ISP FINANCE SERVICES LIMITED

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

ISP FINANCE SERVICES LIMITED
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

CONTENTS

CrichtonMullings
& ASSOCIATES

Rohan Crichton, CPA CA MAcc
senior partner
Leary C. Mullings, CPA CA MBA
senior partner

Chartered Accountants
Certified Public Accountants

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, 2018, 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, 2018, 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.

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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
March 31, 2019

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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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

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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, 2018

	Note	2018	2017
		$	$
ASSETS			
Cash and cash equivalents	4	**16,483,905**	31,436,990
Loans, net of provisions for credit losses	5	**551,096,009**	437,507,073
Other receivables	6	**13,007,626**	10,956,887
Deposit		**395,000**	375,000
Due from related parties	7	**5,017,700**	6,273,200
Due from director	7	**1,032,379**	1,500,000
Deferred tax assets	8	**-**	1,571,369
Property, plant and equipment	9	**25,510,218**	18,071,298
TOTAL ASSETS		**612,542,837**	507,691,817
LIABILITIES AND EQUITY			
LIABILITIES:			
Accounts and other payables	10	**17,572,347**	14,423,583
Secured bond and promissory note	11	**219,384,953**	143,559,245
Notes payable	12	**54,298,181**	63,439,432
Deferred tax liabilities	8	**895,768**	-
Total liabilities		**292,151,249**	221,422,260
EQUITY:			
Share capital	13 (a)	**195,903,128**	195,903,128
Revaluation surplus	9,14	**11,052,413**	10,385,598
Accumulated surplus		**113,436,047**	79,980,831
Total equity		**320,391,588**	286,269,557
TOTAL EQUITY AND LIABILITIES		**612,542,837**	507,691,817

APPROVED, on behalf of the Board on 31 March 2019

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, 2018

	Note	2018	2017
		$	$
OPERATING INCOME:			
Interest income from loans	3(c)	**306,187,068**	287,273,283
Interest income from financial institutions and other receivables		**380,677**	1,465,671
Total interest income		**306,567,745**	288,738,954
Interest expense		**24,579,008**	24,452,590
Net interest income		**281,988,737**	264,286,364
Commission expenses on loans		**(3,400,436)**	(3,256,518)
		278,588,301	261,029,846
Other operating income:			
Foreign exchange gain		**523,116**	934,543
Loss on sale of property, plant and equipment		**-**	(44,871)
Service fees		**1,852,073**	-
Other income		**131,608**	33,851
		2,506,797	923,523
		281,095,098	261,953,369
OPERATING EXPENSES:			
Staff costs	15	**114,105,359**	104,971,229
Allowance for credit losses		**35,758,568**	23,299,210
Depreciation expense	9	**5,404,922**	5,333,519
Other operating expenses	16	**79,673,688**	78,367,730
		234,942,537	211,971,688
Profit before taxation	17	**46,152,561**	49,981,681
Taxation charge / (credit)	18	**2,527,137**	(12,018)
Net profit for the year		**43,625,424**	49,993,699
Other comprehensive income that may be reclassified to profit or loss:			
Revaluation of property, plant and equipment	9	**666,815**	2,256,865
Total comprehensive income for the year		**44,292,239**	52,250,564
Earnings per share ($)	13(b)	**0.42**	0.48

The accompanying notes form an integral part of the financial statements

ISP FINANCE SERVICES LIMITED
STATEMENT OF CHANGES IN EQUITY
YEAR ENDED DECEMBER 31, 2018

	Share Capital $	Revaluation Surplus $	Accumulated Surplus $	Total $
Balance at December 31, 2016	195,903,128	9,806,243	28,309,622	234,018,993
Total comprehensive income:				
Other comprehensive income:				
Revaluation of property, plant and equipment (see note 9, 14)	-	579,355	1,677,510	2,256,865
Net profit for the year	-	-	49,993,699	49,993,699
Total comprehensive income for the year	-	579,355	51,671,209	52,250,564
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 (see note 2e)	-	-	(10,170,208)	(10,170,208)
Adjusted balances as at January 1, 2018	195,903,128	10,385,598	69,810,623	276,099,349
Total comprehensive income:				
Other comprehensive income:				
Revaluation of property, plant and equipment (see note 9, 14)	-	666,815	-	666,815
Net profit for the year	-	-	43,625,424	43,625,424
Total comprehensive income for the year	-	666,815	43,625,424	44,292,239
Balance at December 31, 2018	**195,903,128**	**11,052,413**	**113,436,047**	**320,391,588**

