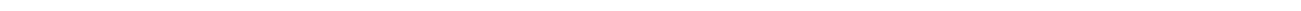


Consolidated Financial Statements of
CAPITA FINANCIAL SERVICES INC.

March 31, 2022



Capita Financial Services Inc.

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Independent auditor's report

To the Shareholder of Capita Financial Services Inc.

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Capita Financial Services Inc. (the Company) and its subsidiary (together 'the Group') as at March 31, 2022, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at March 31, 2022;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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



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.

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

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

- Identify and assess the risks of material misstatement of the 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.
- 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 auditor's 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 auditor's 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.

Other matter

This report is made solely to the Company's shareholder, as a body corporate, in accordance with Section 147 of the Companies Act of Barbados. Our audit work has been undertaken so that we might state to the Company's shareholder those matters we are required to state to them in an auditor's 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 Company and the Company's shareholder as a body corporate, for our audit work, for this report, or for the opinion we have formed.

A handwritten signature in dark ink that reads "PricewaterhouseCoopers SA".

Bridgetown, Barbados
December 20, 2022

Capita Financial Services Inc.

Consolidated Statement of Financial Position

As at March 31, 2022

(Expressed in Barbados dollars)

	<u>Notes</u>	<u>2022</u>	<u>2021</u>
Assets			
Cash resources	4	\$ 19,399,404	18,188,956
Investment securities:			
FVOCI	5	1,198,833	1,667,249
Amortized cost	5	4,444,666	4,169,842
Loans and advances	6	283,842,782	275,474,898
Corporation tax recoverable		326,810	326,810
Due from related company	7	1,256,014	356,619
Property and equipment	8	10,797,760	8,429,136
Other assets	9	<u>6,308,431</u>	<u>4,489,801</u>
Total Assets		\$ <u>327,574,700</u>	<u>313,103,311</u>
Liabilities and Equity			
Liabilities			
Customer deposits	10	\$ 278,667,976	267,726,826
Other liabilities	11	8,502,467	5,680,323
Due to related companies	7	879,897	5,622
Loans payable	12	9,979,674	11,145,960
Corporation tax payable		74,063	133,591
Deferred loan commitment fees		470,030	464,957
Tax on asset payable	13	561,612	321,612
Deferred taxation	14	<u>92,941</u>	<u>68,074</u>
Total Liabilities		<u>299,228,660</u>	<u>285,546,965</u>
Equity			
Share capital	16	10,297,059	10,297,059
Other reserves	17	7,377,063	6,695,758
Retained earnings		<u>10,671,918</u>	<u>10,563,529</u>
Total Equity		<u>28,346,040</u>	<u>27,556,346</u>
Total Liabilities and Equity		\$ <u>327,574,700</u>	<u>313,103,311</u>

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

Approved by the Board of Directors on December 16, 2022



Director



Director

Capita Financial Services Inc.

Consolidated Statement of Changes in Equity

For the year ended March 31, 2022

(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, 2020, as restated		\$ 10,297,059	6,452,392	9,217,439	25,966,890
Profit for the year		-	-	1,857,667	1,857,667
Dividend declared		-	-	(275,000)	(275,000)
Transfer to statutory reserve	17	-	236,577	(236,577)	-
Transfer to general reserve	17	-	-	-	-
Unrealised fair value gain on FVOCI equity investment	17	<u>-</u>	<u>6,789</u>	<u>-</u>	<u>6,789</u>
Balance at March 31, 2021		\$ <u>10,297,059</u>	<u>6,695,758</u>	<u>10,563,529</u>	<u>27,556,346</u>
Balance at April 1, 2021		\$ 10,297,059	6,695,758	10,563,529	27,556,346
Profit for the year		-	-	1,261,304	1,261,304
Dividend declared		-	-	-	-
Transfer to statutory reserve	17	-	176,215	(176,215)	-
Transfer to general reserve	17	-	976,700	(976,700)	-
Unrealised fair value loss on FVOCI equity investment	17	<u>-</u>	<u>(471,610)</u>	<u>-</u>	<u>(471,610)</u>
Balance at March 31, 2022		\$ <u>10,297,059</u>	<u>7,377,063</u>	<u>10,671,918</u>	<u>28,346,040</u>

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

Capita Financial Services Inc.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended March 31, 2022

(Expressed in Barbados dollars)

	<u>Notes</u>	<u>2022</u>	<u>2021</u>
Interest income	19	\$ 17,585,747	16,890,900
Interest expense	20	<u>(7,145,569)</u>	<u>(7,192,820)</u>
Net interest income		10,440,178	9,698,080
Other income	21	<u>5,090,491</u>	<u>4,152,629</u>
Net interest and other income		<u>15,530,669</u>	<u>13,850,709</u>
Operating expenses			
Salaries and other staff costs	22	3,887,736	3,156,138
Occupancy costs		83,709	153,935
Debt impairment recovery		-	(132,350)
Expected credit losses	23	884,273	824,570
Receivables written off		211,077	88,175
Other operating expenses	24	5,804,521	4,817,226
Depreciation	8	<u>2,312,079</u>	<u>2,026,405</u>
Total operating expenses		<u>13,183,395</u>	<u>10,934,099</u>
Profit before levies and taxation		2,347,274	2,916,610
Tax on assets	13	<u>(993,068)</u>	<u>(960,711)</u>
Profit before taxation		1,354,206	1,955,899
Taxation	14	<u>(92,902)</u>	<u>(98,232)</u>
Profit for the year		<u>1,261,304</u>	<u>1,857,667</u>
Other comprehensive income			
<i>Items that will never be reclassified subsequently to profit or loss:</i>			
Unrealised fair value (loss) gain on FVOCI equity investment securities, net		<u>(471,610)</u>	<u>6,789</u>
Total comprehensive income for the year		\$ <u><u>789,694</u></u>	<u><u>1,864,456</u></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, 2022

(Expressed in Barbados dollars)

	<u>Notes</u>	<u>2022</u>	<u>2021</u>
Cash flows from operating activities			
Income before taxation		\$ 1,354,206	1,955,899
Adjustments for:			
Depreciation	8	2,312,079	2,026,405
Interest income	19	(17,585,747)	(16,890,900)
Gain on disposal of property and equipment		(60,338)	(56,897)
Bond amortisation		(192,158)	-
Interest expense	20	7,145,569	7,192,820
Debt impairment recovery		-	(132,350)
Expected credit losses	22	884,273	824,570
Receivables written off		<u>211,077</u>	<u>88,175</u>
		(5,931,039)	(4,992,278)
Changes in operating assets and liabilities:			
Decrease in mandatory reserve deposits with Central Bank		22,941	-
Increase in loans and advances		(9,485,365)	(9,944,694)
Increase in other assets		(2,029,707)	(799,676)
Increase in customer deposits		9,712,129	3,073,442
Increase in other liabilities		321,797	880,564
Increase in net due from/to related company		(25,120)	(86,160)
Decrease in deferred loan commitment fees		5,073	7,234
Increase (decrease) in tax on asset payable		<u>240,000</u>	<u>(1,693)</u>
Net cash used in operations		(7,169,291)	(11,863,261)
Interest received		17,824,316	16,258,262
Interest paid		(5,715,946)	(6,244,938)
Taxes paid		<u>(127,563)</u>	<u>(87,830)</u>
Net cash from (used in) operating activities		<u>4,811,516</u>	<u>(1,937,767)</u>
Cash flows from investing activities			
Disposal of other term deposits		-	1,670,621
Purchase of investment securities		(84,183)	(293,138)
Purchase of property, plant and equipment	8	(2,100,511)	(3,327,120)
Proceeds from sale of assets		<u>694,407</u>	<u>279,261</u>
Net cash (used in) from investing activities		<u>(1,490,287)</u>	<u>(1,670,376)</u>

CAPITA FINANCIAL SERVICES INC.

Consolidated Statement of Cash Flows (continued)

For the year ended March 31, 2022

(Expressed in Barbados dollars)

	<u>Notes</u>	<u>2022</u>	<u>2021</u>
Cash flows from financing activities			
Dividend paid		-	(275,000)
Payment of lease liability		(922,929)	(672,422)
Repayment of loans payable		<u>(1,166,286)</u>	<u>(1,136,235)</u>
Net cash used in financing activities		\$ <u>(2,089,215)</u>	<u>(2,083,657)</u>
 Increase (decrease) in cash and cash equivalents		\$ 1,232,014	(5,691,800)
Cash and cash equivalents - beginning of year		<u>9,842,168</u>	<u>15,533,968</u>
Cash and cash equivalents - end of year	4	\$ <u>11,074,182</u>	<u>9,842,168</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, 2022

(Expressed in Barbados dollars)

1. Reporting Entity

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

Capita Financial Services Inc. ("the Parent Company") is incorporated in Barbados and is a wholly owned subsidiary of BPW Financial Holdings Inc., a Barbados company. Its ultimate parent is Barbados Public Workers' Co-operative 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 consolidated financial statements were authorised for issue by the Board of Directors on December 16, 2022.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiary as disclosed in Note 1, after elimination of intercompany transactions, balances, revenues and expenses. The financial statements of the subsidiary are prepared for the same reporting year end as the Parent Company, using consistent accounting policies.

Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2022

(Expressed in Barbados dollars)

2. Significant Accounting Policies...continued

(a) Basis of accounting...continued

Basis of consolidation...continued

Business combinations

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

Subsidiaries

'Subsidiaries' are entities controlled by the Group. The Group 'controls' an entity if 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 Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

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.

