

FINANCE SERVICES LTD.

2019 ANNUAL REPORT



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GROWTH THROUGH TECHNOLOGY

2019

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ISP FINANCE SERVICES LTD. ANNUAL REPORT

ISP Finance Services (ISP) has been of service to its customers since 2007. The growth of the Company has been underscored by its commitment to providing excellent service.

In keeping with this commitment, the Company is making steps to ensure it meets its customers where they are, ISP has made steps in recent years to grow the business through technology. Social media, has allowed the Company to continually engage its existing and new customers.

In culmination with the use of social media platforms such as Facebook and Instagram, the Company launched a new phone app, which allows ISP to, through technology, enhance customer experience.

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MISSION

To be a major player in the Micro Finance Sector serving the needs of small and micro business enterprises facilitating employment and job creation and providing short term unsecured loans to public and private sector employees.

VISION

ISP Finance Services is committed to delivering “service excellence” to our valued customers while ensuring a reasonable return to our shareholders, fulfilling our corporate social responsibility , and providing a progressive environment for our employees that encourages self-development.

CORE VALUES

INTEGRITY

TRUST

INNOVATION

PROMPTNESS

RELIABILITY

EMPATHY

CORPORATE DATA

Registered Office & Business Location

17 Phoenix Avenue,
Kingston 10
Telephone: 876 906-0012, 906-0103

Auditors

CrichtonMullings & Associates
Unit #25, 80 Lady Musgrave Road,
Kingston 10

Attorneys-At-Law

Patterson Mair Hamilton
85 Hope Road,
Kingston 6

Bankers

Bank of Nova Scotia Jamaica Limited
Half Way Tree Branch
Half Way Tree Road,
Kingston 10

National Commercial Bank Jamaica Limited
Matilda's Corner Branch
Northside Plaza,
Kingston 6

Registrar

Jamaica Central Securities Depository Limited
40 Harbour Street,
Kingston

NOTICE OF AGM

NOTICE IS HEREBY GIVEN that the Annual General meeting of ISP Finance Services Limited will be held at 11.00am on Thursday, September 17, 2020 at the Knutsford Court Hotel, Kingston 05, for the purpose of transacting the following business:

1. To receive the report of the Directors and the audited accounts for the Year Ended December 31, 2019

To consider, and if thought fit, pass the following resolution:

“THAT the report of the Directors and the Audited Accounts for the year ended December 31, 2019 be and are hereby adopted”

2. To authorize the Directors to appoint Auditors for 2020 and to fix their remuneration
3. To approve the remuneration of the Directors

To consider, and if thought fit, pass the following resolution:

“THAT the amount shown in the Audited Accounts for the year ended December 31, 2019 as fees for the Directors for their services as Directors be hereby approved”

4. To re-elect retiring Directors:

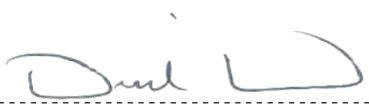
The Directors retiring by rotation in accordance with Article 102 of the Articles of Association are Mr. Robert Chung and Mr. Diyal R. Fernando. Being eligible for re-election, they have offered themselves to be re-elected.

To consider, and if thought fit, pass the following resolutions:

- (i) “THAT Mr. Robert Chung be and is hereby re-elected as a Director of the Company”
- (ii) “THAT Mr. Diyal R. Fernando be and is hereby re-elected as a Director of the Company”

5. To transact such other business as may be properly transacted at an Annual General Meeting

Dated this 11th day of June 2020
BY ORDER OF THE BOARD



Diyal R. Fernando
Company Secretary



CHAIRMAN'S REPORT

The financial year ending December 2019 was a challenging one for us at ISP Finance Services.

As we have done over the past five (5) years the company continues to grow its loan portfolio year over year by aggressively diversifying our product offering and consequently creating new revenue streams for the business.

During the year our net loan portfolio increased by 13.7% from \$551m to \$627m and our revenue increased by 19.8% from \$307m in 2018 to \$367m in 2019. By March 2020 however, it became clear to the company that consequent on the advent of Covid-19 and its impact on the economy, particularly small businesses and employers, that a number of our clients would face severe difficulties in meeting their obligation to the company on a timely basis.


Consequently and consistent with the IFRS accounting rules we significantly increased our provision for loan losses from J\$122.3m in 2018 to \$159.3m in 2018 resulting in a change in the Income Statement from \$35.6m in 2018 to J\$87.6m in 2019, representing an increase of over 146% year over year. This resulted in a decrease of \$20m in the company's net profit from \$43m in 2019 to \$23m in 2018.

Despite this impact on our bottom line the company remains committed to continue our efforts to lay the foundation for sustainable growth and continue to invest in improved technology and human resource development.

Indeed as the country slowly returns to a new normal after the advent of Covid-19, we are convinced that this strategy will serve us well in an increasingly competitive and challenging business environment.

The Board of Directors wishes once again to express our commitment to the highest levels of corporate oversight and continues to adopt commendable best practices in corporate governance. We continue to invest time and resources in improving our corporate governance practices by exposing our Directors to valuable training and consultation on par with international best practices and bench marks.

On behalf of the Board of Directors, I thank our investors for your continued confidence in us and the management and staff for your unwavering commitment to delivering exceptional service to our valued customers and embodying the ISP creed, each day we open our doors. I remain confident that ISP has the requisite talent and appropriate strategy to achieve substantial and sustainable long term growth for the benefit of our stakeholders.



Clifton Cameron,
Chairman

DIRECTOR'S REPORT

DIRECTOR'S REPORT

The Directors are pleased to submit their report along with the Audited Financial Statements of the Company for the year ended December 31, 2019.

Financial Results

ISP Finance Services Limited has performed successfully for the year ending December 31, 2019. The Company has experienced a net profit of \$50 Million - 24 percent growth. Having started the year with a stock price of \$8.50 we are proud to have closed at \$12.06 at the December year-end.

Directors

The Directors of the Company as at December 31, 2019 were:

| | |
|-------------------|-------------------------|
| Clifton Cameron | Chairman |
| Dennis Smith | Chief Executive Officer |
| Primrose Smith | Chief Operating Officer |
| Robert Chung | Independent Director |
| Rosemary Thwaites | Independent Director |
| Diyal R. Fernando | Independent Director |
| Wayne Wray | JSE Mentor |

Auditors

CrichtonMullings & Associates of Unit #25, 80 Lady Musgrave Road, Kingston 10 will continue in the office as Auditors in accordance with the provisions of Section 154(2) of the Companies Act.

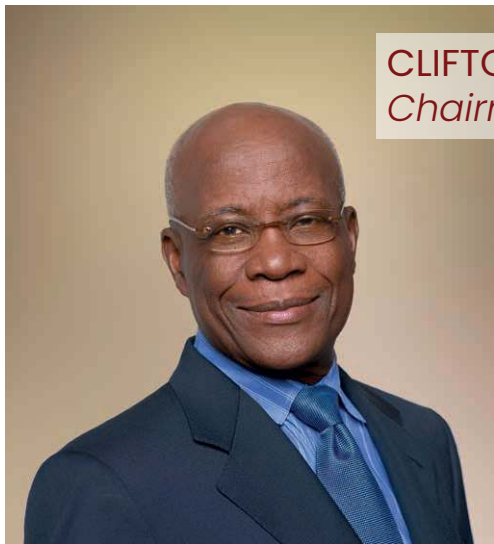
Dated this 11th Day of June 2020

BY ORDER OF THE BOARD



Diyal R. Fernando
Company Secretary

BOARD OF DIRECTORS



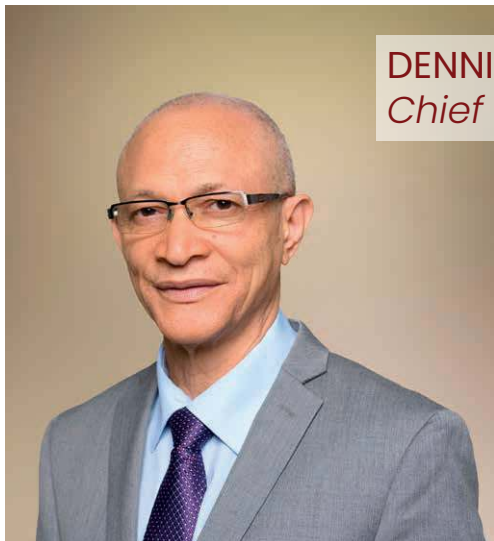
CLIFTON CAMERON,
Chairman

Mr. Cameron was appointed as an independent non-executive Director to the Board on September 10, 2012 and serves as Chairman. He serves on both the Audit and the Remuneration Committees.

He is the Chairman and co-founder of Sage Global Finance (SGF), L.L.C. a commercial finance company. Prior to forming SGF, he co-founded and served as Chairman of Manufacturers Merchant Bank Limited (MMB) and later served as a Director in 2001, when MMB merged with Sigma Investments Limited to become

Manufacturers Sigma Merchant Bank Limited.

His business career includes major investments and management in a wide range of industries, including, Manufacturing, Tourism, Real Estate Development, Banking and Financial Services, Information Technology and Agriculture. He has served in many private and public sector roles including: President of the Private Sector Organization of Jamaica (PSOJ), Chairman of the National Investment Bank of Jamaica, and Chairman of Petrojam Limited.



DENNIS SMITH,
Chief Executive Officer

Dennis Smith is the co-founder, CEO, and majority shareholder of ISP Finance Services Limited. After the Company was incorporated on January 3, 2007, he assumed the responsibility for developing and implementing the overall strategic direction of the Company necessary to sustain the strong and robust growth path of the Company.

Mr. Smith began his professional career in the Accounting Department of the British American Insurance Company in the late 1960's and went on to hold several other accounting positions in the service sector before pursuing more entrepreneurial endeavours.

In 1980 Mr. Smith joined forces with Clifton Cameron to form a chemical company, Swift Chemicals Ltd. In ten short years, Swift Chemicals became the leading chemical company in the Caribbean.

Dennis, in 1995, together with his wife Primrose Smith, started Supreme Brands Limited importing and distributing raw material for the baking and frying industry. He went on in 2003 to be appointed Regional Director of Capital Partners, an American based financial brokerage services company, with responsibility for Jamaica and Trinidad and Tobago.

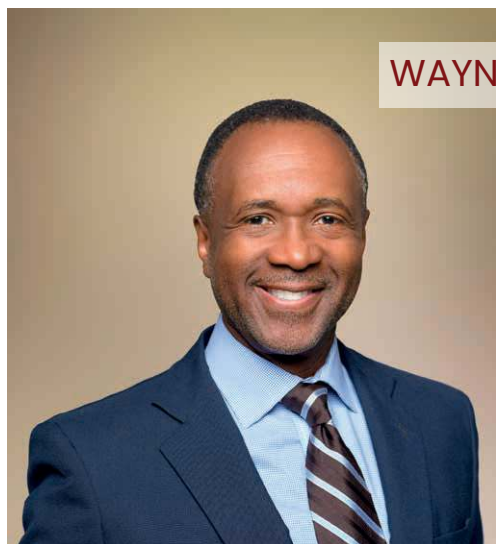


ROSEMARY THWAITES

Mrs. Thwaites was appointed as a non-executive Director to the Board on January 18, 2016.