ISP FINANCE SERVICES LIMITED
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2018

		2018 $	2017 $
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before interest and taxation	**Note 19**	**68,264,432**	74,506,289
Adjustments for items not affecting cash resources:			
Depreciation on property, plant and equipment		**5,404,922**	5,333,519
Loss on sale of property, plant and equipment		**-**	44,871
Amortization on bond and promissory note		**3,939,950**	3,805,431
Unrealized foreign exchange (gain)/ loss		**(523,116)**	68,304
Deferred taxation		**2,467,137**	(72,018)
		79,553,325	83,686,396
(Increase) / decrease in operating assets:			
Loans and other receivables		**(124,994,766)**	(127,353,271)
Securities purchased under agreement to resell		**-**	30,413,630
Due from related parties		**(1,255,500)**	(1,273,200)
Due from directors		**(467,621)**	(1,500,000)
Deposits		**20,000**	(25,000)
Increase in operating liabilities:			
Accounts and other payables		**3,148,763**	72,930
Cash used in operating activities		**(43,995,799)**	(15,978,515)
Interest paid		**(24,579,008)**	(23,513,627)
Taxation paid		**(60,000)**	(1,215,849)
Net cash used in operating activities		**(68,634,807)**	(40,707,991)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		**(12,177,027)**	(3,421,527)
Proceeds from sale of property, plant and equipment		**-**	3,037,000
Net cash used in investing activities		**(12,177,027)**	(384,527)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank loans		**-**	(1,573,056)
Proceeds from promissory note		**75,000,000**	-
Repayment of notes payable		**(9,141,251)**	(7,752,899)
Net cash provided by / (used in) financing activities		**65,858,749**	(9,325,955)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(14,953,085)**	(50,418,473)
CASH AND CASH EQUIVALENTS - Beginning of the year		**31,436,990**	81,855,463
CASH AND CASH EQUIVALENTS - End of the year		**16,483,905**	31,436,990
REPRESENTED BY:			
Cash and cash equivalents		**16,483,905**	31,436,990

The accompanying notes form an integral part of the financial statements

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 9, Financial Instruments and IFRS 15, Revenue from Contracts with Customers have been applied. Changes to significant accounting policies are described in note 2 (e).

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.

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:

- *IFRS 9 'Financial Instruments', Amendment', issued September 2016*
  Effective for periods commencing on or after 1 January 2018
- *IFRS 15 'Revenue from Contracts with Customers', issued April 2016*
  Effective for periods commencing on or after 1 January 2018
- *IFRIC 22 'Foreign Currency Transactions and Advance Consideration', issued December 2016*
  Effective for periods commencing on or after 1 January 2018

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 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 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.

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

(c) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS and the Act requires management to make judgements, estimates and assumptions that may affect the application of policies and the reported amounts of, and disclosures related to assets, liabilities, contingent assets and contingent liabilities at the reporting date and the income and expenses for the period then ended. Actual amounts could differ from these estimates.

(d) Key sources of estimation uncertainty

The estimates and associated assumptions are based on historical experience and/or various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

(i) 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.

Level 2 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 3 Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

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.

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

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

(i) Fair value estimation (cont'd)

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

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

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 amortised cost reflecting their contractual obligations and the interest rates are reflective of current market rates for similar transactions.

(ii) Allowance for impairment losses on loan receivables

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.

Under the ECL model, the Company analyses its loan receivables in a matrix by days past due and determined for each age bracket an average rate of ECL. Subsequently, a further analysis is considered on the actual credit loss experienced over the last twelve (12) months and future delinquency is assessed, which is then applied to the balance of the loan receivables.

(iii) 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.

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

(e) Changes in accounting policies

IFRS 9 Financial Instruments
In the current year, the company has applied IFRS 9 issued by the International Accounting Standards Board (IASB), effective for annual periods beginning on or after January 1, 2018 for the first time.