Non-controlling interests

NCI are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2022

(Expressed in Barbados dollars)

2. Significant Accounting Policies...continued

(a) Basis of accounting...continued

Basis of consolidation...continued

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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:

- Annual Improvements to IFRS 1 First-time Adoption of IFRS, IFRS 9 Financial Instruments, IAS 41 Agriculture and IFRS 16 Leases – effective April 1, 2022
- Amendments to IFRS 3 – Reference to the Conceptual Framework in IFRS Standards – effective April 1, 2022
- Amendments to IAS 16 – Property, Plant and Equipment: Proceeds before Intended Use – effective April 1, 2022
- Amendments to IAS 37 – Onerous Contracts: Cost of Fulfilling a Contract – effective April 1, 2022
- Amendments to IAS 1 – Classification of liabilities as current or non-current – effective April 1, 2024
- IFRS 17 - Insurance Contracts & Amendments to IFRS 17 - effective April 1, 2023
- Income Tax Deferred Tax related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12) – effective April 1, 2023
- Disclosure of Accounting Policy (Amendments to IAS 1 and IFRS Practice Statement 2) – effective April 1, 2023
- Lease liability in a Sale and Leaseback (Amendments to IFRS 16) – effective April 1, 2024

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

Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2022

(Expressed in Barbados dollars)

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, 2022

(Expressed in Barbados dollars)

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, 2022

(Expressed in Barbados dollars)

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. These reset rates 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.

Applicability to the Group

The Group classifies its financial assets into one of the following categories:

- Amortised cost
- Fair value through other comprehensive income (FVOCI)

Financial assets measured at amortised cost

The Group's non-derivative financial assets measured at amortised cost comprise cash and cash equivalents, other term deposits, sovereign debt securities, loans and advances and due from related companies. The Group measures these assets at amortised cost as its business model is to hold them to collect contractual cash flows. Its contractual terms also gives rise to the receipt of principal and interest on specified dates. These financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing these financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model. These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial assets measured at FVOCI

The Group's non-derivative financial assets measured at FVOCI comprise equity securities. The Group measures these assets at FVOCI as these equity investments are not held for trading and the Group has irrevocably elected to present subsequent changes in the investments' fair value in OCI. These assets are measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

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.

Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2022

(Expressed in Barbados dollars)

2. Significant Accounting Policies...continued

(b) Financial assets and liabilities... continued

(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.

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.

Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2022

(Expressed in Barbados dollars)

2. Significant Accounting Policies...continued

(b) Financial assets and liabilities... continued

(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.

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'.

Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2022

(Expressed in Barbados dollars)

2. Significant Accounting Policies...continued

(b) Financial assets and liabilities... continued

(v) Impairment ...continued

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers both quantitative and qualitative information and analysis based on the Group's historical experience and credit risk assessment.

The determination of whether there has been a significant increase in credit risk is critical to the staging process. Factors to consider include:

- Changes in market or general economic conditions;
- Expectation of potential breaches;
- Expected delays in payment;
- Deterioration in credit ratings; or
- Significant changes in operating results or financial position of the borrower.

The Group uses three criteria for determining whether there has been a significant increase in credit risk:

- a quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 30 days past due

The Group considers that significant increase in credit risk occurs for debt investments when investments with investment grade rating at acquisition moves to a non-investment grade but above a default grade. For debt investments with a non-investment grade at acquisition, a significant increase in credit risk occurs when there is an unfavorable movement in the ratings relative to the rating at initial recognition, including movement to a lower end of non-investment grade.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12-months.

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.

Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2022

(Expressed in Barbados dollars)

2. Significant Accounting Policies...continued

(b) Financial assets and liabilities... continued

(v) Impairment... continued

Measurement of ECL...continued

The inputs used to estimate the expected credit losses are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life, if the facility has not been previously derecognised and is still in the portfolio.
- EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.
- Forward looking information – The standard requires the incorporation of forward-looking information in the estimation of expected credit losses for each stage and the assessment of significant increases in credit risk consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

The above parameters are modelled and estimated independently and combined to obtain the ECL.

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, 2022

(Expressed in Barbados dollars)

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.

POCI financial assets

POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated into the calculation of the effective interest rate on initial recognition. Consequently, POCI assets do not carry an impairment allowance on initial recognition. The amount recognised as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2022

(Expressed in Barbados dollars)

2. Significant Accounting Policies...continued

(b) Financial assets and liabilities... continued

(v) Impairment... continued

Presentation of allowance for ECL in the consolidated 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.

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.

(c) Cash resources

- (i) Cash and cash equivalents are short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risks of change in value. These are shown at cost, which is equivalent to fair value. Cash and cash equivalents also comprise cash balances which are payable on demand and deposits with maturities of three months or less from the date of acquisition.
- (ii) Other term deposits are liquid investments which have original maturity dates in excess of 90 days, but which are available on demand with penalty.
- (iii) Restricted cash is the mandatory reserve deposits held with its regulator, the Central Bank of Barbados.

Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2022

(Expressed in Barbados dollars)

2. Significant Accounting Policies...continued

(d) *Property and equipment*

Property and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. 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
Right of use assets	-	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*

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.

This policy is applied to contracts entered into (or changed) on or after 1 April 2020.

Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2022

(Expressed in Barbados dollars)

2. Significant Accounting Policies...continued

(f) Leases... continued

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, 2022

(Expressed in Barbados dollars)

2. Significant Accounting Policies...continued

(f) Leases... continued

Group acting as a lessee... continued

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

For the year ended March 31, 2022

(Expressed in Barbados dollars)

2. Significant Accounting Policies...continued

(f) *Leases... 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.

(g) *Foreign currency translation*

The consolidated financial statements are presented in Barbados dollars which is the Group's functional and presentation currency. The functional and presentation 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.

(h) *Fees and commission income*

The Group offers to its customers certain value added services for which a fee or commission is derived either directly from the customer or by way of the specific nature of the transaction via a third party provider. Those which are customer specific are currently limited to loan commitment fees, administrative fees and negotiation fees.

The Group has acquired a principal member license from MasterCard which enables the Group to allow certain financial services customers to issue propriety debit cards. The Group charges these customers fees for this payment service.

Insurance brokerage commissions are recognised on policy inception and earned on a pro rata basis over the term of the related policy coverage in accordance with the rate outlined in the broker agreements.

Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2022

(Expressed in Barbados dollars)

2. Significant Accounting Policies...continued

(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.

(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.

Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2022

(Expressed in Barbados dollars)

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) *Expected credit losses (ECL)*

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is detailed in note 2(b).

A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- The Group's criteria for determining if there has been a significant increase in credit risk and hence whether impairment allowances for financial assets should be measured on a lifetime expected credit loss (ECL) basis
- Choosing appropriate models and assumptions for the measurement of expected credit losses, including post model adjustments
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment rates, inflation and GDP levels, and their effect on PDs, EADs and LGDs
- Establishing the number and relative weightings of forward-looking macroeconomic scenarios for each type of product or market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL

In determining ECL, management judgment is applied, using objective, reasonable and supportable information about current and forecast economic conditions.

Incorporation of forward looking information

When determining whether the risk of default has increased significantly since initial recognition, both quantitative and qualitative information is considered, including expert credit assessment, forward looking information and analysis based on the Group's historical loss experience. Consistent with industry guidance, customer support payment deferrals as part of COVID-19 support packages in isolation will not necessarily result in a significant increase in credit risk, and therefore will not trigger an automatic migration from stage 1 (12-month ECL) to stage 2 (Lifetime ECL) in the credit impairment provision for such loans.

Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2022

(Expressed in Barbados dollars)

3. Critical Accounting Estimates and Judgments ...continued

Incorporation of forward looking information...continued

The Group formulated three economic scenarios: a base case, which is the central scenario, developed internally based on consensus forecasts, and two less likely scenarios, one upside and one downside scenario. The central scenario is aligned with information used by the Group for other purposes such as strategic planning and budgeting. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the region where the Group operates, international organisations such as the International Monetary Fund and selected private-sector forecasts.

The scenario probability weightings applied in measuring ECL are as follows:

2022

March 31

	Upside	Central	Downside
Scenario probability weighting	20%	50%	30%

Macro-economic variables used in these scenarios include (but are not limited to), unemployment rates, GDP growth rates, inflation rates and price indices. Forward looking macro-economic information and assumptions have been considered in these scenarios when forecasting both 12-month and lifetime expected credit losses.

Periodically, the Group carries out stress testing of more extreme shocks to calibrate its determination of the upside and downside representative scenarios.

(b) 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 26.

Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2022

(Expressed in Barbados dollars)

3. Critical Accounting Estimates and Judgments ...continued

(c) COVID-19

The COVID-19, global pandemic, materially impacted world economies particularly in the initial months. Barbados' main foreign exchange sector (tourism) and its sprung off business bore the brunt of the impact. The Government of Barbados, imposed a number of measures designed to contain the outbreak, which included business closures, travel restrictions, quarantines and cancellations of gatherings and events. Financial institutions and intermediaries offered moratorium of payment for varying periods to stem the impact on their customers. The Group offered moratorium of principal and interest payments on loans for a period of six months maximum to assist its customers in managing financial challenges arising from the pandemic. On expiration of the moratorium period, loans receiving such concessions were staged according to the time which elapse between their due date after moratorium and the time of the assessment.

While initially there was heightened volatility and uncertainty in the economy relative to the onset of COVID-19, these have now been significantly reduced by way of vaccinations and other mitigating programs. Consequently, the Barbados economy has moved closer to a state of pre-COVID-19 normalcy. The Group has taken into account the impact of these revised economic conditions in preparing its financial statements for the fiscal ending March 31, 2022. While for consistency the methodologies applied in the measurement of various items within the financial statements remains unchanged from those in the 2021 financial statements, the underlying assumptions were adapted to reflect the impact of improved macro-economic indicators.

Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2022

(Expressed in Barbados dollars)

4. Cash Resources

Cash resources consist of the following:

	<u>2022</u>	<u>2021</u>
<i>i) Cash and cash equivalents:</i>		
Bank balances	\$ 8,441,838	5,099,953
Short term deposits	<u>2,632,344</u>	<u>4,742,215</u>
Cash and cash equivalents	11,074,182	9,842,168
<i>ii) Other deposits:</i>		
Other term deposits	1,000,000	1,000,000
<i>iii) Restricted cash:</i>		
Restricted cash	<u>7,327,902</u>	<u>7,350,843</u>
Total gross cash resources	19,402,084	18,193,011
Less: expected credit loss allowance	<u>(2,680)</u>	<u>(4,055)</u>
	\$ <u>19,399,404</u>	<u>18,188,956</u>

Restricted cash 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, 2022, cash resources with the exception of mandatory reserve deposits with Central Bank carry interest at rates varying between 0% to 4.5 % per annum (2021 - 0% to 4.5%).

The movement in expected credit loss allowance on deposits is as follows:

	<u>2022</u>	<u>2021</u>
Balance at beginning of year	\$ 4,055	751
Expected credit loss on other term deposits	<u>(1,375)</u>	<u>3,304</u>
Balance at end of year	\$ <u>2,680</u>	<u>4,055</u>

Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2022

(Expressed in Barbados dollars)

5. Investment Securities

	<u>2022</u>	<u>2021</u>
FVOCI		
Quoted investments	391,395	329,276
Unquoted investments	<u>807,438</u>	<u>1,337,973</u>
	\$ <u>1,198,833</u>	<u>1,667,249</u>
Amortised Cost		
Sovereign bonds	4,443,728	4,166,797
Accrued interest receivable	<u>938</u>	<u>3,045</u>
	4,444,666	4,169,842
Expected credit loss allowance	<u>-</u>	<u>-</u>
	<u>4,444,666</u>	<u>4,169,842</u>
Total Investment Securities	\$ <u>5,643,499</u>	<u>5,837,091</u>

The movement in expected credit loss allowance on investments is as follows:

	<u>2022</u>	<u>2021</u>
Balance at beginning of year	-	66,008
Expected credit loss on investments	<u>-</u>	<u>(66,008)</u>
Balance at end of year	\$ <u>-</u>	<u>-</u>

The Parent Company has a regulatory requirement to maintain 1.5% of total domestic deposits as a security reserve. The security reserve is held in Government of Barbados Debt. At March 31, 2022, the amount reserved as per regulatory requirement was \$4,189,632 (2021 - \$3,912,701).

During the year, the Group purchased an additional Series B5 Bond with a nominal value of \$151,559. The fair value of the consideration paid was \$84,183, the final maturity date of this security is September 2033.

Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2022

(Expressed in Barbados dollars)

6. Loans and Advances

Loans and advances are comprised of the following:

	2022			
	<u>Consumer</u>	<u>Business</u>	<u>Mortgages</u>	<u>Total</u>
Gross loans	\$ 81,654,380	20,797,788	183,728,257	286,180,425
Less: ECL allowance	<u>(3,602,297)</u>	<u>(252,462)</u>	<u>(1,422,707)</u>	<u>(5,277,466)</u>
	<u>\$ 78,052,083</u>	<u>20,545,326</u>	<u>182,305,550</u>	280,902,959
Add: interest receivable				<u>2,939,823</u>
				<u>283,842,782</u>
	2021			
	<u>Consumer</u>	<u>Business</u>	<u>Mortgages</u>	<u>Total</u>
Gross loans	\$ 62,912,070	34,260,953	179,689,011	276,862,034
Less: ECL allowance	<u>(3,327,834)</u>	<u>(167,887)</u>	<u>(1,067,700)</u>	<u>(4,563,421)</u>
	<u>\$ 59,584,236</u>	<u>34,093,066</u>	<u>178,621,311</u>	272,298,613
Add: interest receivable				<u>3,176,285</u>
				<u>275,474,898</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 12).

In November 2015, the Group entered into a Deed of Sale and Administration agreement with 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. During the year, loans representing the first tranche of \$10 million were sold to BPWCCUL without recourse.

Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2022

(Expressed in Barbados dollars)

6. Loans and Advances...continued

The Group's loans and advances portfolio as at March 31, are in the following staging categories.

		2022			
		Stage 1	Stage 2	Stage 3	Total
Consumer	\$	61,011,835	7,585,245	13,057,300	81,654,380
Business		18,795,271	2,002,517	-	20,797,788
Mortgages		<u>138,937,694</u>	<u>14,388,960</u>	<u>30,401,603</u>	<u>183,728,257</u>
Gross loans		218,744,800	23,976,722	43,458,903	286,180,425
Less: ECL allowance		<u>(470,947)</u>	<u>(1,056,829)</u>	<u>(3,749,690)</u>	<u>(5,277,466)</u>
	\$	<u>218,273,853</u>	<u>22,919,893</u>	<u>39,709,213</u>	280,902,959
Add: interest receivable					<u>2,939,823</u>
	\$				<u>283,842,782</u>
		2021			
		Stage 1	Stage 2	Stage 3	Total
Consumer	\$	46,711,327	7,656,784	8,543,959	62,912,070
Business		25,208,697	4,235,541	4,816,714	34,260,952
Mortgages		<u>127,298,581</u>	<u>17,564,482</u>	<u>34,825,949</u>	<u>179,689,012</u>
Gross loans		199,218,605	29,456,807	48,186,622	276,862,034
Less: ECL allowance		<u>(262,072)</u>	<u>(247,392)</u>	<u>(4,053,957)</u>	<u>(4,563,421)</u>
	\$	<u>198,956,533</u>	<u>29,209,415</u>	<u>44,132,665</u>	272,298,613
Add: interest receivable					<u>3,176,285</u>
	\$				<u>275,474,898</u>

CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

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6. Loans and Advances...continued

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

		2022			
		<u>Consumer</u>	<u>Business</u>	<u>Mortgages</u>	<u>Total</u>
Balance, beginning of year	\$	3,327,834	167,887	1,067,700	4,563,421
Amounts charged/written off		(166,975)	-	-	(166,975)
Expected credit loss (note 23)		<u>441,438</u>	<u>84,575</u>	<u>355,007</u>	<u>881,020</u>
Balance, end of year	\$	<u>3,602,297</u>	<u>252,462</u>	<u>1,422,707</u>	<u>5,277,466</u>

		2021			
		<u>Consumer</u>	<u>Business</u>	<u>Mortgages</u>	<u>Total</u>
Balance, beginning of year	\$	2,465,299	269,587	955,310	3,690,196
Amounts charged/written off		-	-	-	-
Expected credit loss (note 22)		<u>862,535</u>	<u>(101,700)</u>	<u>112,390</u>	<u>873,225</u>
Balance, end of year	\$	<u>3,327,834</u>	<u>167,887</u>	<u>1,067,700</u>	<u>4,563,421</u>

The effective rate of interest on mortgages and land loans varies between 4% and 12.5% (2021 - 4% and 12.5%) per annum while the rates on consumer loans vary between 5% and 23% (2021 – 5% and 23%) per annum. The term of mortgage loans does not exceed 25 years.

CAPITA FINANCIAL SERVICES INC.

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7. Related Party Balances and Transactions

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

(i) *Key Management Compensation:*

		<u>2022</u>	<u>2021</u>
Salaries and allowances	\$	814,474	673,084
National Insurance		19,400	25,716
Pension costs		17,483	17,578
Other costs		5,200	5,464

(ii) *Key management loans:*

		<u>2022</u>	<u>2021</u>
Beginning of the year	\$	1,825,514	1,821,196
Additional loans disbursed		522,555	148,474
Loan repayments during the year		(109,831)	(144,156)
Resignation of key management personnel		(608,110)	-
Interest charged		42,289	80,690
Interest received		<u>(42,289)</u>	<u>(80,690)</u>
End of the year	\$	<u>1,630,128</u>	<u>1,825,514</u>

The rate of interest on loans ranged between 4% and 8% (2021 - 4% and 8%).

Key management loans include both mortgages and consumer loans. At March 31, 2022, loans to key management personnel were less than 30 day past due and carried a loss allowance of \$1,242 (2021 - \$1,116).

CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2022

(Expressed in Barbados dollars)

7. Related Party Balances and Transactions...continued

(iii) Related party balances and transactions:

	<u>2022</u>	<u>2021</u>
Due to related company		
BPWCCUL	\$ <u>879,897</u>	<u>5,622</u>
	\$ <u>879,897</u>	<u>5,622</u>
Due from related company		
BPWCCUL	\$ <u>1,256,014</u>	<u>356,619</u>

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

Management fees of \$144,000 were paid to BPWCCUL; a related company during 2022 (2021 - \$144,000).

Customer deposit balances and interest expensed to the related party are disclosed in Note 10. Subsequent to year end, the Parent Company received \$34,000,000 from BPWCCUL for term deposits, at an average rate of 2.52%, with maturity dates of three and five years, bringing the total deposits to \$65,750,950.

During the financial year ending March 31, 2022, lease payments were made to BPWCCUL; a related company of \$72,412 (2021 – \$nil).

The Parent Company is a principal member of the international brand MasterCard, through which its related company BPWCCUL is an affiliate member. This relationship allows BPWCCUL to provide its members with an internationally branded debit card. Fee charges accrued to the Head Office through its representation at the MasterCard level on behalf of its affiliates. Additionally, the Parent Company receives a transaction fees upon the use of the card by the credit union's members. During the fiscal ending March 31, 2022 fees and administration charges earned where \$1,391,015 (2021- \$962,728).

Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

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(Expressed in Barbados dollars)

8. Property and Equipment

	Right-of-Use Assets	Leased Vehicles	Leasehold Improvements	Furniture and Equipment	Motor Vehicles	Total
Cost						
Balance, April 1, 2020	3,341,667	5,162,278	139,863	1,975,710	704,560	11,324,078
Additions	403,959	2,410,623	1,869	914,628	-	3,731,079
Disposals	(368,183)	(301,323)	-	-	-	(669,506)
Balance, March 31, 2021	<u>3,377,443</u>	<u>7,271,578</u>	<u>141,732</u>	<u>2,890,338</u>	<u>704,560</u>	<u>14,385,651</u>
Balance, April 1, 2021	3,377,443	7,271,578	141,732	2,890,338	704,560	14,385,651
Additions	4,866,197	1,248,077	575,560	145,609	131,265	6,966,708
Disposals	(2,973,483)	(948,645)	-	(75,052)	-	(3,997,180)
Balance, March 31, 2022	<u>5,270,157</u>	<u>7,571,010</u>	<u>717,292</u>	<u>2,960,895</u>	<u>835,825</u>	<u>17,355,179</u>
Accumulated Depreciation						
Balance, April 1, 2020	689,105	1,244,257	87,260	1,520,591	585,607	4,126,820
Depreciation charge	701,031	953,805	26,290	264,323	80,956	2,026,405
Disposals	(122,728)	(73,982)	-	-	-	(196,710)
Balance, March 31, 2021	<u>1,267,408</u>	<u>2,124,080</u>	<u>113,550</u>	<u>1,784,914</u>	<u>666,563</u>	<u>5,956,515</u>
Balance, April 1, 2021	1,267,408	2,124,080	113,550	1,784,914	666,563	5,956,515
Depreciation charge	722,222	1,206,435	24,542	299,008	59,872	2,312,079
Disposals	(1,321,548)	(314,996)	-	(74,631)	-	(1,711,175)
Balance, March 31, 2022	<u>668,082</u>	<u>3,015,519</u>	<u>138,092</u>	<u>2,009,291</u>	<u>726,435</u>	<u>6,557,419</u>
Net Book Value						
March 31, 2022	<u>4,602,075</u>	<u>4,555,491</u>	<u>579,200</u>	<u>951,604</u>	<u>109,390</u>	<u>10,797,760</u>
March 31, 2021	<u>2,110,035</u>	<u>5,147,498</u>	<u>28,182</u>	<u>1,105,424</u>	<u>37,997</u>	<u>8,429,136</u>

During the year ended March 31, 2022 cancelled leases relating to Right of Use Assets totalled \$2,973,483 (2021: - \$nil).

Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

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9. Other Assets

	<u>2022</u>	<u>2021</u>
Prepayments and deferred expenses	\$ 196,286	322,527
Premiums receivable	537,746	1,200,386
Other receivables	<u>5,574,399</u>	<u>2,966,888</u>
	\$ <u>6,308,431</u>	<u>4,489,801</u>

10. Customer Deposits

These amounts are categorised as follows:

	<u>2022</u>	<u>2021</u>
Time deposits	\$ 240,470,301	236,835,850
Related party (i)	31,472,562	25,394,884
Interest payable	<u>6,725,113</u>	<u>5,496,092</u>
	\$ <u>278,667,976</u>	<u>267,726,826</u>

The rate of interest on deposits varied between 0.35% and 6.5% for the year (2021 - 0.45% to 6.5%).

- (i) This relates to deposits from BPWCCUL held by the Group at interest rates ranging between 1.90% to 2.65% (2021 1.90% to 2.65%) with terms varying from one to five years. Interest charged on related party balances was \$93,415 (2021 - \$91,242).

A portfolio of mortgage loans has been pledged as security for certain customer deposits totalling \$18,850,000 (2021 - \$18,850,000).

11. Other Liabilities

	<u>2022</u>	<u>2021</u>
Insurance premiums	\$ 1,426,426	1,733,649
Other	1,552,480	1,574,697
Withholding tax payable	672,671	2,234
Lease liability	4,671,565	2,175,661
Accrued expenses	<u>179,325</u>	<u>194,082</u>
	\$ <u>8,502,467</u>	<u>5,680,323</u>

Capita Financial Services Inc.

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12. Loans Payable

	<u>2022</u>	<u>2021</u>
BPWCCUL (i)	\$ 8,701,938	9,828,483
Eastern Caribbean Home Mortgage Bank (ii)	<u>1,277,736</u>	<u>1,317,477</u>
	\$ <u>9,979,674</u>	<u>11,145,960</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 Eastern Caribbean Home Mortgage Bank loan is comprised of the cash proceeds from the collateralised borrowing as discussed in Note 6.

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, 2022 and 2021.

13. Tax on Asset Payable

Under the Tax on Asset Act, 2015, every entity licensed under Section 22 of the Financial Institutions Act, Cap 324A with total gross assets of \$40 million or more and that accepts deposits from third parties, is liable to a levy of 0.20% per annum on the average domestic assets of the deposit taking licensee. This Act came into effect on June 1, 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 \$993,068 (2021 - \$960,711).

14. Taxation

The corporation tax expense for the year is as follows:

	<u>2022</u>	<u>2021</u>
Current tax	\$ 71,297	96,524
Under provision of prior year current tax	(8,652)	-
Deferred tax charge	<u>30,257</u>	<u>1,708</u>
Taxation charge	\$ <u>92,902</u>	<u>98,232</u>

Capita Financial Services Inc.

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14. Taxation...continued

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

	<u>2022</u>	<u>2021</u>
Profit before taxation	\$ <u>1,354,206</u>	<u>1,955,899</u>
Tax calculated at a rate of 5.5% (2021 – 5.5%)	\$ 59,531	106,294
Income not subject to tax	(69,314)	(56,992)
Change in tax rate	22,312	
Effect of different tax rates	337	(9,834)
Items deductible in determining taxable profits	121,644	132,314
Items not deductible in determining taxable profits	(127,137)	(148,761)
Movement on deferred tax asset not recognized	94,181	75,211
Prior year under provision – current tax	<u>(8,652)</u>	<u>-</u>
Taxation charge	\$ <u>92,902</u>	<u>98,232</u>

Deferred taxation

Deferred tax liability relates to the following items:

	<u>2022</u>	<u>2021</u>
Accelerated tax depreciation	\$ 91,510	69,906
Unrealised fair value gain/loss on FVOCI investments	<u>1,431</u>	<u>(1,832)</u>
	\$ <u>92,941</u>	<u>68,074</u>
	<u>2022</u>	<u>2021</u>
Beginning of year	\$ 68,074	66,052
Effect of increase (decrease) in tax rate	21,727	(10,026)
Deferred tax charge	(707)	11,735
Deferred tax on fair value gain	<u>3,847</u>	<u>313</u>
End of year	\$ <u>92,941</u>	<u>68,074</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>2022</u>	<u>2021</u>
Accelerated tax depreciation	\$ 42,977	37,671
Unutilised tax losses	<u>(260,094)</u>	<u>(172,700)</u>
	\$ <u>(217,117)</u>	<u>(135,029)</u>

Capita Financial Services Inc.

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14. Taxation...continued

Deferred taxation...continued

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

Year of <u>Loss</u>	Losses <u>B/fwd</u>	<u>Incurred</u>	<u>Utilised</u>	<u>Expired</u>	Losses <u>C/fwd</u>	Expiry <u>Date</u>
2017	\$ 62,450	-	-	-	62,450	2023
2018	100,491	-	-	-	100,491	2024
2019	51,144	-	-	-	51,144	2025
2020	110,883	-	-	-	110,883	2026
2021	228,076	-	-	-	228,076	2027
2022	-	313,935	-	-	313,935	2028
	\$ <u>553,044</u>	<u>313,935</u>	<u>-</u>	<u>-</u>	<u>866,979</u>	

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.

15. Pandemic Contribution Levy

Effective July 1, 2022, certain companies, inclusive of every entity licensed under Section 22 of the Financial Institutions Act, Cap 324A, with income before taxation in excess of \$5 million for the financial years ending 2020 and/or 2021 are required to pay a levy of 15% on the income before taxation. The payments commenced in July 2022 and ends in February 2023 at a rate of 3.75% for the qualifying year.

The Group's pre-tax income applicable to the levy for 2021 is \$1,955,899 (2020: \$1,805,423) which is below the qualifying threshold.

Capita Financial Services Inc.

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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:

	<u>Shares</u>			
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Common shares	8,734,032	8,734,032	\$ 8,734,032	8,734,032
8.5% Cumulative preference shares	<u>1,563,027</u>	<u>1,563,027</u>	<u>1,563,027</u>	<u>1,563,027</u>
	<u>10,297,059</u>	<u>10,297,059</u>	<u>\$ 10,297,059</u>	<u>10,297,059</u>

The preference shares are redeemable at the option of the Group. Dividends of \$ 0 (2021: \$275,000) were declared and paid during the year.

17. Other Reserves

i) Statutory reserve

Under the provisions of the Financial Institutions Act, the Parent 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 \$176,215 was required during 2022 (2021 - \$236,577).

	<u>2022</u>	<u>2021</u>
Balance – beginning of year	\$ 3,952,450	3,715,873
Transfer to statutory reserve	<u>176,215</u>	<u>236,577</u>
Balance – end of year	<u>\$ 4,128,665</u>	<u>3,952,450</u>

ii) General reserve

This amount totalling \$2,356,479 (2020: \$1,379,779) is created to set aside interest accrued on non-performing loans where certain conditions are met in accordance with IFRS 9. The guidelines of the Financial Institutions (Asset Classification and Provisioning) Regulations, 1998 CAP.324 of the Financial Institutions Act however do not allow for the accrual of such interest. The interest is therefore set aside in a reserve and is not available for distribution to the shareholder.

	<u>2022</u>	<u>2021</u>
Balance – beginning of year	\$ 1,379,779	1,379,779
Transfer from retained earnings	<u>976,700</u>	<u>-</u>
Balance – end of year	<u>\$ 2,356,479</u>	<u>1,379,779</u>

Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

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17. Other Reserves...continued

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>2022</u>	<u>2021</u>
Balance – beginning of year	\$ 1,363,529	1,356,740
Unrealised fair value (loss) gain – net of tax	<u>(471,610)</u>	<u>6,789</u>
Balance – end of year	\$ <u>891,919</u>	<u>1,363,529</u>
Total other reserves	\$ <u>7,377,063</u>	<u>6,695,758</u>

18. Commitments and Contingent Liabilities

Contingent liabilities

At March 31, 2022, unutilised commitments to extend credit for mortgages and other loans amounted to \$30,960,300 (2021 - \$39,417,658).