She is a Chartered Accountant with a Bachelor of Science degree in Mathematics and Computer Science from the University of London, UK. She started her working career with Price Waterhouse Coopers (PWC) in Kingston, Jamaica and later with Pannell Kerr Foster International in Miami, Florida. In 1990 she joined The Art Centre Ltd and is currently its Chief Executive Officer (CEO).

Mrs. Thwaites serves as a Director of the National Museum of Jamaica Foundation and Tropical Syrup Manufacturing Co. Ltd., and is also a member of the Remuneration Committee.



WAYNE WRAY

Wayne Wray was appointed Mentor to the company on February 15, 2016.

His portfolio of experience and expertise includes executive leadership and management positions in the field of Finance and Banking. He is a past Chairman of the Jamaica Institute of Bankers, as well as the Caribbean Association of Banks. Licensed by the Financial Services Commission as an investment advisor, he is the principal Director of Wiltshire Consulting & Advisory Limited. He is also Managing Director and Principal Shareholder of 365 Retail Limited, an authorized dealer retailing and distributing petroleum and lubricants for Total Jamaica Limited.

He is committed to nation building and serves on the Board of several private sector companies and community development organizations. He is a member of the Audit Committee.



PRIMROSE SMITH,
Chief Operations Officer

Mrs. Smith is an Executive Director and the Chief Operations Officer of the Company. She was appointed to the Board of Directors on January 3, 2007.

She supports the Chief Executive Officer in managing the day to day operations of the Company.

She is a Graduate of the University of the West Indies with a Bachelor of Arts in Communications and Languages. She began her working career in 1973 at the Inter-American Development Bank as the personal assistant to the Deputy Representative, and in 1978, worked in the Customer Services Division of Southeast First National Bank in Miami. In 1980, she returned to Jamaica and joined the Organization of American States (OAS) as the Executive Assistant to the Country Director until she left to complete her studies at UWI. Her entrepreneurial mindset then led her to start her own micro business, a salon and boutique which she successfully operated for 10 years before becoming a co-founder of ISP Finance Services Limited.



ROBERT CHUNG

Mr. Chung was appointed as a non-executive Director to the Board on September 10, 2012.

He is an entrepreneur with over twenty years of experience in the retail and property development sectors. He is a Civil Engineer and holds a Bachelor of Science degree from Columbia University and a Master of Science degree from the University of California, Berkeley. He currently manages the family owned businesses based in Port Maria and spearheaded the family's venture into property development given his background in civil engineering. He is a major shareholder of the Company.



DIYAL FERNANDO,
Company Secretary

Mr. Fernando is an executive Director, Chief Financial Officer and Company Secretary of ISP Finance Services Limited. He was appointed to the Board on September 10, 2012.

He is a Fellow of the Chartered Institute of Management Accountants (CIMA) UK, and has worked in Jamaica for over 25 years holding various senior management positions in the ICD Group of Companies between 1990 and 2005. His experience with the ICD Group spanned the Manufacturing, Retail and Distribution, Construction

and Property Management sectors. In 2005, he joined Rose Hall Developments Limited and spearheaded the installation of the company's Waste Water Management Project in addition to managing the company's Real Estate and Infrastructure Development portfolios in his capacity as Finance Director. In 2009, he formed Dynamic Management Strategies Limited offering business development and advisory services targeted at MSME's, ISP Finance Services Limited being one of the company's first clients.

He served as a Business Development Consultant in 2011 with the Private Sector Organization of Jamaica (PSOJ) for its Fambiz Project and his company is one of the Business Development Organizations (BDOs) offering consulting support services under the Development Bank of Jamaica's (DBJ) Voucher for Technical Assistance (VTA) program. He is a Director of the Newport Medical Group, and serves on the Finance Committee of the Jamaica Cricket Association (JCA) and the Audit and Risk Committees of the Betting, Gaming and Lotteries Commission (BGLC) and the Jamaica Racing Commission (JRC).

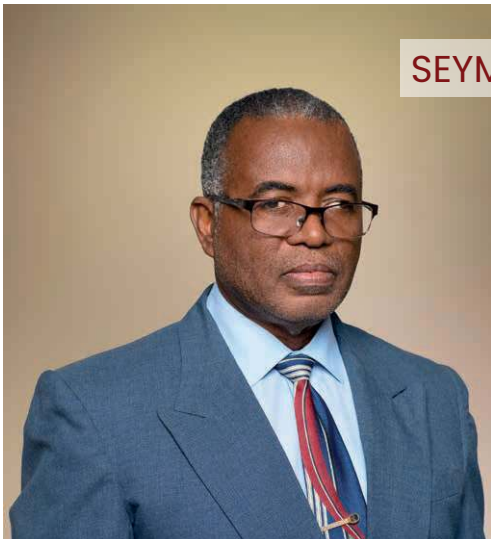
MANAGEMENT TEAM



JENNIFER SMITH

Mrs. Smith is a professional banker with over forty years of experience in banking operations having commenced her career with Citibank N.A. in Jamaica where she trained in all aspects of banking operations including loans processing, letters of credit, trade facilities and treasury.

She was Manager of the Operations Unit responsible for Loans and Leases, Money Market Operations, International Fund Transfers, and International Trade from 1973 to 1984. She subsequently held the positions of Assistant General Manager of Citizens Bank and Vice President of Operations and Administration at George & Branday. In April 2004, she was promoted to the position of Vice President of Operations & Administration at First Global Bank a position from which she retired in May 2009. She brings with her a wealth of experience in banking operations at a senior level and is responsible for Loans evaluations and approvals.



SEYMOUR SMITH

Mr. Smith joined the Company in December 2007 as its Accountant. He is responsible for the accounting functions, bank reconciliations, payroll and monitoring of loan account disbursements. He is also responsible for auditing the Company's loan disbursements and collections.

Prior to joining ISP Finance Services Limited, he has had an extensive career in auditing with over sixteen years experience having worked with James & Allen and Company and Mair Russell, Chartered Accountants. He obtained invaluable experience while auditing companies from a variety of industries ranging from hardware and retail to the betting and gaming industry including the hospitality sector.

He currently serves as a Director of Drax Hall Estates and Club Caribbean Resorts Limited.

MD&A



GENERAL ECONOMIC ENVIRONMENT

The Real Gross Domestic Product (GDP) is estimated to have grown by 1.8% for the year ended 31 December 2019. Growth was facilitated by increased external demand for Jamaica's export industries, increased domestic demand, underpinned by record levels of employment and improved macroeconomic stability, as reflected in a relatively low inflation and the lowering of interest rates.

The Microfinance Sector continues to have an influx of new entrants resulting in increased competition. This increased competition impacted the Company's interest rate margins. Discussions continue to be had with regards to the draft MicroCredit Act; it is anticipated that this will be passed in the 2020/2021 legislative year. The Company embarked on new strategies to target new markets using an aggressive pricing strategy to grow loan volumes. A customer sales contact centre is being built out to focus on the development of new products and markets across several delivery channels. ISP Finance Services Limited (ISP) continues to take advantage of technological innovations to enhance its service delivery.



FINANCIAL PERFORMANCE

The total assets of the Company grew by \$70.65m to \$683.2 Million which represents an 11.5% increase over the comparative period with the Company's gross loan portfolio growing by 16.8% over the review period, moving from \$673.4 Million at December 31, 2018 to \$786.6 Million at the year ended December 31, 2019. The Company has embarked on a strategy to target new markets using an aggressive pricing strategy to grow loan volumes.

During the reporting period ISP successfully refinanced the Bond with VM Wealth Management in the total sum of J\$232m

while our Interest income grew by 19.8% to total \$367.2 Million for the year. The tightening of the economy has caused the micro-finance space to become increasingly competitive resulting in many of the Commercial Banks entering the micro-finance space via unsecured employer deduction loans. Further with the perceived negative impact of the Covid-19 Global Pandemic on Jamaica's economy following the outbreak of the virus, the Company expects a negative impact on our collections.

As a result, we decided to take a significant increase in the Loan Loss Provision following IFRS 9 guidelines resulting in an increase in write-off's from J\$35.6m in 2018 to J\$87.6m in 2019. Pre-tax profits therefore showed a decline of 50% which was primarily due to increases in Allowance for Credit Losses of \$52.0 representing a 146% increase over 2018. The Company follows the International Financial Reporting Standard (IFRS) 9 during this accounting year which in summary states that expected credit losses must be assessed for financial assets on origination which resulted in higher operating credit losses under this new standard. The Company continues to assess and strengthened its organizational and staff resources to satisfy the anticipated customer service demands. Our newly established customer sales contact centre is our focus as this will result in the development of new products and markets across several delivery channels. Earnings per share stood at \$0.22 at the 31 December 2019 compared to \$0.42 at the end of 2018.



SERVICE COMMITMENT

The Company remains committed to delivering "service excellence" to our valued customers while ensuring a reasonable return to our shareholder, fulfilling our corporate social responsibility, and providing a progressive environment that encourages self-development for our employees.

We have been able to achieve customer satisfaction through excellent, result-oriented service offerings. We also offer targeted promotions to specified demographics and we offer customer appreciation activities to enhance our client experience through our mobile application and through the various social media platforms.

The Company continues to grow its business via social media platforms such as Facebook & Instagram by continually engaging its existing customers while attracting new customers with the launch of the Company's phone app.



KEY PERFORMANCE DRIVERS

There are five key factors that impact the performance of the business namely:

- Loan Capital for Lending
- Employee Performance
- Collections and Loan Delinquency
- Risk and Portfolio Strategy Management
- New Business and Customer Retention

The Company has made significant investments in its technology and human resource infrastructure prior to the Initial Public Offering (IPO) to be able to capitalize on the opportunities in the market place given the loan capital available for lending consequent to the IPO and the Bond Financing.

The Board of Directors has the responsibility to monitor the company's performance with respect to the above indices to ensure that corrective measures are taken promptly where any of the indices begin to reflect a trend that is contrary to the targets set for each indicator.



OUTLOOK

The Jamaican economy is doing well with many performance variables at their best in many years. We continue to monitor the downward trajectory of domestic interest rates and monitor the impact of COVID 19 on our core clientele, small businesses and employees.

We continue to make strides in offering loan products to satisfy our clients' needs in relation to household expenditure, education and health. There are new areas in which we intend to expand our product offerings in 2020 that we believe will drive shareholder value. ISP will also seek opportunities to grow its loan portfolio either through acquisitions or mergers. This would include buying existing loan portfolios from other financial institutions. The Company remains open for dialogue and has engaged the services of an investment bank to structure any potential opportunities that might arise.

The Company would like to thank all our members of staff for their commitment, our customers for their loyalty and our shareholders for their continued show of confidence. Through increased use of technology and a sustained focus on a customer service experience that is 'simple and prompt', we look forward to greater achievements in 2020 and beyond. The outlook is positive for ISP and the team looks forward to creating even greater customer satisfaction and shareholder value.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

The Board of Directors of ISP Finance Services Limited has the overall responsibility for implementing and maintaining a sound Corporate Governance structure and overseeing the overall business operations of the Company. The Company is committed to ensuring that its obligations and responsibilities to its stakeholders are met through its corporate governance practices.