IFRS 9 ‘Financial Instruments’ replaces IAS 39 ‘Financial Instruments: Recognition and Measurement’. The company has adopted the modified retrospective approach and has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable with the information presented for 2018. Changes arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of January 1, 2018 and are disclosed below.

Changes to the impairment calculation
The adoption of IFRS 9 has fundamentally changed the company’s accounting for accounts receivable loss impairments by replacing IAS 39’s incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the company to record an allowance for ECLs for all debt financial assets not held at FVPL. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the impairment is assessed over its lifetime. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

The key changes to the Company’s accounting policies and the full impact resulting from its adoption of IFRS 9 are summarized below.

The impact, net of tax, of transition to IFRS 9 on the opening retained earnings is as follows:

	$
Closing balance under IAS 39 (December 31, 2017)	79,980,831
Recognition of expected credit losses under IFRS 9	
Loan receivables	(10,170,208)
Opening balance under IFRS 9 (January 1, 2018)	**69,810,623**

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

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 it 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 int 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 is 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 provisions made for doubtful amounts and impairment, based on a review of all outstanding amounts at the year end.

Other receivables

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

A provision for doubtful debt is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. In instances where it is determined that there will be significant delays in the settlement of the recoverable amounts and the effect is material, an impairment provision is also made, being the difference between the carrying amount and the recoverable amounts being the present value of expected cash flows discounted at the Company's overdraft interest rate.

Bad debts are written off when identified.

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Interest income

Policies applicable from January 1, 2018

Interest income is measured 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.

Policies applicable before January 1, 2018

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.

(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 is 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(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.

(h) Leases

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) Impairment

Policies applicable from January 1, 2018

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At reporting date, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition, the loss allowance is measured for financial asset at an amount equal to twelve months expected credit losses, see note 2e (ii).

Policies applicable before January 1, 2018

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than the carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) Comparative information

Where necessary, comparative figures have been reclassified and or restated to conform to changes in the current year.

(k) 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.

(l) 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.

(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, 2018

4. CASH AND CASH EQUIVALENTS

	2018	2017
	$	$
Cash at bank and cash in hand	**16,483,905**	31,436,990

5. LOANS, NET OF PROVISIONS FOR CREDIT LOSSES

	2018	2017
	$	$
Loans receivables	**551,096,009**	437,507,073

(a) Loans consist of, both secured and unsecured notes due from the Company's customers. The notes bear stated interest rate ranging from 35% - 65% for the years ended December 31, 2018 and 2017.

	2018	2017
	$	$
Loans	**673,354,532**	514,056,297
Less:		
Provision for credit losses	**(122,258,523)**	(76,549,224)
	551,096,009	437,507,073

(b) Analysis of loans are as follows:

		2018	2017
		$	$
Personal loans		**507,132,188**	382,438,834
Business loans:			
	Agriculture	**24,550**	24,550
	Services	**161,455,763**	127,044,331
	Trading	**3,534,851**	977,488
	Manufacturing	**1,207,180**	3,571,094
		166,222,344	131,617,463
		673,354,532	514,056,297

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

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

Loans are comprised of, and mature as follows:
Remaining term of maturity

	2018	2017
	$	$
Due in 1 month	**245,599,591**	222,335,229
1 - 3 months	**82,767,223**	48,973,248
3 - 12 months	**330,268,938**	231,127,605
over 12 months	**14,718,780**	11,620,215
	673,354,532	514,056,297
Less: Provision for credit losses	**(122,258,523)**	(76,549,224)
	551,096,009	437,507,073

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

	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**
	673,354,532	**122,258,523**

	2017	
	Gross	Impairment
	$	$
Current	235,142,181	-
1 to 3 months past due	75,733,423	-
3 to 12 months past due	126,149,166	16,682,742
over 12 months past due	77,031,527	59,866,482
	514,056,297	76,549,224

6. OTHER RECEIVABLES

	2018	2017
	$	$
Other receivables	**10,681,615**	6,675,070
Deposit on fixed asset	**-**	416,275
Prepaid expenses	**1,230,719**	1,501,516
Staff advances	**153,600**	1,344,800
Withholding tax	**455,459**	445,635
Other	**486,233**	573,591
	13,007,626	10,956,887

