity gap</b>	<b>\$</b>	<b><u>(56,862,615)</u></b>	<b><u>(109,056,743)</u></b>	<b><u>(9,882,849)</u></b>	<b><u>309,598,170</u></b>

# CAPITA FINANCIAL SERVICES INC.

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## 24. Financial Risk Management ...continued

<u>2019</u>		Within				Between
	<u>Total</u>	<u>Within 3 months</u>	<u>3 months to 1 year</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	
<b>Assets</b>						
Cash resources	\$ 31,205,032	16,995,318	6,371,248	1,487,638	6,350,828	
Investment securities:						
- amortised cost	2,961,815	409,781	560,761	233,904	1,757,369	
Loans and advances to customers	361,097,200	7,102,135	1,751,330	45,203,846	307,039,889	
Due from related company	435,431	435,431	-	-	-	
Other assets	<u>3,419,346</u>	<u>3,419,346</u>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Total Assets</b>	<b>\$ <u>399,118,824</u></b>	<b><u>28,362,011</u></b>	<b><u>8,683,339</u></b>	<b><u>46,925,388</u></b>	<b><u>315,148,086</u></b>	
<b>Liabilities</b>						
Customer deposits	\$ 250,159,760	59,828,487	116,610,171	72,729,482	991,620	
Loans payable	18,563,513	2,504	-	1,096,417	17,464,592	
Due to related company	31,835	31,835	-	-	-	
Other liabilities	<u>\$ 2,834,819</u>	<u>2,834,819</u>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Total liabilities</b>	<b>\$ <u>271,589,927</u></b>	<b><u>62,697,645</u></b>	<b><u>116,610,171</u></b>	<b><u>73,825,899</u></b>	<b><u>18,456,212</u></b>	
<b>Net liquidity gap</b>	<b>\$</b>	<b><u>(34,335,634)</u></b>	<b><u>(107,926,832)</u></b>	<b><u>(26,900,511)</u></b>	<b><u>296,691,874</u></b>	

### 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.

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 the internationally agreed minimum of 8% for the Parent Company and an additional 4% for the branch in St. Lucia.

The Group has complied with all externally imposed capital requirements.

# CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2019

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## **25. 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 consolidated 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.

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## 25. 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:

**Level 1:** quoted (unadjusted) prices in active markets for identical assets or liabilities.

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

**Level 2:** other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

**Level 3:** techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

The following table presents the Group's financial instruments that are measured at fair value.

		2020			
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total balance</u>
<b>Investment securities</b>					
FVOCI					
- Equity securities	\$	<u>87,849</u>	<u>-</u>	<u>318,565</u>	<u>406,414</u>
	\$	<u>87,849</u>	<u>-</u>	<u>318,565</u>	<u>406,414</u>

# CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2019

(Expressed in Barbados dollars)

## 25. Fair Value of Financial Instruments ...continued

	2019			Total balance
	Level 1	Level 2	Level 3	
<b>Investment securities</b>				
FVOCI				
- Equity securities	\$ 153,693	-	318,565	472,258
	<u>\$ 153,693</u>	<u>-</u>	<u>318,565</u>	<u>472,258</u>

The following table shows a reconciliation of all movements in the fair value of financial investments categorised within Level 1 between the beginning and end of the reporting period.

	2020	2019
Balance - beginning of year	\$ 153,693	153,030
Disposal	(49,976)	-
Unrealised gain	(15,868)	663
Balance - end of year	<u>\$ 87,849</u>	<u>153,693</u>

The following table shows a reconciliation of all movements in the fair value of financial investments categorised within Level 3 between the beginning and end of the reporting period.

	2020	2019
Balance - beginning of year	\$ 318,565	318,565
Purchases	-	-
Balance - end of year	<u>\$ 318,565</u>	<u>318,565</u>

There were no transfers in or out of Level 3 during the year ended March 31, 2020 (2019 - \$NIL).

The financial investments classified as Level 3 securities are carried at cost as fair value cannot be reliably estimated. Therefore, no significant unobservable inputs have been considered in determining its value. The application of sensitivity analysis is therefore not relevant.