19. Interest Income

	<u>2022</u>	<u>2021</u>
Loans and advances	\$ 17,145,869	16,521,937
Cash resources	39,352	42,737
Financial investments	<u>400,526</u>	<u>326,226</u>
	\$ <u>17,585,747</u>	<u>16,890,900</u>

20. Interest Expense

	<u>2022</u>	<u>2021</u>
Customer deposits	\$ 6,827,835	6,936,147
Loans payable	117,132	130,812
Lease liabilities	<u>200,602</u>	<u>125,861</u>
	\$ <u>7,145,569</u>	<u>7,192,820</u>

Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

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21. Other Income

	<u>2022</u>	<u>2021</u>
Brokerage commissions	\$ 1,431,540	1,407,148
Fees and commissions	312,891	360,277
Leases	1,302,561	1,135,380
Gain (loss) on disposal of assets	60,338	56,897
Other operating income	518,653	108,311
Card services fees	<u>1,464,508</u>	<u>1,084,616</u>
	<u>\$ 5,090,491</u>	<u>4,152,629</u>

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 8). 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>
2022	\$	<u>1,327,815</u>	<u>1,081,652</u>	<u>805,917</u>	<u>332,019</u>	<u>63,352</u>	<u>-</u>
2021	\$	<u>1,367,545</u>	<u>1,205,689</u>	<u>931,215</u>	<u>600,860</u>	<u>248,740</u>	<u>-</u>

Capita Financial Services Inc.

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22. Salaries and Other Staff Costs

	<u>2022</u>	<u>2021</u>
Salaries and wages	\$ 3,376,162	2,662,073
National Insurance	281,017	247,105
Pension costs	57,512	88,720
Other costs	<u>173,045</u>	<u>158,240</u>
	<u>\$ 3,887,736</u>	<u>3,156,138</u>

23. Expected Credit Losses

	<u>2022</u>	<u>2021</u>
Loans and advances (Note 6)	\$ 881,020	873,225
Undrawn loan commitments	4,628	16,740
Financial investments (Note 5)	-	(66,008)
Other	-	(2,691)
Term deposits (Note 4)	<u>(1,375)</u>	<u>3,304</u>
	<u>\$ 884,273</u>	<u>824,570</u>

24. Other Operating Expenses

	<u>2022</u>	<u>2021</u>
Direct cost of services	\$ 2,419,669	1,375,568
Professional fees	838,228	892,200
Office expenses	581,654	524,876
Marketing	202,669	240,008
Insurance	213,195	403,640
Travel	12,792	(1,312)
Utilities	336,749	252,048
Licence fees	440,120	395,548
Bank charges	213,031	189,988
Commissions	100,780	122,133
Vehicle expenses	95,343	64,852
Directors expenses	195,472	170,766
Training	17,334	16,293
Sundry	<u>137,485</u>	<u>170,618</u>
	<u>\$ 5,804,521</u>	<u>4,817,226</u>

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25. 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.

Impact of COVID-19

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. Governments and regulatory bodies in affected areas, including Barbados and St. Lucia, have imposed a number of measures designed to contain the outbreak, including government-mandated social distancing measures, travel restrictions, quarantines, and stay at home directives. The breadth and depth of the impact of COVID-19 on the global economy and financial markets continues to evolve with disruptive effects. The specific impact on the economies of Barbados and St. Lucia, which are largely driven by tourism has been significant and during the year reduced incoming flights to the islands continued. The resulting impacts continued into 2021 including increased unemployment, hotel closures/hotel operations at reduced occupancy levels for those which remained opened and reduced revenue for businesses, financial institutions and the Government. As a consequence of the job cuts and reduced disposable income, there was continued impact on persons' ability to service their loan commitments and other obligations.

During the financial year the Governments of Barbados and St. Lucia relaxed many of the COVID-19 protocols as cases subsided and vaccination levels stabilised. The economic outlook for the Barbados economy began to show signs of a modest economic recovery as the travel and tourism sector started to rebound. However, the levels of economic activity continued to be significantly below pre-pandemic levels. The economic recovery is expected to continue during the financial year and beyond as travel and tourism sector continues to improve relative to pre-pandemic levels, supported by low COVID-19 numbers and the high vaccine uptake in major tourism source markets.

Both economies of both Barbados and St. Lucia are projected to see a level of growth in 2022, however the impact of events in other World economies upon its tourism product and related industries remains highly uncertain. The Board of Directors and management will continue to monitor the impact of COVID-19 on its operation and economic environment.

There is still uncertainty over how the future development of the outbreak will impact the Group's business and customer demand for its services.

Hence, the Group is closely monitoring the potential effects and impact of the pandemic, which is an evolving situation.

The Governments of Barbados and St. Lucia have taken, and are continuing to take, significant measures to provide economic assistance to individual households and businesses, stabilize the markets, and support economic growth. The effectiveness of these programs will depend on the duration and scale of COVID-19.

Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

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25. Financial Risk Management...continued

Impact of COVID-19...continued

The Group's risk and capital management framework continues to be applied and the Group continues to monitor the impact of COVID-19 on the Group's risk and capital profile. Non-financial risks emerging from global movement restrictions, and remote working by staff, counterparties and customers are being identified, assessed, managed and governed through timely application of the Group's Risk Management Framework.

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.

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.

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25. Financial Risk Management...continued

Credit risk management...continued

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.

COVID-19

The COVID-19 pandemic's significant impact to the economy and the different stages of lockdown and re-opening, resulted in continued uncertainty on timing of recovery. This required additional considerations to determine the allowance for credit losses this year.

In response to the pandemic, and based on regulatory support, during the period the Group introduced a support mechanism for customers impacted by COVID-19, including the deferral of payments for an initial period of three months. The option to extend for an additional three months is available to customers who still display challenges in meeting their loan commitments. Special payment arrangements such as payment plan solutions and debt restructuring, based on approval by the relevant Committee and the Board was also offered to customers.

The ECL methodology, model inputs, significant increase in credit risk (SICR) thresholds, and definition of default remain consistent with those used as at March 31, 2021. Scenarios and associated weightings, were revised to reflect the unprecedented impact of the COVID-19 pandemic, and the resulting significant uncertainty as it relates to current conditions and outlook.

IFRS 9 requires the consideration of past events, current conditions and reasonable and supportable forward-looking information over the life of the exposure to measure expected credit losses. Furthermore, to assess significant increase in credit risk, the Standard requires that entities assess changes in the risk of a default occurring over the expected life of a financial instrument when determining staging. The IASB and global regulators issued guidance for entities, consistent with IFRS 9, to consider the exceptional circumstances of the COVID-19 pandemic. This includes consideration of significant government support and the high degree of uncertainty around historical long-term economic trends used in determining reasonable and supportable forward-looking information.

Capita Financial Services Inc.

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25. Financial Risk Management...continued

Credit risk management...continued

COVID-19...continued

The Group's models are calibrated to consider past performance and macroeconomic forward-looking variables as inputs. Expert credit judgement is applied to consider the exceptional circumstances this period, including consideration of government assistance programs, in the assessment of underlying credit deterioration and migration of balances to progressive stages.

Consistent with requirements of IFRS 9, the Group considered both quantitative and qualitative information in the assessment of significant increase in risk. First time utilization of a payment deferral program was not considered an immediate trigger, in keeping with IASB and regulatory guidance, for an account to migrate to a progressive stage, given the purpose of these programs is to provide temporary cashflow relief to the Group's customers. Early observations of payment behaviour of expiries for this year were considered in the assessment of the longer-term probability of the customers' ability to pay, a key input in determining migration.

A key input into the Group's expected credit loss provisioning model is the incorporation of forward-looking macroeconomic sensitivity as required per the IFRS 9 guidance.

Capita Financial Services Inc.

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25. Financial Risk Management...continued

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

	<u>2022</u>	<u>2021</u>
Credit risk exposures relating to on-balance sheet assets are as follows:		
Cash resources	\$ 19,399,404	18,188,956
Loans and advances to customers:		
Consumer loans	81,654,380	62,912,070
Mortgages	183,728,257	179,689,012
Business	20,797,788	34,260,952
Interest receivable	<u>2,939,823</u>	<u>3,176,285</u>
	<u>289,120,248</u>	<u>280,038,319</u>
Investment securities		
- Government and other Corporate Bonds	4,444,666	4,169,842
Due from related companies	1,256,014	356,619
Credit risk exposures relating to off-balance sheet items are as follows:		
- Loan commitments	<u>30,960,300</u>	<u>39,417,658</u>
	<u>\$ 345,180,632</u>	<u>342,171,394</u>

The above table represents a worst case scenario of credit risk exposure to the Group at March 31, 2022 and 2021, 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:

- Mortgage loans, which represent the biggest group in the portfolio, are backed by collateral;
- 76% of the loans and advances portfolio are considered to be neither past due nor impaired (2021 - 72%);
- The Group has introduced a more stringent selection process upon granting loans and advances;

Capita Financial Services Inc.

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25. 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).