7. DUE FROM RELATED PARTIES / DUE FROM DIRECTOR

	2018	2017
	$	$
Due from related parties (i)	**5,017,700**	6,273,200
Due from director (ii)	**1,032,379**	1,500,000

(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) / ASSETS

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:

	2018	2017
	$	$
Deferred tax (liabilities) / assets	**(895,768)**	1,571,369

Deferred tax liabilities and assets are attributable to the following:

	2018	2017
	$	$
Depreciation and capital allowances	**(746,496)**	1,130,176
Accrued interest	**(18,493)**	424,117
Foreign exchange gain	**(130,779)**	17,076
	(895,768)	1,571,369

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

	2018	2017
	$	$
Balance at the beginning of the year	**1,571,369**	1,499,351
Movement during the year	**(2,467,137)**	72,018
Balance at the end of the year	**(895,768)**	1,571,369

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

9. PROPERTY, PLANT AND EQUIPMENT

	Leasehold Improvements	Furniture and Equipment	Motor Bikes	Motor Cars	Computer Software & Equipment	Fixed Assets work in progress	Total
At Cost/Valuation:							
Balance at December 31, 2016	18,237,801	10,979,738	550,000	12,130,000	27,569,981	-	69,467,520
Additions	480,697	942,692	-	716,875	1,281,263	-	3,421,527
Disposals	-	-	(550,000)	(3,650,000)	-	-	(4,200,000)
Revaluation (i)	-	-	-	2,256,865	-	-	2,256,865
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 (i)	-	-	-	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**
Accumulated Depreciation:							
Balance at December 31, 2016	17,953,940	5,059,295	359,795	1,213,002	24,073,191	-	48,659,223
Charge for year	180,167	1,250,624	55,000	2,094,073	1,753,655	-	5,333,519
Disposals	-	-	(414,795)	(703,333)	-		(1,118,128)
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**
Net Book Value							
Balance at December 31, 2016	283,861	5,920,443	190,205	10,916,998	3,496,790	-	20,808,297
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**	**5,823,269**	**25,510,218**

(i) The Company's motor cars were revalued at the year-end by independent appraisers Orion Loss Adjusters Limited. Accordingly, the Company recognized a net increase of $666,815 (2017: $2,256,865) which was directly credited to the revaluation surplus. Had the assets not been revalued, the carrying amount at the reporting date would be $881,856 (2017: $903,898) for motor cars.

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

10. ACCOUNTS AND OTHER PAYABLES

	2018	2017
	$	$
Interest accrued	**1,629,303**	1,696,468
Statutory liabilities	**2,804,552**	2,158,750
Accounts payable	**1,924,331**	4,172,529
Other payables	**6,727,663**	3,495,131
Other accruals	**4,180,989**	2,900,705
GCT payable	**305,509**	-
	17,572,347	14,423,583

11. SECURED BOND AND PROMISSORY NOTE

	2018	2017
	$	$
10% Corporate bond at par value (i)	**150,000,000**	150,000,000
12-13% Secured promissory note (ii)	**75,000,000**	-
Less: Deferred bond and promissory note issue costs	**(5,615,047)**	(6,440,755)
	219,384,953	143,559,245

(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 represents 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, to rank pari passu with the 10% corporate bond.

Interest expense charged on these loans during the current year totalled $17, 139,094 (2017 - $15,452,055). At year end, interest expense accrued totalled $568,150 (2017 - $452,055).

12. NOTES PAYABLE

	2018	2017
	$	$
Unsecured loans	**54,298,151**	63,439,432

The unsecured notes bear interest ranging from 11% - 13% for the years ended December 31, 2018 and 2017. During the year ended December 31, 2017, 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.

	2018	2017
	$	$
Balances at the beginning of year	**63,439,432**	71,192,331
Repayments	**(9,141,251)**	(7,752,899)
Balances at the end	**54,298,181**	63,439,432

Interest expense charged on these loans during the current year totalled $7,439,913 (2017 - $8,455,401). At year end, interest expense accrued totalled $1,061,153 (2017 - $1,244,413).