The Board of Directors and Executive Management team endeavor to perform their duties with honesty and integrity and to act in good faith in the best interests of the Company. The Board is responsible for the supervision and oversight of the Company's performance that includes but is not limited to:

- Directing Corporate Strategy that includes affirming the Company's Vision and Mission Statement
- Reviewing and approving the strategic and business plans and the Annual Financial and Capital Budget of the Company
- Reviewing and approving all accounting policies and the Audited and Unaudited Financial Statements of the Company prior to dissemination to shareholders
- Determining the dividend policy and the amount and timing of dividend payments
- Reviewing, ratifying and monitoring risk management systems and compliance and control mechanisms
- Appointing, re-appointing or removing the Company's external Auditors and approving their remuneration based on the recommendation of the Audit Committee

Approving the remuneration of the Executive Management and Board Members based on the recommendation of the Remuneration Committee.

COMPOSITION & MEETING ATTENDANCE

BOARD OF DIRECTORS

| DIRECTOR | POSITION | NO. OF MEETINGS ATTENDED | ATTENDANCE AS A % OF TOTAL MEETINGS HELD |
|-------------------|--|--------------------------|--|
| Clifton Cameron | Independent Chairman | 4 | 80% |
| Dennis Smith | CEO & Executive Director | 4 | 80% |
| Rosemary Thwaites | Independent Director | 5 | 100% |
| Robert Chung | Director | 5 | 100% |
| Primrose Smith | COO & Executive Director | 4 | 80% |
| Diya R. Fernando | Independent Director & Company Secretary | 5 | 100% |
| Wayne Wray | JSE Mentor | 5 | 100% |

AUDIT COMMITTEE

| DIRECTOR | POSITION | NO. OF MEETINGS ATTENDED | ATTENDANCE AS A % OF TOTAL MEETINGS HELD |
|-------------------|----------------------|--------------------------|--|
| Diya R. Fernando | Independent Chairman | 4 | 100% |
| Primrose Smith | Member | 3 | 75% |
| Rosemary Thwaites | Member | 4 | 100% |
| Wayne Wray | JSE Mentor | 4 | 100% |

REMUNERATION COMMITTEE

| DIRECTOR | POSITION | NO. OF MEETINGS HELD | ATTENDANCE AS A % OF TOTAL MEETINGS HELD |
|-------------------|----------|----------------------|--|
| Dennis Smith | Chairman | 1 | 100% |
| Clifton Cameron | Member | 1 | 100% |
| Rosemary Thwaites | Member | 1 | 100% |

SHAREHOLDINGS OF DIRECTORS & CONNECTED PARTIES

TOP TEN (10) SHAREHOLDERS AS AT DECEMBER 31, 2019

| SHAREHOLDER | UNITS |
|--|------------|
| 1 Gencorp Limited | 50,517,500 |
| 2 Sunfisher Corporation | 45,832,500 |
| 3 Dennis Smith | 3,500,000 |
| 4 Primrose Smith | 1,500,000 |
| 5 Rezworth Burchenson / Valerie Burchenson | 612,529 |
| 6 Carissa Gordon / Marston Gordon | 298,919 |
| 7 Virgen Advertising Limited | 255,116 |
| 8 Bridgeton Management Services Limited | 205,013 |
| 9 Lindoll Limited | 160,862 |
| 10 Ryan Chung / Ruel Chung / Ingrid Chung | 195,093 |

SHAREHOLDINGS OF DIRECTORS, SENIOR MANAGERS & CONNECTED PARTIES AS AT DECEMBER 31, 2019

| DIRECTORS | SHAREHOLDING |
|--------------------------|--------------|
| Dennis Smith | 3,500,000 |
| Primrose Smith | 1,500,000 |
| Diyal R. Fernando | 34,350 |
| Rosemary Thwaites | 5,000 |
| SENIOR MANAGERS | |
| Seymour Smith | 75,000 |
| CONNECTED PARTIES | 255,116 |
| Gencorp | 50,517,500 |
| Sunfisher Corporation | 45,832,500 |

FINANCIAL HIGHLIGHTS

ISP Finance Services Limited

Statement of Financial Position

as at December 31, 2019

All Figures in stated in JM\$'s

| | 2019 (\$'000) | 2018 (\$'000) | 2017 (\$'000) | 2016 (\$'000) |
|---|------------------|------------------|------------------|------------------|
| ASSETS | | | | |
| Cash and Cash Equivalents | 22,813 | 16,484 | 31,437 | 81,855 |
| Securities Purchase under Agreement to Resell | - | - | - | 30,414 |
| Loans, net of Provisions for Credit Losses | 627,262 | 551,096 | 437,507 | 313,270 |
| Other Receivables | 2,892 | 13,008 | 10,957 | 7,909 |
| Deposits | 497 | 395 | 375 | 350 |
| Due from Directors | - | 1,032 | 1,500 | - |
| Due from Related Company | 5,011 | 5,018 | 6,273 | 5,000 |
| Deferred Tax Assets | - | - | 1,572 | 1,500 |
| Property, Plant & Equipment | 24,723 | 25,510 | 18,071 | 20,808 |
| Total Assets | 683,198 | 612,543 | 507,692 | 461,106 |

EQUITY AND LIABILITIES

| | | | | |
|----------------------------------|----------------|----------------|----------------|----------------|
| LIABILITIES | | | | |
| Secured Bond and Promissory Note | 255,571 | 219,385 | 143,559 | 139,754 |
| Notes Payable | 46,846 | 54,298 | 63,439 | 71,192 |
| Payables and Accrued Liabilities | 36,371 | 17,573 | 14,424 | 13,412 |
| Bank Loan | - | - | - | 1,573 |
| Taxation Payable | - | - | - | 1,156 |
| Deferred Liabilities | 1,076 | 896 | - | - |
| Total Liabilities | 339,864 | 292,152 | 221,422 | 227,087 |

EQUITY AND LIABILITIES

| | | | | |
|---------------------------------------|----------------|----------------|----------------|----------------|
| Issued Share Capital | 195,903 | 195,903 | 195,903 | 195,903 |
| Revaluation Surplus | 11,052 | 11,052 | 10,386 | 9,806 |
| Accumulated (Deficit)/Surplus | 136,379 | 113,436 | 79,981 | 28,310 |
| | 343,334 | 320,391 | 286,270 | 234,019 |
| Total Equity & Liabilities | 683,198 | 612,543 | 507,692 | 461,106 |

ISP Finance Services Limited

Statement of Comprehensive Income

as at December 31, 2019

All Figures in stated in JM\$'s

| | 2019 (\$'000) | 2018 (\$'000) | 2017 (\$'000) | 2016 (\$'000) |
|---|------------------|------------------|------------------|------------------|
| OPERATING INCOME | | | | |
| Interest Income | 367,197 | 306,568 | 288,739 | 232,661 |
| Interest Expense | (31,507) | (24,579) | (24,453) | (18,829) |
| Net Interest Income | 335,690 | 281,989 | 264,286 | 213,832 |
| FX Gains/ (Losses) and Other Income less | | | | |
| Commissions on Loans & others | (2,596) | (893) | (2,333) | 5,876 |
| | 333,094 | 281,096 | 261,953 | 219,708 |
| OPERATING EXPENSES | (309,971) | (234,943) | (211,971) | (176,319) |
| NET PROFIT BEFORE TAXATION | 23,123 | 46,154 | 49,982 | 43,389 |
| Taxation | (180) | (2,527) | 12 | (3,146) |
| Net Profit for the Year | 22,943 | 43,627 | 49,994 | 40,243 |
| Other Comprehensive Income that may be to profits | | | | |
| Revaluation Surplus | - | 667 | 2,257 | 9,806 |
| Total Comprehensive Income for the year | 22,943 | 44,294 | 52,250 | 50,049 |
| Earnings per Share | 0.22 | 0.42 | 0.48 | 0.46 |

| | | | | |
|---------------------------------------|----------------|----------------|----------------|----------------|
| ANALYSIS OF OPERATING EXPENSES | | | | |
| Staff Related Costs | 122,055 | 114,105 | 104,971 | 91,279 |
| Allowance for Credit Losses | 87,635 | 35,759 | 23,299 | 10,347 |
| Depreciation | 5,216 | 5,405 | 5,334 | 4,445 |
| Other Operating Expenses | 95,065 | 79,674 | 78,368 | 70,248 |
| Total Operating Expenses | 309,971 | 234,943 | 211,972 | 176,319 |

| | | | | |
|------------------------------|---------------|---------------|---------------|---------------|
| LOAN PORTFOLIO GROWTH | | | | |
| | 2019 (\$M) | 2018 (\$M) | 2017 (\$M) | 2016 (\$M) |
| Gross Loans Portfolio | 787 | 673 | 514 | 367 |

| | | | | |
|---------------|---------------|---------------|---------------|---------------|
| EQUITY | | | | |
| | 2019 (\$M) | 2018 (\$M) | 2017 (\$M) | 2016 (\$M) |
| Equity | 343 | 320 | 286 | 234 |

| | | | | |
|---------------------|--------------|--------------|--------------|--------------|
| STOCK PRICES | | | | |
| | 2019 (\$) | 2018 (\$) | 2017 (\$) | 2016 (\$) |
| Stock Prices | 31.99 | 16.25 | 12.06 | 8.50 |

INTEREST INCOME

 **19.8%**
\$367.2M

Interest income from Loans recorded \$367.2m for 2019 representing a 19.8% increase over the J\$306.6m recorded in 2018.

INTEREST EXPENSE

 **28.2%**
\$31.5M


Interest expenses for 2019 were \$31.5m, recording an increase of 28.2% over the \$24.6m incurred in 2018.

NET INTEREST INCOME

 **19.0%**
\$335.7M

Net interest income was \$335.7m in 2019 representing a 19.0% increase over the \$282.0m earned in 2018.

OPERATING EXPENSES

 **32.0%**
\$310.0M

Total Operating expenses for 2019 were \$310.0m and increased by J\$75.2m representing an increase of 32.0% increase over the \$234.8m incurred in 2018. This was significantly impacted by the Allowance for Credit Losses that increased by \$52.0m over the prior year and Staff Costs and Other Operating Expenses that contributed to the movement with increases of \$7.95m and J15.4m respectively.

NET PROFIT

▼ **48.2%**
\$22.9M

The Company earned a Net profit of \$22.94m in 2019 which represented a 48.2% decline over the \$43.6m earned in 2018.

CASH & CASH EQUIVALENTS

▲ **28.2%**
\$31.5M

Cash and cash equivalents represent cash in hand, on demand and call deposits with banks. It also represents short-term, highly liquid investments that are readily convertible to known amounts of cash and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. This increased by J\$6.33m in 2019 over the previous year.

EQUITY

▲ **6.7%**
\$343.3M

The Company's Equity base totalled \$343.3m at the end of the financial period. This represents an increase of \$22.9m when compared 2019. As a result the Return on equity for the Company was 6.7% compared with 13.6% in 2018.

LOANS, NET OF PROVISION FOR CREDIT LOSSES

▲ **16.8%**
\$786.6M

Gross Loans Portfolio of the Company totalled \$786.6m representing an increase of 16.8% when compared to prior year of \$673.4m. Provision for credit losses of \$159.3m increased over the comparative last year by 30.3% or \$37.1m.

CORPORATE SOCIAL RESPONSIBILITY

STAFF INVESTMENT

ISP Finance Services Limited remains committed to developing its human capital in keeping with its mission to deliver service excellence in the micro-finance sector. Its unwavering efforts to maintain a team that is highly motivated, knowledgeable and well trained, are evident in its day to day activities and team engagements. The growth and sustainability of the Company are directly tied to the investment in the team that makes it happen.