	2022			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers at amortised cost:				
Pass	209,378,969	18,278,251	-	227,657,220
Special Mention	2,734,961	591,066	4,221,283	7,547,310
Substandard	6,599,104	5,107,405	37,541,217	49,247,726
Doubtful	31,766	-	1,529,807	1,561,573
Loss	-	-	166,596	166,596
	<u>218,744,800</u>	<u>23,976,722</u>	<u>43,458,903</u>	<u>286,180,425</u>
Expected credit loss	<u>(470,947)</u>	<u>(1,056,829)</u>	<u>(3,749,690)</u>	<u>(5,277,466)</u>
Carrying amount	<u>218,273,853</u>	<u>22,919,893</u>	<u>39,709,213</u>	<u>280,902,959</u>
	2021			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers at amortised cost:				
Pass	191,961,344	26,969,827	-	218,931,171
Special Mention	3,053,292	1,164,161	4,577,781	8,795,234
Substandard	4,203,969	1,322,819	42,299,766	47,826,554
Doubtful	-	-	1,141,880	1,141,880
Loss	-	-	167,195	167,195
	<u>199,218,605</u>	<u>29,456,807</u>	<u>48,186,622</u>	<u>276,862,034</u>
Expected credit loss	<u>(262,072)</u>	<u>(247,392)</u>	<u>(4,053,957)</u>	<u>(4,563,421)</u>
Carrying amount	<u>198,956,533</u>	<u>29,209,415</u>	<u>44,132,665</u>	<u>272,298,613</u>

Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

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25. 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.

	<u>2022</u>			
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Loans and advances to customers at amortised cost:				
Current	196,025,827	-	-	196,025,827
Overdue <31 days	22,718,973	-	-	22,718,973
Overdue 31 – 89 days	-	23,976,722	-	23,976,722
Overdue >89 days	-	-	43,458,903	43,458,903
Gross carrying amount	<u>218,744,800</u>	<u>23,976,722</u>	<u>43,458,903</u>	<u>286,180,425</u>
	<u>Stage 1</u>	<u>Stage 2</u>	<u>POCI</u>	<u>Total</u>
Sovereign securities at amortised cost:				
Moody's Default (Caa1):				
Central Bank of Barbados–Bonds	-	-	4,443,728	4,443,728
Not Rated:				
Government of St. Lucia	-	-	-	-
Gross carrying amount	-	-	-	-
Loss allowance	-	-	-	-
Carrying amount	<u>-</u>	<u>-</u>	<u>4,443,728</u>	<u>4,443,728</u>

Capita Financial Services Inc.

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25. Financial Risk Management...continued

Credit quality analysis...continued

	2021			
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Loans and advances to customers at amortised cost:				
Current	146,226,078	-	-	146,226,078
Overdue <31 days	52,992,527	1,759,708	-	54,752,235
Overdue 31 – 89 days	-	27,697,099	-	27,697,099
Overdue >89 days	-	-	48,186,622	48,186,622
Gross carrying amount	<u>199,218,605</u>	<u>29,456,807</u>	<u>48,186,622</u>	<u>276,862,034</u>
	<u>Stage 1</u>	<u>Stage 2</u>	<u>POCI</u>	<u>Total</u>
Sovereign securities at amortised cost:				
Moody's Default (Caa1):				
Central Bank of Barbados–Bonds	-	-	4,166,797	4,166,797
Not Rated:				
Government of St. Lucia	-	-	-	-
Gross carrying amount	-	-	-	-
Loss allowance	-	-	-	-
Carrying amount	<u>-</u>	<u>-</u>	<u>4,166,797</u>	<u>4,166,797</u>

Impact of deferral programs

The table below sets out the gross credit risk exposures which remain on deferral at March 31, 2022:

	<u>2022</u>	<u>2021</u>
Stage 1	\$ -	2,598,013
Stage 2	91,032	622,697
Stage 3	-	172,597
	<u>\$ 91,032</u>	<u>3,393,307</u>

No further options available for customers upon expiry of the deferral period

Capita Financial Services Inc.

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25. Financial Risk Management...continued

Credit quality analysis...continued

Cash and cash equivalents

The Group held cash and cash equivalents of \$11,074,182 at March 31, 2022 (2021: \$9,842,168). The credit quality of the financial institutions holding the Group's cash and cash equivalents is assessed according to the level of their credit worthiness and by comparison to other financial institutions. The Group places its cash and cash equivalents with reputable financial institutions.

The movement across loan and advances portfolio as at March 31, are in the following staging categories:

		2022			
		<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Loans and advances to customers at amortised cost:					
Gross carrying amount					
April 1, 2021	\$	199,218,605	29,456,807	48,186,622	276,862,034
Stage 1 to stage 2		(9,250,152)	8,513,212	-	(736,940)
Stage 1 to stage 3		(4,872,886)	-	4,634,868	(238,018)
Stage 2 to stage 1		13,342,226	(12,829,896)	-	512,330
Stage 2 to stage 3		-	(4,726,691)	4,556,050	(170,641)
Stage 3 to stage 1		7,358,545		(9,244,516)	(1,885,971)
Stage 3 to stage 2		-	2,933,054	(3,582,397)	(649,343)
Net loans originated (paid)		12,948,462	630,236	(924,526)	12,654,172
Amount written off		-	-	(167,198)	(167,198)
Gross carrying amount					
March 31, 2022	\$	<u>218,744,800</u>	<u>23,976,722</u>	<u>43,458,903</u>	<u>286,180,425</u>
		2021			
		<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Loans and advances to customers at amortised cost:					
Gross carrying amount					
April 1, 2020	\$	212,828,745	25,938,665	28,149,932	266,917,342
Stage 1 to stage 2		(19,355,467)	21,926,777	(2,327,086)	244,224
Stage 1 to stage 3		(13,111,130)	-	12,896,849	(214,281)
Stage 2 to stage 1		5,761,044	(6,638,205)	-	(877,161)
Stage 2 to stage 3		-	(11,889,724)	11,963,187	73,463
Stage 3 to stage 1		1,417,478	-	(2,175,033)	(757,555)
Stage 3 to stage 2		-	594,932	(601,298)	(6,366)
Net loans originated (paid)		11,677,935	(475,638)	280,071	11,482,368
Amount written off		-	-	-	-
Gross carrying amount					
March 31, 2021	\$	<u>199,218,605</u>	<u>29,456,807</u>	<u>48,186,622</u>	<u>276,862,034</u>

Capita Financial Services Inc.

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25. Financial Risk Management...continued

Credit quality analysis...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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25. Financial Risk Management...continued

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

Inputs, assumptions and techniques used for estimating impairment

The measurement of expected credit losses is a complex calculation involving many interrelated inputs and assumptions. The key drivers of changes in expected losses under the IFRS 9 model include our internal historical default rates, transition matrices, unemployment rate, GDP and inflation rate.

Further details on the key inputs and assumptions used as at March 31, 2022, are provided in Note 3.

The following table compares our probability-weighted estimate of expected credit losses for performing loans to expected credit losses estimated in our base case scenario. Results reflect the Stage 1 and Stage 2 allowance for credit losses.

	Carrying value	Base Scenario
As at March 31, 2022		
ECL on performing loans	\$ 1,527,776	1,510,556
As at March 31, 2021		
ECL on performing loans	\$ 509,464	502,331

As part of our overlay, we qualitatively increased ECL in stage 2 to reflect the current challenging economic environment. This qualitative adjustment was informed by remaining time to maturity, economic projections, scenario weights and the historical behaviour of our portfolio.

The following table illustrates the impact of staging on our ECL by comparing our allowance if all performing loans were in Stage 1 to the actual ECL recorded on these.

	As at March 31, 2022 Performing loans	As at March 31, 2021 Performing loans
ECL – all performing loans in Stage 1	\$ 473,222	300,822
Impact of staging	<u>1,054,554</u>	<u>208,642</u>
	<u>\$ 1,527,776</u>	<u>509,464</u>

Capita Financial Services Inc.

Notes to the Consolidated Financial Statements

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25. Financial Risk Management...continued

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

Inputs, assumptions and techniques used for estimating impairment...continued

In light of the COVID-19 pandemic, the Group has applied additional adjustments to account for the lagging nature and other deficiencies identified in internal and external credit risk metrics. These include the impact of payment relief put in place during the pandemic, which are likely to mask the detection of increased credit risk on some loans, as well the impact of savings in economic input variables, which have in some cases produced unreasonable results. To address these, ECLs have been stressed by looking at a combination of factors, including industry of employment and its exposure to COVID-19 related risks the extent to which customers have been approved for COVID-19 related payment relief, and the extent to which they have participated in other assistance programs. Other adjustments have been taken to moderate the impact of dramatic swings in economic input variables or their lagging impact on credit losses. Judgment has been required in the development and application of these overlays, management relies on the prediction of key reputable authorities with expertise in the area.

The COVID-19 global pandemic significantly impacted our determination of allowance for credit losses and required the application of heightened judgement. Following the announcement of COVID 19 as a global pandemic on March 11, 2020 by the World Health Organisation (WHO), there was a significant downturn in the level of economic activity across the globe. The significant decline in economic activity has been accompanied by unprecedented levels of government support and central bank policies that resulted in low interest rates and the roll out or strengthening of programs that supported companies payroll and the unemployed.

In the case of the Caribbean, the level of economic contraction has been severe as a result of the reduction of tourist inflows to the region. Import dependent economies, such as Barbados and St. Lucia also experienced an economic downturn due to higher import prices. The adverse impact on our client base has been partially mitigated through government support programs, multilateral and other external support (including the International Monetary Fund (IMF), World Bank, International Development Bank (IDB) and Caribbean Development Bank (CDB) and the rollout of payment deferral programs by the banking sector.

During 2022 many Caribbean economies had a modest economic recovery largely due to increases in travel and tourism. However, the levels of economic activity continued to be significantly below pre-pandemic levels. The economic recovery is expected to continue during next year as travel and tourism continue to improve relative to pre-pandemic levels, supported by rising domestic vaccination rates and the high vaccine update in major tourism source markets. Continued fiscal stimulus and accommodation monetary conditions in some countries will bolster consumer spending and unemployment relief.

While the Barbados and St. Lucia economies are projected to grow in 2022, the impact of other world economies upon their tourism product and related industries remains highly uncertain. Consequently, the assumptions used to determine our allowances have a higher-than-usual degree of uncertainty. The inputs used in the calculation of the allowance are inherently subject to change, which may materially impact our estimate of the allowance for expected credit losses.