13. SHARE CAPITAL

	2018	2017
	$	$
	Number ('000)	Number ('000)
Authorized share capital:		
Ordinary shares [a (i)]	**105,000**	105,000
Issued and fully paid:		
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	**(9,096,872)**	(9,096,872)
	195,903,128	195,903,128

(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.

(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.

	2018	2017
Net profit for the year	**43,625,424**	49,993,699
Weighted average number of shares	**105,000,000**	105,000,000
Earnings per share ($)	**0.42**	0.48

14. REVALUATION SURPLUS

	2018	2017
	$	$
Revaluation surplus on motor cars	**11,052,413**	10,385,598

This represents surplus on motor cars that were revalued during the year (see note 9).

15. STAFF COSTS

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

	2018	2017
Permanent	**40**	40

The aggregate payroll costs for these persons were as follows:

	2018	2017
	$	$
Salaries and profit related pay	**101,464,572**	93,041,003
Statutory payroll contributions	**8,100,004**	7,483,024
Other staff benefits	**4,540,783**	4,447,202
	114,105,359	104,971,229

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

16. OTHER OPERATING EXPENSES

	2018	2017	
	$	$	
Directors' fees	**1,840,000**	1,840,000	
Bank charges	**9,500,223**	8,894,319	
Amortization of bond and promissory note	**3,939,950**	3,805,431	
Consulting fees	**7,520,000**	4,575,000	
Building rental	**12,005,447**	11,959,592	
Telephone	**5,565,815**	5,047,963	
Electricity	**2,531,413**	2,221,020	
Water	**427,317**	385,489	
Computer expenses	**4,522,100**	5,180,083	
Audit fees	**1,430,000**	1,300,000	
Printing, stationery and postage	**1,187,409**	1,498,726	
Repairs and maintenance	**1,242,040**	1,154,849	
Professional fees	**2,720,697**	7,188,508	
Legal fees	**1,523,574**	938,412	
Trustee fees	**1,517,210**	1,531,365	
Travelling and transportation	**1,723,667**	814,612	
Motor vehicle expenses	**4,727,377**	4,078,425	
Donation	**86,500**	69,500	
Office expenses	**4,067,544**	2,777,661	*
Security	**1,793,771**	535,984	
Cleaning and sanitation	**489,313**	407,860	
Subscriptions and dues	**393,824**	760,774	
Advertising and promotion	**4,267,774**	5,909,424	
Insurance	**626,977**	467,422	
Entertainment	**2,453,256**	4,385,477	
JSE listing fees	**1,339,750**	407,334	*
Assets tax and annual returns	**230,740**	232,500	
	79,673,688	78,367,730	

17. PROFIT BEFORE TAXATION

Stated after charging the following:	2018	2017
	$	$
	46,152,561	49,981,681
Auditor's remuneration	**1,430,000**	1,300,000

* - *Restated to conform to 2018 presentation*

18. TAXATION CHARGE / (CREDIT)

(a) Income tax is computed at 25% (2017: 25%) of the pre-tax profit for the year, as adjusted for taxation purposes. Deferred taxation is computed at 25% for the financial year (2017: 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:

	2018	2017
	$	$
Current:		
Minimum business tax expense	**60,000**	60,000
Deferred:		
Origination and reversal of temporary differences	**2,467,137**	(72,018)
	2,527,137	(12,018)

(b) Reconciliation of effective tax rate and charge:

	2018		2017	
	$	%	$	%
Profit before taxation	**46,152,561**		49,981,681	
Computed tax charge	**11,538,140**	**25%**	12,495,420	25%
Employment tax credit	**(7,617,097)**	**-17%**	(4,080,275)	-8%
Minimum business tax	**60,000**	**0%**	60,000	0%
Taxation differences between profit for financial statements and tax reporting purposes on:				
Depreciation and capital allowances	**2,020,033**	**4%**	1,711,932	3%
Remission of income taxes	**(18,364,316)**	**-40%**	(10,056,781)	-20%
Other Adjustments	**14,890,377**	**32%**	(142,314)	0%
Actual charge / (credit) and rate	**2,527,137**	**5%**	(12,018)	0%

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 $18,364,316 (2017: $10,056,781).