Training sessions in the areas of customer service, sales and marketing, loan assessment and risk management were all undertaken in 2019. Team members benefited for both their professional and personal development through these initiatives.

The quarterly Birthday Club and Christmas Pixie Exchange remain staples. The team also participated in what has become the annual Sports/Fun Day and Staff Retreat in October 2019 as part of the celebration of notable achievements and to get the team energized for the wonderful challenges to come. These activities facilitate camaraderie and boosts staff morale that are both priorities for the Company.



Team ISP



Quarterly Birthday



Games Nights - Dominoes



Games Nights - Loodie



Back to School Promotion



Games Nights - Puzzle

AUDITED FINANCIALS

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INDEPENDENT AUDITOR'S REPORT

To the members of ISP FINANCE SERVICES LIMITED

Report on the Audit of Financial Statements

Opinion

We have audited the accompanying financial statements of ISP Finance Services Limited (the "Company"), which comprises the statement of financial position as at December 31, 2019, the statement of comprehensive income, the statement of changes in equity, and the statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2019, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Jamaican Companies Act (the "Act").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Cont. /2

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Independent Auditor's Report (cont'd)

To the members of ISP FINANCE SERVICES LIMITED

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters

Provision for credit losses on loans receivable

The adequacy of the credit losses on the Company's loans receivable involves a high degree of estimation and judgement as the loans tend to be unsecured and the industry carries a high risk of delinquency. Accordingly, the Company applies the general approach in calculating expected credit losses (ECLs); by developing a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Our audit procedures to address the key matter relating to the provision for credit losses included, amongst others:

- We evaluated the techniques and methodologies used to estimate the ECLs, and assessed their compliance with the requirements of IFRS 9 'Financial Instruments'.
- We assessed the reasonableness of the methodologies and assumptions applied, by validating the completeness of the inputs used to derive the loss rates used in determining the ECLs for loan receivables.
- Examining a sample of loans that had been identified by management as doubtful accounts by checking their payment history in order to form our own judgement as to whether it was appropriate.
- We evaluated the performance of the loan portfolio subsequent to the end of the reporting period to identify significant adjusting subsequent events such non-payments and any other adverse events which may have occurred subsequent to the year end.

Revenue recognition

The process of revenue recognition, including the appropriate recognition of interest income relating to early settlement of loans, unearned income and proper cut off procedures involve significant risk.

Our audit procedures to address the key matter relating to the appropriate recognition of interest income included, amongst others:

- Reviewing the appropriateness of the revenue recognition policy and documenting any changes in applying those policies from previous periods.
- Develop an analysis for interest income based on the loan categories and average interest rate and following up on variances from our analysis.
- Testing the existence and accuracy of interest income recognition by selecting a sample of loans and re-performing calculations of interest income. This included loans which have been settled early during the year.

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Independent Auditor's Report (cont'd)

To the members of ISP FINANCE SERVICES LIMITED

Other information

Management is responsible for the other information. The other information comprises information included in the annual report but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate with the Board of Directors.

Responsibilities of management and those charged with governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS and the Jamaican Companies Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Company's financial reporting process.

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Independent Auditor's Report (cont'd)

**To the members of
ISP FINANCE SERVICES LIMITED**

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is included in Appendix of this auditor's report. This description, which is located at pages 5-6, forms part of our auditor's report.

Report on additional matters as required by the Act

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit. In our opinion, proper accounting records have been maintained, so far as appears from our examination of those records, and the financial statements, which are in agreement therewith, give the information required by the Act, in the manner required.

The engagement partner on the audit resulting in this independent auditor's report is Rohan Crichton.



CrichtonMullings & Associates

Chartered Accountants

Kingston Jamaica

May 15, 2020

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Independent Auditor's Report (cont'd)

To the members of ISP FINANCE SERVICES LIMITED

Appendix to the independent auditor's report

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors 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.

Cont. /6

Independent Auditor's Report (cont'd)

To the members of ISP FINANCE SERVICES LIMITED

Appendix to the independent auditor's report (cont'd)

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matters or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

ISP FINANCE SERVICES LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2019

| | Note | 2019 \$ | 2018 \$ |
|--|--------|--------------------|--------------------|
| <u>ASSETS</u> | | | |
| Cash and cash equivalents | 4 | 22,813,071 | 16,483,905 |
| Loans, net of provisions for credit losses | 5 | 627,262,191 | 551,096,009 |
| Other receivables | 6 | 2,892,001 | 13,007,626 |
| Deposit | | 496,600 | 395,000 |
| Due from related parties | 7 | 5,011,159 | 5,017,700 |
| Due from director | 7 | - | 1,032,379 |
| Property, plant and equipment | 9 | 24,723,435 | 25,510,218 |
| TOTAL ASSETS | | 683,198,457 | 612,542,837 |
| <u>LIABILITIES AND EQUITY</u> | | | |
| <u>LIABILITIES:</u> | | | |
| Accounts and other payables | 10 | 36,371,239 | 17,572,347 |
| Secured bonds and promissory note | 11 | 255,570,634 | 219,384,953 |
| Notes payable | 12 | 46,846,381 | 54,298,181 |
| Deferred tax liabilities | 8 | 1,075,849 | 895,768 |
| Total liabilities | | 339,864,103 | 292,151,249 |
| <u>EQUITY:</u> | | | |
| Share capital | 13 (a) | 195,903,128 | 195,903,128 |
| Revaluation surplus | 9,14 | 11,052,413 | 11,052,413 |
| Accumulated surplus | | 136,378,813 | 113,436,047 |
| Total equity | | 343,334,354 | 320,391,588 |
| TOTAL EQUITY AND LIABILITIES | | 683,198,457 | 612,542,838 |

APPROVED, on behalf of the Board on

Clifton Cameron
Chairman

Dennis Smith
Chief Executive Officer

The accompanying notes form an integral part of the financial statements

ISP FINANCE SERVICES LIMITED
STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED DECEMBER 31, 2019

| | Note | 2019 \$ | 2018 \$ |
|---|-------|--------------------|--------------------|
| OPERATING INCOME: | | | |
| Interest income from loans | 3(c) | 367,067,150 | 306,187,068 |
| Interest income from financial institutions and other receivables | | <u>129,852</u> | <u>380,677</u> |
| Total interest income | | 367,197,002 | 306,567,745 |
| Interest expense | | <u>31,507,155</u> | <u>24,579,008</u> |
| Net interest income | | 335,689,847 | 281,988,737 |
| Commission expenses on loans | | <u>(2,716,750)</u> | <u>(3,400,436)</u> |
| | | 332,973,097 | 278,588,301 |
| Other operating income: | | | |
| Foreign exchange gain | | 46,428 | 523,116 |
| Service fees | | - | 1,852,073 |
| Other income | | <u>75,034</u> | <u>131,608</u> |
| | | 121,462 | 2,506,797 |
| | | <u>333,094,559</u> | <u>281,095,098</u> |
| OPERATING EXPENSES: | | | |
| Staff costs | 15 | 122,054,788 | 114,105,359 |
| Allowance for credit losses | | 87,635,187 | 35,758,568 |
| Depreciation expense | 9 | 5,216,331 | 5,404,922 |
| Other operating expenses | 16 | <u>95,065,406</u> | <u>79,673,688</u> |
| | | 309,971,712 | 234,942,537 |
| Profit before taxation | 17 | 23,122,847 | 46,152,561 |
| Taxation charge | 18 | <u>180,081</u> | <u>2,527,137</u> |
| Net profit for the year | | 22,942,766 | 43,625,424 |
| Other comprehensive income that may be reclassified to profit or loss: | | | |
| Revaluation of property, plant and equipment | 9 | - | 666,815 |
| Total comprehensive income for the year | | <u>22,942,766</u> | <u>44,292,239</u> |
| Earnings per share (\$) | 13(b) | <u>0.22</u> | <u>0.42</u> |

The accompanying notes form an integral part of the financial statements

ISP FINANCE SERVICES LIMITED
STATEMENT OF CHANGES IN EQUITY
YEAR ENDED DECEMBER 31, 2019

| | Share Capital \$ | Revaluation Surplus \$ | Accumulated Surplus \$ | Total \$ |
|--|---------------------------------|---------------------------------------|---------------------------------------|---------------------------|
| Balance at December 31, 2017 | 195,903,128 | 10,385,598 | 79,980,831 | 286,269,557 |
| Adjustment on the initial application of IFRS 9 | <u>-</u> | <u>-</u> | <u>(10,170,208)</u> | <u>(10,170,208)</u> |
| Adjusted balances as at January 1, 2018 | 195,903,128 | 10,385,598 | 69,810,623 | 276,099,349 |
| Total comprehensive income: | | | | |
| Revaluation of property, plant and equipment (see note 9, 14) | - | 666,815 | - | 666,815 |
| Net profit for the year | <u>-</u> | <u>-</u> | <u>43,625,424</u> | <u>43,625,424</u> |
| Balance at December 31, 2018 | 195,903,128 | 11,052,413 | 113,436,047 | 320,391,588 |
| Total comprehensive income: | | | | |
| Net profit for the year | <u>-</u> | <u>-</u> | <u>22,942,766</u> | <u>22,942,766</u> |
| Balance at December 31, 2019 | <u>195,903,128</u> | <u>11,052,413</u> | <u>136,378,813</u> | <u>343,334,354</u> |

The accompanying notes form an integral part of the financial statements

ISP FINANCE SERVICES LIMITED
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2019

| | 2019 | 2018 |
|---|---------------------|---------------------|
| | \$ | \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Profit before interest and taxation | Note 19 | |
| | 54,449,921 | 68,264,432 |
| Adjustments for items not affecting cash resources: | | |
| Depreciation on property, plant and equipment | 5,216,331 | 5,404,922 |
| Amortization on bond | 6,199,535 | 3,939,950 |
| Unrealized foreign exchange gain | (46,428) | (523,116) |
| Deferred taxation | 180,081 | 2,467,137 |
| | <u>65,999,440</u> | <u>79,553,325</u> |
| (Increase) / decrease in operating assets: | | |
| Loans and other receivables | (66,050,557) | (124,994,766) |
| Due from related parties | 6,541 | (1,255,500) |
| Due from directors | 1,032,379 | (467,621) |
| Deposits | (101,600) | 20,000 |
| Increase in operating liabilities: | | |
| Accounts and other payables | 18,798,892 | 3,148,763 |
| | <u>19,685,095</u> | <u>(43,995,799)</u> |
| Cash provided by / (used in) operating activities | | |
| Interest paid | (31,507,155) | (24,579,008) |
| Taxation paid | - | (60,000) |
| | <u>(11,822,060)</u> | <u>(68,634,807)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of property, plant and equipment | (4,429,548) | (12,177,027) |
| | <u>(4,429,548)</u> | <u>(12,177,027)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment of bond | (232,013,854) | - |
| Proceeds from notes payable | 30,000,000 | 75,000,000 |
| Proceeds from issue of bond | 232,000,000 | - |
| Repayment of notes payable | (7,451,800) | (9,141,251) |
| | <u>22,534,346</u> | <u>65,858,749</u> |
| Net cash provided by financing activities | | |
| NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS | 6,282,738 | (14,953,085) |
| CASH AND CASH EQUIVALENTS - Beginning of the year | 16,483,905 | 31,436,990 |
| Exchange and gains on foreign cash balance | 46,428 | - |
| | <u>22,813,071</u> | <u>16,483,905</u> |
| CASH AND CASH EQUIVALENTS - End of the year | 22,813,071 | 16,483,905 |
| REPRESENTED BY: | | |
| Cash and cash equivalents | <u>22,813,071</u> | <u>16,483,905</u> |

The accompanying notes form an integral part of the financial statements

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

1. IDENTIFICATION

ISP Finance Services Limited (the "Company") is incorporated in Jamaica under the Jamaican Companies Act (the "Act").