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Notes to the Consolidated Financial Statements

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25. Financial Risk Management...continued

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

Inputs, assumptions and techniques used for estimating impairment...continued

The Group's stage 1 and 2 allowance for credit losses on the loan portfolios as at March 31, 2022 reflects a decrease as a result of the recent recovery observed in many economies and the resilience of our portfolio. The IFRS 9 model could not solely be used to determine expected credit losses as it was not designed with events of this magnitude in mind. As a consequence, a model overlay was used to account for incremental expected losses not captured by the IFRS 9 model

To address the uncertainties inherent in the current environment and to reflect all relevant risk factors not captured in our model, we applied expert credit judgement in the design of the overlay and the determination of inputs used in the calculation of the allowance in light of the significant uncertainty, the impact of expert credit judgement on our allowances during 2021-2022 increased as compared to 2020-2021. We applied qualitative adjustments to macroeconomic projections, the assumed credit response of the portfolio to the macroeconomic conditions, levels of loss severity and the determination of significant increase in credit risk.

Key inputs and assumptions

The measurement of expected credit losses is a complex calculation that involves a large number of inputs and assumptions. The key drivers of changes in expected losses include the following:

- Forward looking macroeconomic projections
- Internal assessment on the level of resilience of large wholesale clients to the COVID 19 pandemic;
- Recent portfolio performance;
- Scenario design and the weights associated with each scenario; and
- Transfers between stages, which can result from changes in any of the above inputs.

Forward looking macroeconomic projections

The PD and LGD inputs used to predict expected credit losses are primarily based on GDP growth projections. The assumed level of response of the PD to the level of economic contraction was informed by historical events, recent portfolio performance and expert judgement. The LGDs used in the calculation of our allowance were qualitatively adjusted upwards to reflect higher expected time to resolution for future defaults secured with real estate collateral. Our allowance for credit losses reflect our economic outlook as at March 31, 2022. Subsequent changes to this forecast and related estimates will be reflected in our allowance for credit losses in future periods.

Our base scenario accounts for the expected gradual recovery of Caribbean economies during 2022-2023. Current volatility of tourism travel, impacted by local and international COVID infection spikes, continued travel and quarantine protocols and adverse travel advisories lend support to the consensus expectation by governments, central banks, the IMF and tourism authorities that full sustainable air travel recovery across the Caribbean will not happen until 2023-2024

Capita Financial Services Inc.

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25. Financial Risk Management...continued

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

Inputs, assumptions and techniques used for estimating impairment...continued

Forward looking macroeconomic projections...continued

Our downside scenario reflects a reversal of tourism gains experienced over the last 6 months and a downturn of all prices which adversely impacts affected economic sectors. Our upside scenario considers a marginal improvement on base conditions resulting from a higher and faster than expected economic recovery. The forecasts of GDP growth rates were informed by external benchmarks and our own internal views which reflect the opinion and feedback from our economist, management and the business.

Internal assessment of the level of resilience of large clients

The PDs used are specific to the type of loan and automatically adjusted for the borrower's position during the COVID-19 pandemic. This adjustment was reflective of the main economic sector impacted by the pandemic wherein job losses arose.

Recent portfolio performance

The PD used for different portfolio segments were qualitatively adjusted to take into account recent portfolio performance. Portfolios which have shown high resilience to the pandemic would have lower PD levels than portfolio with higher default rates.

Changes in scenario design and the weights associated to each scenario

All scenarios considered in our analysis include the impact of the pandemic as at March 31, 2022; reflective of current economic conditions. In determining our IFRS 9 allowance for credit losses, we reassessed our scenario weights to more heavily weigh the downside scenarios as opposed to those which are the upside. Since the onset of the global spread of the COVID 19 pandemic, we have reflected continued uncertainty and downside risk of a prolonged recovery by shifting additional weighting to our pessimistic scenarios.

Capita Financial Services Inc.

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25. 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.

	2022			
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Loans and advances to customers at amortised cost:				
Opening balance	262,072	247,392	4,053,957	4,563,421
Stage 1 to stage 2	(16,647)	15,888	-	(759)
Stage 1 to stage 3	(6,875)	-	6,439	(436)
Stage 2 to stage 1	85,250	(85,250)	-	-
Stage 2 to stage 3	-	(32,773)	32,773	-
Stage 3 to stage 1	755,580	-	(756,076)	(496)
Stage 3 to stage 2	-	317,985	(317,985)	-
Net remeasurement of loss allowance	(608,433)	593,587	897,780	882,934
Amounts charged off	<u>-</u>	<u>-</u>	<u>(167,198)</u>	<u>(167,198)</u>
Ending balance	<u>470,947</u>	<u>1,056,829</u>	<u>3,749,690</u>	<u>5,277,466</u>
Sovereign securities at amortised cost:				
Opening balance	-	-	-	-
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Derecognition of financial assets				
Net remeasurement of loss allowance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Ending balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Capita Financial Services Inc.

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25. Financial Risk Management...continued

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

Loss allowance... continued

	2021			
	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers at amortised cost:				
Opening balance	747,889	44,606	2,897,701	3,690,196
Stage 1 to stage 2	(70,176)	69,527	-	(649)
Stage 1 to stage 3	(43,786)	-	43,717	(69)
Stage 2 to stage 1	15,571	(17,541)	-	(1,970)
Stage 2 to stage 3	-	(15,044)	14,062	(982)
Stage 3 to stage 1	241,957	-	(243,903)	(1,946)
Stage 3 to stage 2	-	65,323	(65,323)	-
Net remeasurement of loss allowance	(629,383)	100,521	1,407,703	878,841
Amounts charged off	-	-	-	-
Ending balance	<u>262,072</u>	<u>247,392</u>	<u>4,053,957</u>	<u>4,563,421</u>
Sovereign securities at amortised cost:				
Opening balance	-	-	66,008	66,008
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Derecognition of financial assets	-	-	-	-
Net remeasurement of loss allowance	-	-	(66,008)	(66,008)
Ending balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</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 \$2,917,888 at March 31, 2022 (2021 - \$1,061,144).

Reposessed collateral

The Group took possession of collateral held as security in the amount of \$4,780,778 during 2022 (2021 - \$2,133,395).

CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

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25. 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.

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

<u>2022</u>	<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>
Assets						
Cash resources	\$ 19,399,404	6,877,674	398,868	1,000,000	-	11,122,862
Investment securities – amortized cost	4,444,666	872,035	812,035	1,010,331	1,750,265	-
Loans and advances	283,842,782	4,319,733	12,820,453	30,268,298	224,218,184	12,216,114
Due from related company	1,256,014	-	-	-	-	1,256,014
Other assets	<u>6,308,431</u>	<u>-</u>	<u>-</u>	<u>54,355</u>	<u>120,848</u>	<u>6,133,228</u>
Total financial assets	\$ <u>315,251,297</u>	<u>12,069,442</u>	<u>14,031,356</u>	<u>32,332,984</u>	<u>226,089,297</u>	<u>30,728,218</u>
Liabilities						
Customer deposits	\$ 278,667,976	78,904,317	131,414,977	67,842,352	402,605	103,725
Due to related company	879,897	-	-	-	-	879,897
Loans payable	9,979,674	-	-	-	9,979,674	-
Other liabilities	<u>8,502,467</u>	<u>123,405</u>	<u>375,185</u>	<u>2,671,508</u>	<u>1,358,903</u>	<u>3,973,466</u>
Total financial liabilities	\$ <u>298,030,014</u>	<u>79,027,722</u>	<u>131,790,162</u>	<u>70,513,860</u>	<u>11,741,182</u>	<u>4,957,088</u>
Total interest Repricing gap	\$	<u>(66,958,280)</u>	<u>(117,758,806)</u>	<u>(38,180,876)</u>	<u>214,348,115</u>	

CAPITA FINANCIAL SERVICES INC.

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25. Financial Risk Management ...continued

<u>2021</u>		<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>
Assets							
Cash resources	\$	18,188,956	8,102,735	1,732,150	999,283	-	7,354,788
Investment securities – amortised cost		4,169,842	-	482,949	1,559,216	2,127,677	-
Loans and advances to customers		275,474,898	4,901,479	9,807,581	32,314,638	195,345,320	33,105,880
Due from related company		356,619					356,619
Other assets		<u>4,489,801</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,489,801</u>
Total financial assets	\$	<u>302,680,116</u>	<u>13,004,214</u>	<u>12,022,680</u>	<u>34,873,137</u>	<u>197,472,997</u>	<u>45,307,088</u>
Liabilities							
Customer deposits	\$	267,726,826	58,774,455	112,281,310	95,963,098	546,459	161,504
Due to related company		5,622	-	-	-	-	5,622
Loans payable		11,145,960	-	-	-	11,145,960	-
Other liabilities		<u>5,680,323</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,680,323</u>
Total financial liabilities	\$	<u>284,558,731</u>	<u>58,774,455</u>	<u>112,281,310</u>	<u>95,963,098</u>	<u>11,692,419</u>	<u>5,847,449</u>
Total interest Repricing gap	\$		<u>(45,770,241)</u>	<u>(100,258,630)</u>	<u>(61,089,961)</u>	<u>185,780,578</u>	

CAPITA FINANCIAL SERVICES INC.

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25. 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, 2022, with all other variables held constant.

The impact is illustrated and shown in the table below:

		<u>2022</u>	<u>2021</u>
Increase / decrease of 100 bps			
Impact on profit + 100 bps	\$	2,750	(27,925)
Impact on profit – 100 bps		(2,750)	27,925

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 and United States dollars.