19. PROFIT BEFORE INTEREST AND TAXATION

	2018 $	2017 $
Net profit for the year	**43,625,424**	49,993,699
Current year taxation charge [see note 18(a)]	**60,000**	60,000
Profit before interest	**43,685,424**	50,053,699
Interest expense	**24,579,008**	24,452,590
Profit before interest and taxation	**68,264,432**	74,506,289

20. RELATED PARTY TRANSACTIONS

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

	2018 $	2017 $
Due from director	**1,032,379**	1,500,000
Due from related party	**5,017,700**	6,273,200
Other receivables	**-**	3,660,438
Loans receivables	**15,709,344**	-

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

	2018 $	2017 $
Transactions with key management personnel:		
- Interest income	**924,905**	446,070
- Directors' remuneration	**18,622,500**	18,622,500
- Directors' fees	**1,840,000**	1,840,000
- Consultancy fees	**3,000,000**	4,575,000
- Rental building	**4,180,000**	4,560,000

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 analyse 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 (LAD) 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 realised and the time value of money.

21. FINANCIAL INSTRUMENTS (CONT'D)

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

(i) Credit risk (cont'd):

The 'three stage' model is used to categorise 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 expected credit loss (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 amortising 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.

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 basis.

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 a periodic basis.

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

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

	2018 Stage 1 12-month ECL $	2018 Stage 2 Lifetime ECL $	2018 Stage 3 Lifetime ECL $	Total $	2017 Total $
Standard risk	369,539,230	-	-	**369,539,230**	235,142,181
Past due	-	141,530,913	7,403,466	**148,934,379**	188,844,701
Credit impaired	-	-	154,880,923	**154,880,923**	90,069,415
Gross carrying amount	369,539,230	141,530,913	162,284,389	**673,354,532**	514,056,297
Loss allowance	(687,161)	(840,740)	(120,730,622)	**(122,258,523)**	(76,549,224)
Carrying amount	368,852,069	140,690,173	41,553,767	**551,096,009**	437,507,073

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.

Loss allowance

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

	2018 Stage 1 12-month ECL $	2018 Stage 2 Lifetime ECL $	2018 Stage 3 Lifetime ECL $	Total $
As at 1 January (new opening balance)	404,723	1,270,062	85,044,647	86,719,432
Changes in PDs/LGDs/EADs	(2,708,815)	(3,882,184)	18,981,569	12,390,570
New financial assets originated	2,991,253	3,452,863	16,923,882	23,367,998
Total net income statement changes	282,438	(429,321)	35,905,451	35,758,568
Write offs	-	-	(219,477)	(219,477)
	282,438	(429,321)	35,685,974	35,539,091
	687,161	**840,741**	**120,730,621**	**122,258,523**

(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, 2018

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:

	2018					
	Within 3 Months	**3 to 12 Months**	**1 to 2 Years**	**2 to 5 Years**	**Over 5 Years**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Secured bond and promissory note	5,637,238	159,417,219	9,375,000	76,132,550		250,562,007
Notes payable	13,750,973	27,501,947	20,626,462	-	-	61,879,382
	19,388,211	**186,919,166**	**30,001,462**	**76,132,550**	**-**	**312,441,389**

	2017					
	Within 3 Months	**3 to 12 Months**	**1 to 2 Years**	**2 to 5 Years**	**Over 5 Years**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Secured corporate bond	3,750,000	11,250,000	15,000,000	145,808,219	-	175,808,219
Notes payable	2,229,751	6,689,252	66,732,830	-	-	75,651,833
	5,979,751	17,939,252	81,732,830	145,808,219	-	251,460,052

(iii) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, and interest rate 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 exceed 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:

	2018	2017
	$	$
Financial assets	**551,096,009**	437,507,073
Financial liabilities	**(273,683,134)**	(206,998,678)
	277,412,875	230,508,395

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.

SCHEDULE OF TOP TEN (10) STOCKHOLDERS
AS AT DECEMBER 31, 2018

	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 - Joint holder -Valerie Burchenson	612,529
6	Carissa Gordon – Joint holder 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 -Joint holders – Ruel and Ingrid Chung	195,093

SHAREHOLDINGS OF DIRECTORS, SENIOR MANAGERS AND CONNECTED PARTIES
AS AT DECEMBER 31, 2018

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	
Gencorp	50,517,500
Sunfisher Corporation	45,832,500