On March 30, 2016, ISP Finance Services Limited became a public listed entity on the Jamaica Stock Exchange Junior Market. Consequently, the Company is entitled to full remission of income taxes for the first five (5) years and fifty percent (50%) remission for the following 5 years providing it complies with the requirements of the Jamaica Stock Exchange Junior Market.

The Company is domiciled in Jamaica, with its registered office at 17 Phoenix Avenue, Kingston 10.

The principal activity of the Company is the granting of commercial loans and personal short-term loans.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

(a) Statement of Compliance

The Company's financial statements have been prepared in accordance and comply with International Financial Reporting Standards (IFRS) and their interpretations issued by the International Accounting Standards Board and the relevant requirements of the Act.

This is the first set of the Company's annual financial statements in which IFRS 16, Leases have been applied. Changes to significant accounting policies are described in note 2 (d).

The financial statements have been prepared under the historical cost basis and are expressed in Jamaican dollars, unless otherwise indicated.

The preparation of financial statements in conformity with IFRS and the Act requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the year then ended. Actual results could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and future periods, if the revision affects both current and future periods.

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION (CONT'D)

(b) Changes in accounting standards and interpretations

Certain new standards, interpretations and amendments to existing standards have been published that became effective during the current financial year. The Company has assessed the relevance of all such new standards, interpretations and amendments and has concluded that the following interpretations and amendments are relevant to its operations:

- *IAS 12 'Income Tax - Amendment', issued December 2017*
Effective for periods commencing on or after 1 January 2019
- *IFRS 9 'Financial Instruments - Amendment', issued October 2017*
Effective for periods commencing on or after 1 January 2019
- *IFRS 16 'Leases - Amendment', issued January 2016*
Effective for periods commencing on or after 1 January 2019
- *IFRIC 23 'Uncertainty Over Income Tax Treatments', issued June 2017*
Effective for periods commencing on or after 1 January 2019

The following new standards, amendments and interpretations, which are not yet effective and have not been adopted early in these financial statements, will or may have an effect on the Company's future financial statements:

- *IAS 1 'Presentation of Financial Statements - Amendment', issued October 2018*
Effective for periods commencing on or after 1 January 2020
- *IAS 8 'Changes in Accounting Estimates and Errors - Amendment', issued October 2018*
Effective for periods commencing on or after 1 January 2020
- *IFRS 9 'Financial Instruments - Amendment', issued September 2019*
Effective for periods commencing on or after 1 January 2020
- *References to Conceptual Framework in IFRS Standards - Amendment, issued March 2018*
Effective for periods commencing on or after 1 January 2020

The Board of directors anticipate that the adoption of the standards, amendments and interpretations, which are relevant to the Company in future periods is unlikely to have any material impact on the financial statements.

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION (CONT'D)

(c) Use of estimates and judgements

The preparation of the financial statements requires management to make judgements, as well as estimates, based on assumptions, that affect the application of accounting policies, and the reported amounts of, and disclosures relating to, assets, liabilities, contingent assets and contingent liabilities at the reporting date and the income and expenses for the year then ended. Actual amounts may differ from these estimates.

The estimates, and the assumptions underlying them, are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with material uncertainty that have a significant effect on amounts in the financial statements or that have a significant risk of material adjustment in the next financial year are set out below:

(i) Critical accounting judgements in applying the Company's accounting policies

For the purpose of these financial statements, prepared in accordance with IFRS, judgement refers to the informed identification and analysis of reasonable alternatives, considering all relevant facts and circumstances, and the well-reasoned, objective and unbiased choice of the alternative that is most consistent with the principles set out in IFRS.

(a) Classification of financial assets:

The assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest (SPPI) on the principal amount outstanding requires management to make certain judgements on its business operations.

(b) Impairment of financial assets:

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

(c) Depreciable assets

Estimates of the useful life and the residual value of property, plant and equipment are required in order to apply an adequate rate of transferring the economic benefits embodied in these assets in the relevant periods. The Company applies a variety of methods in an effort to arrive at these estimates from which actual results may vary. Actual variations in estimated useful lives and residual values are reflected in profit or loss through impairment or adjusted depreciation provisions.

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION (CONT'D)

(c) Use of estimates and judgements (cont'd)

(ii) Key assumptions and other sources of estimation uncertainty

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

(a) Fair value estimation

The Company's motor cars are measured at fair value in the financial statements.

Fair value is 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. Market price is used to determine fair value where an active market (such as a recognized stock exchange) exist as it is the best evidence of the fair value of a financial instrument.

The fair value measurement of the Company's financial and non-financial assets and liabilities utilizes market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorized into different levels based on how observable the inputs used in the valuation technique are utilized.

IFRS requires disclosure of fair value measurements by level using the following fair value measurement hierarchy:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 2

Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Level 3

The classification of an item into the above level is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item.

Transfer of items between levels are recognized in the period they occur.

The Company measures financial instruments (note 21) at fair value.

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION (CONT'D)

(c) Use of estimates and judgements (cont'd)

(ii) Key sources of estimation uncertainty (cont'd)

(a) Fair value estimation (cont'd)

The fair values of financial instruments that are not traded in an active market are deemed to be determined as follows:

- The face value, less any estimated credit adjustments, for financial assets and liabilities with a maturity of less than one year are estimated to approximate their fair values. These financial assets and liabilities include cash and bank balances, loans and advances and payables.
- The carrying values of long-term liabilities approximate their fair values, as these loans are carried at a mortised cost reflecting their contractual obligations and the interest rates are reflective of current market rates for similar transactions.

(b) Allowance for impairment losses on loan receivables

The measurement of the expected credit loss allowance for financial assets measured at amortized 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).

In determining amounts recorded for impairment of financial assets in the financial statements, management makes assumptions in determining the inputs to be used in the ECL measurement model, including incorporation of forward-looking information. Management also estimate the likely amount of cash flows recoverable on the financial assets in determining loss given default. The use of assumptions makes uncertainly inherent in such estimates.

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

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION (CONT'D)

(d) Changes in accounting policies

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the statement of financial position.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. The Company is not a lessor.

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

The Company has lease rental contracts for office and parking space. Before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as an operating lease. Refer to Note 3 (h) for the accounting policy prior to January 1, 2019.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases where the Company is the lessee except for short-term leases and leases of low-value assets. Refer to Note 3(h) for the accounting policy beginning January 1, 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Company.

The Company lease rental contracts are on a month to month basis and as such are classified as short-term leases.

The Company has elected not to recognize right-of-use assets and lease liabilities for lease that are considered short-term leases. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Property, plant and equipment

All property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes, except for motor cars which are carried at fair value, are recorded at historical or deemed cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Valuations are performed frequently enough to ensure that the fair value of a revalued motor cars does not significantly differ from its carrying amount. The increase of the carrying amount of a motor car as a result of revaluation is credited directly to equity (under the heading "revaluation surplus"). A revaluation decrease should be charged directly against any related revaluation surplus, with any excess being recognized as an expense in the statement of comprehensive income.

Cost includes expenditure that are directly attributable to the acquisition of the asset. The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied in the part will flow to the Company and its cost can be reliably measured.

The cost of day-to-day servicing of property, plant and equipment is recognized in the statement of comprehensive income as incurred.

With the exception of freehold land, on which no depreciation is provided, property, plant and equipment are depreciated on the straight-line basis over the estimated useful lives of such assets. The rates of depreciation in use are:

| | |
|-------------------------------|-----|
| Leasehold Improvements | 20% |
| Furniture and Equipment | 10% |
| Computer Software & Equipment | 20% |
| Motor Cars | 20% |
| Motor Bikes | 20% |

(b) Loans and other receivables

Loans

Loans are carried at original contract amounts less expected credit loss provisions.

Other receivables

Other receivables are carried at amortized cost less provisions for doubtful amounts and impairment losses.

(c) Interest income

Interest income is recognized based on the consideration specified in loan agreements with customers.

Interest income is recognized on the accrual basis, by reference to the principal outstanding and the interest rate applicable. Interest income is calculated on the simple interest basis. Nature and timing of satisfaction of performance obligations of loans offered to the general public are on disbursement of loans to customers.

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Accounts and other payables

Accounts and other payables are stated at amortized cost.

(e) Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

(i) Current income tax

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustments to income tax payable in respect of previous years.

(ii) Deferred income tax

Deferred income tax is provided using the statement of financial position liability method, providing or temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

(f) Foreign currencies

The financial statements are presented in the currency of the primary economic environment in which the Company operates (its functional currency).

In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency, the Jamaican dollar, are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the statement of financial position date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items, are included in profit or loss for the period.

(g) Cash and cash equivalents

Cash comprises cash in hand and demand and call deposits with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Leases

Policy applicable from January 1, 2019

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company applies the short-term lease recognition exemption to its short-term leases (that is, those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

The Company has elected not to recognize right-of-use assets and lease liabilities for lease that are considered short-term leases.

Policy applicable before January 1, 2019

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership to the lessees. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the statement of comprehensive income on a straight-line basis over the terms of the relevant lease.

(i) Financial instruments

Financial instruments include transactions that give rise to both financial assets and financial liabilities.

Financial assets and liabilities are recognized on the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transactions costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities (except for financial assets and financial liabilities at fair value through profit or loss where such costs are recognized immediately in profit or loss), as appropriate, on initial recognition.

In these financial statements, financial assets comprise cash and cash equivalents, loan receivables, other receivables, deposits and related party receivables. Financial liabilities comprise accounts payable, bonds and notes payable.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) Financial instruments (cont'd)

Financial assets (cont'd)

Initial recognition and measurement (cont'd)

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. The Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cashflows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL.

Subsequent measurement

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Company's financial assets at amortized cost includes loan and other receivables, due from related parties and cash and bank balances.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a Company of similar financial assets) is primarily derecognized (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the company has transferred substantially all the risks and rewards of the asset, or (b) the company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership.

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) Financial instruments (cont'd)

Financial assets (cont'd)

Impairment

The Company recognizes an allowance for expected credit losses (ECLs) on the financial instruments measured at amortized cost. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For loan receivables, the ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure. These three components are multiplied together and adjusted for the likelihood of survival (i.e., the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

For other financial assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 360 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial liabilities

Initial recognition and measurement

The Company's financial liabilities, comprising loans and accounts payable, are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method.

Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss.