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

2022

	<u>Barbados</u>	<u>United States</u>	<u>Eastern Caribbean</u>	<u>Total</u>
Assets:				
Cash resources	\$ 15,083,210	564,590	3,751,604	19,399,404
Investment securities:				
Amortised cost	4,444,666	-	-	4,444,666
FVOVI	1,198,833	-	-	1,198,833
Loans and advances	266,325,349	-	17,517,433	283,842,782
Due from related company	1,256,014	-	-	1,256,014
Other assets	<u>2,730,920</u>	<u>3,117,470</u>	<u>460,041</u>	<u>6,308,431</u>
Total Financial Assets	\$ <u>291,038,992</u>	<u>3,682,060</u>	<u>21,729,078</u>	<u>316,450,130</u>
Liabilities:				
Customer deposits	\$ 254,982,320	-	23,685,656	278,667,976
Loans payable	8,701,938	-	1,277,736	9,979,674
Due to related company	879,897	-	-	879,897
Other liabilities	<u>8,261,490</u>	<u>60,887</u>	<u>180,090</u>	<u>8,502,467</u>
Total Financial Liabilities	\$ <u>272,825,645</u>	<u>60,887</u>	<u>25,143,482</u>	<u>298,030,014</u>

CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

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(Expressed in Barbados dollars)

25. Financial Risk Management ...continued

2021

	<u>Barbados</u>	<u>United States</u>	<u>Eastern Caribbean</u>	<u>Total</u>
Assets:				
Cash resources	\$ 12,962,141	-	5,226,815	18,188,956
Investment securities:				
Amortised cost	4,169,842	-	-	4,169,842
FVOCI	1,667,249	-	-	1,667,249
Loans and advances	257,169,660		18,305,238	275,474,898
Due from related company	356,619	-	-	356,619
Other assets	<u>3,902,598</u>	<u>-</u>	<u>587,203</u>	<u>4,489,801</u>
Total Financial Assets	\$ <u>280,228,109</u>	<u>-</u>	<u>24,119,256</u>	<u>304,347,365</u>
Liabilities:				
Customer deposits	\$ 241,886,038	-	25,840,788	267,726,826
Loans payable	9,828,484	-	1,317,476	11,145,960
Due to related company	5,622	-	-	5,622
Other liabilities	<u>5,504,077</u>	<u>-</u>	<u>176,246</u>	<u>5,680,323</u>
Total Financial Liabilities	\$ <u>257,224,221</u>	<u>-</u>	<u>27,334,510</u>	<u>284,558,731</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.

Subsequent to year end on July 28, 2022 the Parent Company was placed under enhanced monitoring by its regulator the Central Bank of Barbados under the Financial Institutions Act. This requires the Parent Company to provide certain daily reports along with additional monthly and quarterly reporting on its operations.

The Parent Company has received a letter of support from BPWCCUL indicating that it is committed to ensuring the company has adequate resources to meet all its liabilities as they arise for a period of at least twelve months. Subsequent to year end additional deposits were received from the BPWCCUL, see Note 7.

CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2022

(Expressed in Barbados dollars)

25. Financial Risk Management ...continued

Liquidity risk, continued

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.

Liquidity risk management approach

The steps taken by the Group to respond to possible future liquidity constraints arising from events such as the COVID-19 pandemic and the impact of those steps on the Group's financial statements include the following:

- i. The Asset and Liability Management Committee meets regularly to discuss strategies and plans around managing the liquidity and the capital needs of the Group.
- ii. Robust stress testing of our 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 requirements;
 - Revisiting measures geared at strengthening the Group's capital base; and the monitoring of portfolio behavioural matrices in reference to customers servicing their loans.

CAPITA FINANCIAL SERVICES INC.

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25. Financial Risk Management ...continued

Liquidity risk management approach, continued

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

<u>2022</u>		<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>
Assets						
Cash resources	\$	19,399,404	10,672,634	398,868	1,000,000	7,327,902
Investment securities:						
- amortised cost		6,089,062	511,745	884,180	1,959,408	2,733,729
Loans and advances to customers		415,608,699	9,293,562	13,205,406	52,440,807	340,668,924
Due from related company		1,256,014	1,256,014	-	-	-
Other assets		<u>6,519,724</u>	<u>6,270,009</u>	<u>12,631</u>	<u>84,699</u>	<u>152,385</u>
Total Assets	\$	<u>448,872,903</u>	<u>28,003,964</u>	<u>14,501,085</u>	<u>55,484,914</u>	<u>350,882,940</u>
Liabilities						
Customer deposits	\$	284,490,742	75,327,914	137,430,447	71,309,047	423,334
Loans payable		10,390,337	1,589,112	931,894	4,970,104	2,899,227
Due to related company		879,897	879,897	-	-	-
Other liabilities	\$	<u>11,154,606</u>	<u>4,699,208</u>	<u>825,315</u>	<u>3,570,530</u>	<u>2,059,553</u>
Total financial liabilities	\$	<u>306,915,582</u>	<u>82,496,131</u>	<u>139,187,656</u>	<u>79,849,681</u>	<u>5,382,114</u>
Net liquidity gap	\$		<u>(54,492,167)</u>	<u>(124,686,571)</u>	<u>(24,364,767)</u>	<u>345,500,826</u>

CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

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(Expressed in Barbados dollars)

25. Financial Risk Management ...continued

2021

	Total	Within 3 months	Within 3 months to 1 year	Between 1 to 5 years	over 5 years
Assets					
Cash resources	\$ 18,188,956	8,105,611	1,733,225	999,277	7,350,843
Investment securities: - amortised cost	4,169,842	-	482,949	1,559,941	2,126,952
Loans and advances to customers	388,058,178	13,062,241	5,842,823	56,101,618	313,051,496
Due from related company	356,619	356,619	-	-	-
Other assets	<u>4,489,801</u>	<u>4,489,801</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	\$ <u>415,263,396</u>	<u>26,014,272</u>	<u>8,058,997</u>	<u>58,660,836</u>	<u>322,529,291</u>
Liabilities					
Customer deposits	\$ 274,975,632	54,896,754	117,904,819	101,595,477	578,582
Loans payable	11,145,960	-	-	-	11,145,960
Due to related company	5,622	5,622	-	-	-
Other liabilities	<u>\$ 5,580,323</u>	<u>5,580,323</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	\$ <u>291,707,537</u>	<u>60,482,699</u>	<u>117,904,819</u>	<u>101,595,477</u>	<u>11,724,542</u>
Net liquidity gap	\$	<u>(34,468,427)</u>	<u>(109,845,822)</u>	<u>(42,934,641)</u>	<u>310,804,749</u>

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. At March 31, 2022 the risk-weighted assets were \$222,033,625 and the ratio for Tiers I & II was 17.71%

The Group has complied with all externally imposed capital requirements.

CAPITA FINANCIAL SERVICES INC.

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26. Fair Value of Financial Instruments

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.

Financial assets and liabilities are carried at amounts, which approximate to their fair value at the statement of financial position date. Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument.

These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

For financial assets and financial liabilities that are liquid or have short term maturity, it is assumed that the carrying amounts approximate their fair value. These include cash resources, due from related companies, other assets and other liabilities. The fair value of debt securities is based on quoted prices where available, or otherwise based on an appropriate yield curve with the same remaining term to maturity. The fair value of loans and advances largely approximates carrying value as the Group's portfolio comprises mainly variable rate loans. The fair value of deposits takes account of certain fixed rate deposits which have been discounted at current interest rates.

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position are shown in the table below:

		<u>2022</u>		<u>2021</u>	
		<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Assets					
Cash resources	\$	19,399,404	19,399,404	18,188,956	18,188,956
Financial investments					
– Amortised cost		4,444,666	4,619,805	4,169,842	4,338,176
– FVOCI - quoted		391,395	391,395	329,276	329,276
– FVOCI - unquoted		807,438	807,438	1,337,973	1,337,973
Loans and advances		283,842,782	285,880,378	275,474,898	276,650,147
Due from related companies		1,256,014	1,256,014	356,619	356,619
Other assets		<u>6,308,431</u>	<u>6,308,431</u>	<u>4,489,801</u>	<u>4,489,801</u>
	\$	<u>316,450,130</u>	<u>318,662,865</u>	<u>304,347,365</u>	<u>305,690,948</u>
Liabilities					
Customer deposits	\$	278,667,976	278,392,788	267,726,826	264,070,213
Loans payable		9,979,674	10,014,309	11,145,960	11,178,153
Due to related company		879,897	879,897	5,622	5,622
Other liabilities		<u>8,502,467</u>	<u>8,502,467</u>	<u>5,680,323</u>	<u>5,680,323</u>
	\$	<u>298,030,014</u>	<u>297,789,461</u>	<u>284,558,731</u>	<u>280,934,311</u>

CAPITA FINANCIAL SERVICES INC.

Notes to the Consolidated Financial Statements

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26. 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.

		2022			Total
		Level 1	Level 2	Level 3	balance
Investment securities					
FVOCI					
- Equity securities	\$	391,395	-	807,438	1,198,833
	\$	391,395	-	807,438	1,198,833

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26. Fair Value of Financial Instruments...continued

		2021			
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total balance</u>
Investment securities					
FVOCI					
- Equity securities	\$	<u>329,276</u>	<u>-</u>	<u>1,337,973</u>	<u>1,667,249</u>
	\$	<u>329,276</u>	<u>-</u>	<u>1,337,973</u>	<u>1,667,249</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.

	2022	2021
Balance - beginning of year	\$ 329,276	87,849
Additions	-	176,915
Disposals	-	-
Unrealised gain	62,119	64,512
Balance - end of year	\$ <u>391,395</u>	<u>329,276</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.

	2022	2021
Balance - beginning of year	\$ 1,337,973	1,395,315
Unrealised loss	(530,535)	(57,342)
Purchases	-	-
Balance - end of year	\$ <u>807,438</u>	<u>1,337,973</u>

There were no transfers in or out of Level 3 during the year ended March 31, 2022 (2021 - \$NIL).

Unobservable inputs used in measuring Level 3 fair values

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Asset based approach with discounts applied where prudent, with subsequent consideration of the Group's shareholding	Net assets Shareholding percentage	The estimated fair value would increase/(decrease) if: Net assets were higher/(lower) Shareholding increases/(decreases)