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

(k) Related party identification

A party is related to the Company if:

- (i) directly or indirectly the party:
 - controls, is controlled by, or is under common control with the Company;
 - has an interest in the Company that gives it significant influence over the Company; or
 - has joint control over the Company.
- (ii) the party is an associate of the Company
- (iii) the party is a joint venture in which the Company is a venturer;
- (iv) the party is a member of the key management personnel of the Company
- (v) the party is a close member of the family of an individual referred to in (i) or (iv) above
- (vi) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant costing power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v) above.
- (vii) the party is a post-employment benefit plan for the benefit of employees of the Company, or of any company that is a related party of the Company.

A related party transaction is a transfer of resources, services or obligations between related parties, parties, regardless of whether a price is charged.

(l) Impairment of non-financial assets

The carrying amounts of the Company's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, an asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset, or Company of operating assets, exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

(m) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn and incur expenses whose operating results are regularly reviewed by the Company's Chief Operating Decision Maker ("CODM") who decides about the resources to be allocated to the segment and assess its performance; and for which discrete financial information is available.

Based on the information presented to and reviewed by the CODM, the operations of the Company are considered as one operating segment.

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

4. CASH AND CASH EQUIVALENTS

| | 2019 ₹ | 2018 ₹ |
|-------------------------------|-------------------|-------------------|
| Cash at bank and cash in hand | <u>22,813,071</u> | <u>16,483,905</u> |

5. LOANS, NET OF PROVISIONS FOR CREDIT LOSSES

| | 2019 ₹ | 2018 ₹ |
|-------------------|--------------------|--------------------|
| Loans receivables | <u>627,262,191</u> | <u>551,096,009</u> |

(a) Loans consist of unsecured notes due from the Company's clients. The notes bear stated interest rate ranging from 50% - 65% for the years ended December 31, 2019 and 2018.

| | 2019 ₹ | 2018 ₹ |
|-----------------------------|----------------------|----------------------|
| Loans | 786,612,714 | 673,354,532 |
| Less: | | |
| Provision for credit losses | <u>(159,350,523)</u> | <u>(122,258,523)</u> |
| | <u>627,262,191</u> | <u>551,096,009</u> |

(b) Analysis of loans are as follows:

| | 2019 ₹ | 2018 ₹ |
|-----------------|--------------------|--------------------|
| Personal loans | <u>601,085,611</u> | <u>507,132,188</u> |
| Business loans: | | |
| Agriculture | 1,111,887 | 24,550 |
| Services | 128,579,198 | 161,455,763 |
| Trading | 55,651,268 | 3,534,851 |
| Manufacturing | <u>184,750</u> | <u>1,207,180</u> |
| | <u>185,527,103</u> | <u>166,222,344</u> |
| | <u>786,612,714</u> | <u>673,354,532</u> |

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

5. LOANS, NET OF PROVISIONS FOR CREDIT LOSSES (CONT'D)

Loans are comprised of, and mature as follows:

Remaining term of maturity

| | 2019 | 2018 |
|-----------------------------------|---------------------------|---------------------------|
| | \$ | \$ |
| Due in 1 month | 272,407,685 | 245,599,591 |
| 1 - 3 months | 109,530,354 | 82,767,223 |
| 3 - 12 months | 375,204,346 | 330,268,938 |
| over 12 months | 29,470,329 | 14,718,780 |
| | <u>786,612,714</u> | <u>673,354,532</u> |
| Less: Provision for credit losses | <u>(159,350,523)</u> | <u>(122,258,523)</u> |
| | <u><u>627,262,191</u></u> | <u><u>551,096,009</u></u> |

Impairment losses on loans and advances

The ageing of loans and advances and the related impairment allowances at the reporting date were as follows:

| | 2019 | |
|-------------------------|--------------------|--------------------|
| | Gross | Impairment |
| | \$ | \$ |
| Current | 407,863,946 | 750,938 |
| 1 to 3 months past due | 55,411,470 | 2,946,523 |
| 3 to 12 months past due | 119,928,254 | 21,794,250 |
| over 12 months past due | 203,409,044 | 133,858,812 |
| | <u>786,612,714</u> | <u>159,350,523</u> |

| | 2018 | |
|-------------------------|--------------------|--------------------|
| | Gross | Impairment |
| | \$ | \$ |
| Current | 366,593,335 | 687,161 |
| 1 to 3 months past due | 62,029,215 | 2,525,145 |
| 3 to 12 months past due | 102,580,289 | 25,409,219 |
| over 12 months past due | 142,151,693 | 93,636,998 |
| | <u>673,354,532</u> | <u>122,258,523</u> |

6. OTHER RECEIVABLES

| | 2019 | 2018 |
|-------------------|-------------------------|--------------------------|
| | \$ | \$ |
| Other receivables | 59,190 | 10,681,615 |
| Prepaid expenses | 1,705,643 | 1,230,719 |
| Staff advances | 229,000 | 153,600 |
| Withholding tax | 454,482 | 455,459 |
| Other | 443,686 | 486,233 |
| | <u><u>2,892,001</u></u> | <u><u>13,007,626</u></u> |

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

7. DUE FROM RELATED PARTIES

| | 2019 \$ | 2018 \$ |
|------------------------------|------------------|------------------|
| Due from related parties (i) | <u>5,011,159</u> | <u>5,017,700</u> |
| Due from director (ii) | <u>-</u> | <u>1,032,379</u> |

(i) This represents amounts advanced by the Company to related parties. These amounts are unsecured, interest free with no fixed repayment terms.

(ii) This represents amounts advanced by the Company on behalf of a director.

8. DEFERRED TAX LIABILITIES

Certain deferred tax liabilities and assets have been offset in accordance with the Company's accounting policy. The following is the analysis of the deferred tax balances (after offset) for the purposes of this statement of financial position:

| | 2019 \$ | 2018 \$ |
|--|--------------------|------------------|
| Deferred tax liabilities | <u>(1,075,849)</u> | <u>(895,768)</u> |
| Deferred tax liabilities and assets are attributable to the following: | | |
| | 2019 \$ | 2018 \$ |
| Depreciation and capital allowances | (1,064,242) | (746,496) |
| Accrued interest | - | (18,493) |
| Foreign exchange gain | <u>(11,607)</u> | <u>(130,779)</u> |
| | <u>(1,075,849)</u> | <u>(895,768)</u> |

The movement during the year in the Company's deferred tax position was as follows:

| | 2019 \$ | 2018 \$ |
|--------------------------------------|--------------------|--------------------|
| Balance at the beginning of the year | (895,768) | 1,571,369 |
| Movement during the year | <u>(180,081)</u> | <u>(2,467,137)</u> |
| Balance at the end of the year | <u>(1,075,849)</u> | <u>(895,768)</u> |

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

9. PROPERTY, PLANT AND EQUIPMENT

| At Cost/Valuation: | Leasehold Improvements | Furniture and Equipment | Motor Cars | Computer Software & Equipment | Fixed Assets work in progress | Total |
|----------------------------------|-----------------------------------|--|-----------------------|--|--|-------------------|
| Balance at December 31, 2017 | 18,718,498 | 11,922,430 | 11,453,740 | 28,851,244 | - | 70,945,912 |
| Additions | - | 691,032 | 2,488,740 | 3,173,986 | 5,823,269 | 12,177,027 |
| Revaluation | - | - | 666,815 | - | - | 666,815 |
| Balance at December 31, 2018 | 18,718,498 | 12,613,462 | 14,609,295 | 32,025,230 | 5,823,269 | 83,789,754 |
| Additions | - | 921,387 | - | 657,225 | 2,850,936 | 4,429,548 |
| Balance at December 31, 2019 | 18,718,498 | 13,534,849 | 14,609,295 | 32,682,455 | 8,674,205 | 88,219,302 |
| Accumulated Depreciation: | | | | | | |
| Balance at December 31, 2017 | 18,134,107 | 6,309,919 | 2,603,742 | 25,826,846 | - | 52,874,614 |
| Charge for year | 174,136 | 1,201,998 | 2,445,555 | 1,583,233 | - | 5,404,922 |
| Balance at December 31, 2018 | 18,308,243 | 7,511,917 | 5,049,297 | 27,410,079 | - | 58,279,536 |
| Charge for year | 161,539 | 1,092,875 | 2,497,404 | 1,464,513 | - | 5,216,331 |
| Balance at December 31, 2019 | 18,469,782 | 8,604,792 | 7,546,701 | 28,874,592 | - | 63,495,867 |
| Net Book Value | | | | | | |
| Balance at December 31, 2017 | 584,391 | 5,612,511 | 8,849,998 | 3,024,398 | - | 18,071,298 |
| Balance at December 31, 2018 | 410,255 | 5,101,545 | 9,559,998 | 4,615,151 | - | 25,510,218 |
| Balance at December 31, 2019 | 248,716 | 4,930,057 | 7,062,594 | 3,807,863 | 8,674,205 | 24,723,435 |

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

10. ACCOUNTS AND OTHER PAYABLES

| | 2019 | 2018 |
|-----------------------|-------------------|-------------------|
| | \$ | \$ |
| Interest accrued | 942,565 | 1,629,303 |
| Statutory liabilities | 2,884,645 | 2,804,552 |
| Accounts payable | 1,673,330 | 1,924,331 |
| Other payables | 27,189,580 | 6,727,663 |
| Other accruals | 3,638,950 | 4,180,989 |
| GCT payable | 42,169 | 305,509 |
| | <u>36,371,238</u> | <u>17,572,347</u> |

11. SECURED BOND AND PROMISSORY NOTE

| | 2019 | 2018 |
|-------------------------------------|--------------------|--------------------|
| | \$ | \$ |
| 10% Corporate bond at par value (i) | - | 150,000,000 |
| 12-13% Secured promissory note (ii) | - | 75,000,000 |
| 9.5% Secured promissory note (iii) | 232,000,000 | - |
| 9.5% Secured promissory note (iv) | 30,000,000 | - |
| Less: Deferred bond issue costs | <u>(6,429,366)</u> | <u>(5,615,047)</u> |
| | <u>255,570,634</u> | <u>219,384,953</u> |

- (i) During the year ended December 31, 2016, the Company issued a secured bond. The bond attracts an interest rate of 10% per annum. Interest is paid on a quarterly basis. The bond matures on September 20, 2019. The bond is secured by the fixed and floating assets of the Company.
- (ii) This represented a medium term note from Sygnus Credit Investments Limited with interest rates of 12% for the first year 2018 and 13% per annum thereafter. The note is secured by all fixed and floating assets of the Company. The note was repaid during 2019.
- (iii) This represented a medium term note from Victoria Mutual Wealth Management Limited with interest rates of 9.5% per annum. The note is secured by all fixed and floating assets of the Company. The note matures September 30, 2022.
- (iv) This represented a short term note from Victoria Mutual Wealth Investment Limited with interest rates of 9.5% per annum. The note is secured by all fixed and floating assets of the Company. The note matures December 19, 2020.

Interest expense charged on these loans during the current year totaled \$24,552,726 (2018 - \$17,139,094).

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

12. NOTES PAYABLE

| | 2019 \$ | 2018 \$ |
|-----------------|-------------------|-------------------|
| Unsecured loans | <u>46,846,381</u> | <u>54,298,181</u> |

The unsecured notes bear interest ranging from 11% - 13% for the years ended December 31, 2019 and 2018. The Company exercised the option to extend the maturity date of the notes to June 2020 and the notes continue to have a renewable option.

| | 2019 \$ | 2018 \$ |
|--|--------------------------|--------------------------|
| Balances at the beginning of year | 54,298,181 | 63,439,432 |
| Repayments | <u>(7,451,800)</u> | <u>(9,141,251)</u> |
| Balances at the end | <u>46,846,381</u> | <u>54,298,181</u> |

Interest expense charged on these loans during the current year totaled \$6,954,428.71 (2018 - \$7,439,913). At year end, interest expense accrued totaled \$942,565.33 (2018 - \$1,061,153).

13. SHARE CAPITAL

| | 2019 \$ <u>Number ('000)</u> | 2018 \$ <u>Number ('000)</u> |
|--|------------------------------------|------------------------------------|
| <u>Authorized share capital:</u> | | |
| Ordinary shares [a (i)] | <u>105,000</u> | <u>105,000</u> |
| <u>Issued and fully paid:</u> | | |
| 5,000,000 Ordinary shares at \$1 per share | 5,000,000 | 5,000,000 |
| 51,017,500 Ordinary shares at \$2 per share [a (i)] | 102,035,000 | 102,035,000 |
| 48,982,500 Ordinary shares at \$2 per share [a (ii)] | 97,965,000 | 97,965,000 |
| Less: Share issue costs | <u>(9,096,872)</u> | <u>(9,096,872)</u> |
| | <u>195,903,128</u> | <u>195,903,128</u> |

- (a) (i) On February 11, 2016, by an ordinary resolution, the authorized share capital of the Company was increased from 5,000,000 to 105,000,000 ordinary shares to rank pari passu in all respects with the existing shares of the Company.

On February 11, 2016 - 51,017,500 ordinary shares at \$2 per share were issued to the chief executive officer which was to satisfy the \$102,035,000 debt owed to him by a related entity of the Company.

- (ii) On March 22, 2016, the Company raised additional capital of \$97,965,000 from its initial public offering of 48,982,500 shares for its enlistment on the Jamaica Stock Exchange Junior Market. Transaction costs of \$9,096,872 were incurred for the initial public offering. All ordinary shares carry the same voting rights.

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

13. SHARE CAPITAL (CONT'D)**(b) Earnings per share**

Earnings per share is computed as the net profit for the year divided by the weighted average number of ordinary shares in issue for the year as at the reporting date.

| | 2019 | 2018 |
|-----------------------------------|--------------------|--------------------|
| Net profit for the year | <u>22,942,766</u> | <u>43,625,424</u> |
| Weighted average number of shares | <u>105,000,000</u> | <u>105,000,000</u> |
| Earnings per share (\$) | <u><u>0.22</u></u> | <u><u>0.42</u></u> |

14. REVALUATION SURPLUS

| | 2019 | 2018 |
|-----------------------------------|--------------------------|--------------------------|
| | <u>\$</u> | <u>\$</u> |
| Revaluation surplus on motor cars | <u><u>11,052,413</u></u> | <u><u>11,052,413</u></u> |

This represents surplus on motor cars acquired that were revalued in 2018. (see note 9).

15. STAFF COSTS

The number of employees at the end of the year was as follows:

| | 2019 | 2018 |
|-----------|------------------|------------------|
| Permanent | <u><u>40</u></u> | <u><u>40</u></u> |

The aggregate payroll costs for these persons were as follows:

| | 2019 | 2018 |
|---------------------------------|---------------------------|---------------------------|
| | <u>\$</u> | <u>\$</u> |
| Salaries and profit related pay | 107,864,067 | 101,464,572 |
| Statutory payroll contributions | 8,741,745 | 8,100,004 |
| Other staff benefits | <u>5,448,976</u> | <u>4,540,783</u> |
| | <u><u>122,054,788</u></u> | <u><u>114,105,359</u></u> |

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

16. OTHER OPERATING EXPENSES

| | 2019 \$ | 2018 \$ |
|----------------------------------|-------------------|-------------------|
| Directors' fees | 1,440,000 | 1,840,000 |
| Bank charges | 9,904,189 | 9,500,223 |
| Amortization of bond issue costs | 6,199,535 | 3,939,950 |
| Consulting fees | 10,299,999 | 7,520,000 |
| Building rental | 12,562,291 | 12,005,447 |
| Telephone | 6,427,544 | 5,565,815 |
| Electricity | 3,068,913 | 2,531,413 |
| Water | 439,292 | 427,317 |
| Computer expenses | 4,217,407 | 4,522,100 |
| Audit fees | 1,620,000 | 1,430,000 |
| Printing, stationery and postage | 1,454,155 | 1,187,409 |
| Repairs and maintenance | 2,751,735 | 1,242,040 |
| Professional and legal fees | 3,344,550 | 2,720,697 |
| Legal fees | 234,987 | 1,523,574 |
| Trustee fees | 1,857,348 | 1,517,210 |
| Travelling and transportation | 1,103,292 | 1,723,667 |
| Motor vehicle expenses | 3,835,571 | 4,727,377 |
| Donation | 300,000 | 86,500 |
| Office expenses | 3,315,603 | 4,067,544 |
| Security | 2,462,387 | 1,793,771 |
| Cleaning and sanitation | 880,332 | 489,313 |
| Subscriptions and dues | 667,554 | 393,824 |
| Advertising and promotion | 5,505,107 | 4,267,774 |
| Insurance | 640,608 | 626,977 |
| Entertainment | 9,136,257 | 2,453,256 |
| JSE listing fees | 1,339,750 | 1,339,750 |
| Assets tax and annual returns | 57,000 | 230,740 |
| | <u>95,065,406</u> | <u>79,673,688</u> |

17. PROFIT BEFORE TAXATION

Stated after charging the following:

| 2019 \$ | 2018 \$ |
|-------------------|-------------------|
| <u>23,122,847</u> | <u>46,152,561</u> |

Auditor's remuneration

| | |
|-----------|-----------|
| 1,620,000 | 1,430,000 |
|-----------|-----------|

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

18. TAXATION CHARGE

- (a) Income tax is computed at 25% (2018: 25%) of the pre-tax profit for the year, as adjusted for taxation purposes. Deferred taxation is computed at 25% for the financial year (2018: 25%) based on the applicable income tax rate for unregulated companies with effective date from January 1, 2013. The taxation charge is made up as follows:

| | 2019 | 2018 |
|---|-----------------------|-------------------------|
| | \$ | \$ |
| Current: | | |
| Minimum business tax expense | - | 60,000 |
| Deferred: | | |
| Origination and reversal of temporary differences | <u>180,081</u> | <u>2,467,137</u> |
| | <u>180,081</u> | <u>2,527,137</u> |

- (b) Reconciliation of effective tax rate and charge:

| | 2019 | | 2018 | |
|---|--------------------------|-------------|--------------------------|------------|
| | \$ | % | \$ | % |
| Profit before taxation | <u>23,122,847</u> | | <u>46,152,561</u> | |
| Computed tax charge | 5,780,712 | 25% | 11,538,140 | 25% |
| Employment tax credit | (8,050,837) | -35% | (7,617,097) | -17% |
| Minimum business tax | - | 0% | 60,000 | 0% |
| Taxation differences between profit for financial statements and tax reporting purposes on: | | | | |
| Depreciation and capital allowances | 2,364,220 | 10% | 2,020,033 | 4% |
| Remission of income taxes | (21,730,045) | -94% | (18,364,316) | -40% |
| Other Adjustments | <u>21,816,031</u> | 94% | <u>14,890,377</u> | 32% |
| Actual charge rate | <u>180,081</u> | 0% | <u>2,527,137</u> | 5% |

Remission of income tax:

On March 30, 2016, the Company's shares were listed on the Jamaica Stock Exchange Junior Market. Consequently, the Company is entitled to full remission of income tax for the first five (5) years and fifty percent (50%) remission for the following 5 years, providing that the Company remains listed on the Jamaica Stock Exchange Junior Market during this period in order to benefit from the tax exemptions.

The financial statements have been prepared on the basis that the Company will have the full benefit of the tax remissions. Subject to agreement with the Ministry of Finance and Planning, the income tax payable for which remission will be sought is \$21,730,045 (2018: \$18,364,316).

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

19. PROFIT BEFORE INTEREST AND TAXATION

| | 2019 | 2018 |
|---|--------------------------|-------------------|
| | <u>\$</u> | <u>\$</u> |
| Net profit for the year | 22,942,766 | 43,625,424 |
| Current year taxation charge [see note 18(a)] | <u>-</u> | <u>60,000</u> |
| Profit before interest | 22,942,766 | 43,685,424 |
| Interest expense | <u>31,507,155</u> | <u>24,579,008</u> |
| Profit before interest and taxation | <u>54,449,921</u> | <u>68,264,432</u> |

20. RELATED PARTY TRANSACTIONS

The following related party balances are shown separately in the Company's statement of financial position:

| | 2019 | 2018 |
|------------------------|-------------------------|-------------------|
| | <u>\$</u> | <u>\$</u> |
| Due from director | <u>-</u> | <u>1,032,379</u> |
| Due from related party | <u>5,011,159</u> | <u>5,017,700</u> |
| Loans receivables | <u>-</u> | <u>15,709,344</u> |

The Company's statement of comprehensive income includes the following transactions, undertaken with related parties in the ordinary course of business:

| | 2019 | 2018 |
|---|-------------------------|------------------|
| | <u>\$</u> | <u>\$</u> |
| Transactions with key management personnel: | | |
| - Interest income | - | 924,905 |
| - Directors' remuneration | 18,622,500 | 18,622,500 |
| - Directors' fees | 1,440,000 | 1,840,000 |
| - Consultancy fees | 4,800,000 | 3,000,000 |
| - Rental building | <u>4,560,000</u> | <u>4,180,000</u> |

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

21. FINANCIAL INSTRUMENTS

(a) Financial risk management:

The Company has exposure to the following risks from its use of financial instruments:

- (i) Credit risk
- (ii) Liquidity risk
- (iii) Market risk

The Board of Directors, together with senior management, has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and Company's activities.

(i) Credit risk:

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Company monitors its credit risk by evaluating applicants for credit before disbursement and reviewing its loan portfolio with a view to controlling its credit risks. Collateral is obtained for certain loans and most personal loans are collected through salary deductions by employers of the borrowers. Cash and cash equivalents are held with substantial financial institutions, which are considered to present minimal risk of default.

The carrying amount of financial assets represents the maximum credit exposure. The Company has some degree of credit risk concentration associated with loans receivable, as the Company loan portfolio includes mainly personal loans. There are no significant balances with any single entity or group of entities. There was no individual loan balance that exceeded 5% of the total loans owing to the Company at reporting date.

The Company applies the 'three stage' model under IFRS 9 in measuring the expected credit losses on loans receivable and makes estimation about likelihood of defaults occurring, associated loss ratios, changes in market conditions and the expected future cash flows. This is measured using the probability of default (PD), Exposure at Default (EAD) and the loss given default (LGD) for a portfolio of likelihood assets.

- Probability of Default (PD) –this represents the likelihood of a borrower defaulting on its obligation either over the next 12 months (12 months PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- Exposure at Default (EAD) – This represents the expected balance at default, taking into account the repayment of principal and interest from the statement of financial position date to the default event together with any expected drawdowns of committed facilities.
- Loss Given Default (LGD)- The LGD represents expected losses on the EAD given the event of default, taking into account the mitigating effect of collateral value at the time it is expected to be realized and the time value of money.

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

21. FINANCIAL INSTRUMENTS (CONT'D)

(a) Financial risk management (cont'd):

(i) Credit risk (cont'd):

The 'three stage' model is used to categorize financial assets according to credit quality as follows:

- Stage 1 - financial assets that are not credit impaired on initial recognition or are deemed to have low credit risk. These assets generally abide by the contractual credit terms. The ECL is measured using the 12-month PD, which represents the probability that the financial asset will default within the next 12 months.
- Stage 2 – financial assets with a significant increase in credit (SICR) since initial recognition, but are not credit impaired. ECL is measured using a lifetime PD.
- Stage 3- credit impaired financial assets. ECL is measured using a lifetime PD.

Significant increase in Credit Risk (SICR)

The Company considers a financial asset to have experienced a significant increase in credit risk when one or more of the following qualitative or backstop criteria have been met:

Qualitative Criteria

- Borrower enters into a scheme of arrangement
- Actual or expected restructuring
- Expected significant adverse change in earnings of the borrower
- Early signs of cash flow/liquidity problems
- Significant adverse changes in the business, financial and or economic conditions in which the borrower operates.

The assessment of SICR is performed for individual loans, taking into consideration the grouping of the individual exposures and incorporates forward –looking information. The assessment is performed on a quarterly basis.

Irrespective of the above qualitative assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

Measuring the ECL – Inputs, Assumptions and Estimation Techniques

The ECL is determined by projecting the PD, LGD and EAD, which are multiplied together and discounted back to the reporting date. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The 12-month PD is calculated by observing the rate of historical default within the first year of a portfolio of loans, and adjusted for the expected impact of forward-looking economic information.

The life time PD is calculated by observing the rate of historical default over the life of the portfolio of loans receivable and adjusted for the impact of forward-looking economic information.

The EAD for amortizing and bullet repayment loans on the contractual repayments over a 12 month or lifetime basis

The 12 month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. For secured products, this is primarily based on the collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.

Forward looking economic information is also included in determining the 12-month and lifetime EAD and LGD.

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

21. FINANCIAL INSTRUMENTS (CONT'D)

(a) Financial risk management (cont'd):

(i) Credit risk (cont'd):

Forward Looking Information

The assessment of SICR and the calculation of ECL both incorporate forward looking information that is available without undue cost effort. The Company uses external information including economic data and the forecast published by governmental bodies and the central bank. The information published however does not cover the company's credit risk exposure period and judgement was applied when incorporating these forecasts into our model. These economic variables and their associated impact on the PD, EAD and LGD vary by financial asset. Forecasts of these economic variables are reviewed on a quarterly.

Portfolio Segmentation

Expected credit loss provisions are modelled on a collective basis, by grouping exposures on the basis of shared risk characteristics, such that risk exposures within the group are homogeneous. Exposures are grouped by loan types and payment method. The appropriateness of the groupings is monitored and reviewed on periodic basis.

Stage 3 loans are assessed on an individual basis for impairment.

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

21. FINANCIAL INSTRUMENTS (CONT'D)

(a) Financial risk management (cont'd):

(i) Credit risk (cont'd):

Maximum Exposure to Credit Risk

The Company measures ECL considering the risk of default over the maximum contractual period (including extension) over which it is exposed to credit risk and not a longer period, even if contract extension or renewal is common business practice.

The gross carrying amount of financial assets below also represents the Company's maximum exposure of credit risk on these assets.

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognized. The gross carrying amount of financial assets below also represents the Company's maximum exposure to credit on these assets

| | 2019 | 2019 | 2019 | 2018 |
|-----------------------|----------------------------|-------------------------|-------------------------|---------------|
| | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
| | \$ | \$ | \$ | \$ |
| Standard risk | 407,863,946 | 30,279,408 | 1,521,232 | 369,539,230 |
| Past due | - | 42,524,474 | 51,287,986 | 148,934,379 |
| Credit impaired | - | 80,299,898 | 172,835,770 | 154,880,923 |
| Gross carrying amount | 407,863,946 | 153,103,780 | 225,644,988 | 673,354,532 |
| Loss allowance | (2,502,459) | (51,359,513) | (105,488,551) | (122,258,523) |
| Carrying amount | 405,361,487 | 101,744,267 | 120,156,437 | 551,096,009 |

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

21. FINANCIAL INSTRUMENTS (CONT'D)

(a) Financial risk management (cont'd):

(i) Credit risk (cont'd):

Collateral and other credit enhancement

The Company employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds. The principal collateral types for loans receivables are:

- Mortgages over residential and/or commercial properties
- Charges over business assets
- Liens over motor vehicles
- Personal guarantees

The policies regarding obtaining collateral have not changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Company since prior period.

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

21. FINANCIAL INSTRUMENTS (CONT'D)

(a) Financial risk management (cont'd):

(i) Credit risk (cont'd):

Loss Allowance

The following table explain the changes in loss allowance between the beginning and the end of the annual period:

| | 2019 Stage 1 12-month ECL \$ | 2019 Stage 2 Lifetime ECL \$ | 2019 Stage 3 Lifetime ECL \$ | Total \$ |
|---------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|--------------------|
| As at 31 December 2018 | 687,161 | 840,741 | 120,730,621 | 122,258,523 |
| Changes in PDs/LGDs/EADs | 1,349,076 | 10,265,739 | - | 11,614,815 |
| New financial assets originated | 466,222 | 619,761 | 28,387,816 | 29,473,799 |
| | 1,815,298 | 10,885,500 | 28,387,816 | 41,088,614 |
| Write offs | - | - | (3,996,614) | (3,996,614) |
| | 1,815,298 | 10,885,500 | 24,391,202 | 37,092,000 |
| As at 31 December 2019 | 2,502,459 | 11,726,241 | 145,121,823 | 159,350,523 |

(ii) Liquidity risk:

Liquidity risk, also referred to as funding risk, is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liability when due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company reputation. Prudent liquidity risk management implies maintaining sufficient cash resources and the availability of funding through an adequate amount of committed facilities.

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

21. FINANCIAL INSTRUMENTS (CONT'D)

(a) Financial risk management (cont'd):

(ii) Liquidity risk (cont'd):

The following are the contractual maturities of financial liabilities, including interest payments:

| | 2019 | | | | |
|----------------------------------|----------------------------|-----------------------|---------------------|---------------------|-------------------------|
| | Within 3 Months | 3 to 12 Months | 1 to 2 Years | 2 to 5 Years | Over 5 Years |
| | \$ | \$ | \$ | \$ | \$ |
| Secured bond and promissory note | 6,200,000 | 18,600,000 | 57,555,214 | 197,494,630 | - |
| Notes payable | 2,250,000 | 2,250,000 | 47,967,947 | - | - |
| | 8,450,000 | 20,850,000 | 105,523,161 | 197,494,630 | - |
| | | | | | 332,317,791 |

| | 2018 | | | | |
|----------------------------------|----------------------------|-----------------------|---------------------|---------------------|-------------------------|
| | Within 3 Months | 3 to 12 Months | 1 to 2 Years | 2 to 5 Years | Over 5 Years |
| | \$ | \$ | \$ | \$ | \$ |
| Secured bond and promissory note | 5,637,238 | 159,417,219 | 9,375,000 | 76,132,550 | - |
| Notes payable | 13,750,973 | 27,501,947 | 20,626,462 | - | - |
| | 19,388,211 | 186,919,166 | 30,001,462 | 76,132,550 | - |
| | | | | | 312,441,389 |

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

21. FINANCIAL INSTRUMENTS (CONT'D)

(a) Financial risk management (cont'd):

(iii) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, and interest rates will affect the Company's income or the value of its holding of financial instruments. Market risk arises from fluctuations in the value of liabilities and on certain of its financial assets. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Interest rate risk:

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Interest rate risk is affected where there is a mismatch between interest earning assets and interest-bearing liabilities, which are subject to interest rate adjustment within a specified period. The Company manages this risk by maintaining a portfolio of interest earning assets that exceeds interest-bearing liabilities. Loans are advanced for relatively short period.

At the reporting date the interest profile of the Company's interest-bearing financial instruments was:

| | 2019 | 2018 |
|-----------------------|---------------------------|----------------------|
| | <u>\$</u> | <u>\$</u> |
| Financial assets | 658,475,022 | 587,032,619 |
| Financial liabilities | <u>(338,788,254)</u> | <u>(291,255,481)</u> |
| | <u>319,686,768</u> | <u>295,777,138</u> |

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019

21. FINANCIAL INSTRUMENTS (cont'd)

(a) Financial risk management (cont'd):

(iii) Market risk (cont'd):

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value and all its financial instruments are carried at amortized cost. Therefore, a change in interest rates at the reporting date would not affect profit for the year or equity.

Cash flow sensitivity of variable rate financial instruments

The Company does not hold any variable rate instruments that are subject to material changes in interest rate. Therefore, a change in market interest rates at the reporting date would not affect profit or equity.

Foreign currency risk:

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to significant foreign currency risk, primarily on notes payable that are denominated in a currency other than the Jamaica dollar. Such exposures comprise the monetary assets and liabilities of the Company that are denominated in that currency. The main foreign currency risks of the Company are denominated in United States dollars (US\$), which is the principal intervening currency for the Company. The Company jointly manages foreign exchange exposure by maintaining adequate liquid resources in appropriate currencies and by managing the timing of payments on foreign currency liabilities.

(b) Capital management

The Company's objectives when managing capital are to comply with capital requirements, safeguard the Company's ability to continue as a going concern and to maintain strong capital base to support the development of its business. The Company achieves this by retaining earnings from past profits and by managing the returns on borrowed funds to protect against losses on its core business.

22. SUBSEQUENT EVENT

Subsequent to the reporting date, the World Health Organization declared the Coronavirus (COVID-19) outbreak a pandemic due to its rapid spread across the globe. Jamaica has been affected by the outbreak, which resulted in the Government of Jamaica undertaking a variety of measures to reduce the spread of the virus amongst the population. These measures have been disruptive to various businesses and have resulted in increased economic uncertainty. As a result, the Company's business activities and financial performance may be impacted by declines in revenue, operating cash flows and the collection of outstanding receivables; however, an overall estimate of the financial impact cannot be made at this time.



FINANCE SERVICES LTD.

FORM OF PROXY

I/We
of
being a member/members of **ISP Finance Services Limited** hereby appoint
..... of
or failing him/her
of
as my/our proxy vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on September 17, 2020 at 11am at Knutsford Court Hotel, Kingston 10, Jamaica and at any adjournment thereof.

Dated this day of 2020

.....
Signature

.....
Signature

.....
Signature

Place Stamp Here
J\$100

NOTE TO BE VALID

A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his/her stead. A proxy need not be a member of the Company.

This Form of Proxy must be received by the Company at its Registered Office at 17 Pheonix Avenue, Kingston 10 or at Jamaica Central Securities Depository, the Company's Registrar at 40 Harbour Street Kingston.

If executed by a Corporation, this proxy must be sealed. A Corporate shareholder may appoint a representative in accordance with Article 80 of the Company's Articles of Association instead of appointing a proxy.

This Form of Proxy should bear stamp duty of J\$100.00. Adhesive stamps are to be cancelled by the person signing the proxy.



FINANCE SERVICES LTD.

ISP Finance Services
17 Phoenix Avenue,
Kingston 10