

ISP FINANCE SERVICES LIMITED

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2023

ISP FINANCE SERVICES LIMITED
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023

CONTENTS

	Page (s)
Independent Auditor's Report	1 - 6
Statement of Financial Position	7
Statement of Comprehensive Income	8
Statement of Changes in Equity	9
Statement of Cash Flows	10
Notes to the Financial Statements	11-40

Leary Mullings
FCA, FCCA, CPA, MBA
Senior Partner

Rohan Crichton
FCA, CPA MActg
Senior Partner

CrichtonMullings & Associates
Florida: (954) 862-2250
Atlanta: (770) 320-7786
Jamaica: (876) 946-1274
admin@crichtonmullings.com
<http://crichtonmullings.com/>

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 (the "Company"), which is comprised of the statement of financial position as at December 31, 2023, 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, 2023, 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") and the Microcredit Act, 2021 (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' International Code of Ethics for Professional Accountants (including International Independence Standards) (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.

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.

Independent Auditor's Report (cont'd)

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

Key audit matters (cont'd)

Key audit matters	How the matter was addressed in our audit
<p>1) Provision for credit losses on loans receivable</p> <p>IFRS 9 Financial Instruments, is complex and requires the Company to recognise expected credit losses ('ECL') on financial assets. The determination of ECL is highly subjective and requires management to make significant judgement and estimates, particularly regarding significant increase in credit risk and forward-looking information.</p> <p>The identification of significant increases in credit risk is a key area of judgement as the criteria determine whether a 12-month or lifetime loss allowance is recorded in respect of a financial asset.</p> <p>Forward-looking information, reflects a range of possible future economic conditions, in measuring expected credit losses. Significant management judgement is used in determining the economic scenarios, the probability weightings and management overlay.</p>	<p>Our audit procedures to address the key matter relating to the provision for credit losses included, amongst others:</p> <ul style="list-style-type: none"> • 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. • We examined 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 the provision for credit losses was adequate. • We tested the critical data fields, where applicable, used in the ECL model for the PD determination, such as default date, effective interest rate, write-off data, and loan type by tracing data back to source documents. • We tested the staging of a sample of loans by reference to the number of days outstanding on the loan. • We tested the completeness and accuracy of the data used in the models to the underlying accounting records on a sample basis. • We evaluated the performance of the loan portfolio subsequent to the end of the reporting period to identify significant adjusting subsequent events such as non-payments and any other adverse events which may have occurred subsequent to the year end.

Independent Auditor's Report (cont'd)

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

Key audit matters (cont'd)

Key audit matters	How the matter was addressed in our audit
<p>2) Revenue recognition</p> <p>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.</p>	<p>Our audit procedures to address the key matter relating to the appropriate recognition of interest income included, amongst others:</p> <ul style="list-style-type: none"> • We reviewed the appropriateness of the revenue recognition policy and documenting any changes in applying those policies from previous periods. • We developed an analysis of interest income based on the loan categories and average interest rate and following up on variances from our analysis. • We tested 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. • We performed a trend analysis of interest income to assess the reasonableness of the growth percentage. <p>We also assessed the adequacy of disclosures in the financial statements.</p>

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 and those charged with governance.

Independent Auditor's Report (cont'd)

To the members of ISP FINANCE SERVICES LIMITED

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS and the Acts, 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 and those charged with governance are responsible for overseeing the Company's financial reporting process.

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 the Appendix to 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 Acts

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 Acts, in the manner required.

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

Crichton Mullings & Assoc.
CrichtonMullings & Associates
Chartered Accountants

Kingston, Jamaica
April 29, 2024

Cont. /5

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 and those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Independent Auditor's Report (cont'd)

To the members of ISP FINANCE SERVICES LIMITED

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

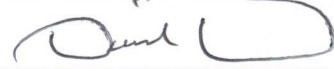
We also provide the Board of Directors and those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where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

From the matters communicated with the Board of Directors and those charged with governance, 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, 2023

	Note	2023 \$	2022 \$
<u>ASSETS</u>			
Cash and cash equivalents	4	42,835,759	30,928,714
Loans, net of provisions for credit losses	5	1,024,989,649	760,623,841
Other receivables	6	6,555,263	8,553,645
Investments	7	25,000,000	225,000,000
Deposit		1,047,949	1,047,949
Deferred tax asset	8	836,191	161,178
Right-of-use asset	9	4,908,453	8,373,243 *
Property, plant and equipment	10	16,822,953	20,584,125
TOTAL ASSETS		1,122,996,217	1,055,272,695
<u>LIABILITIES AND EQUITY</u>			
LIABILITIES:			
Accounts and other payables	11	19,427,334	21,355,892
Secured bond	12	459,169,474	452,984,510
Notes payable	13	52,535,511	51,785,511
Lease liability	9	7,017,107	10,921,201 *
Total liabilities		538,149,426	537,047,114
EQUITY:			
Share capital	14 (a)	195,903,128	195,903,128
Revaluation surplus	15	3,841,596	3,841,596
Accumulated surplus		385,102,067	318,480,857
Total equity		584,846,791	518,225,581
TOTAL EQUITY AND LIABILITIES		1,122,996,217	1,055,272,695

APPROVED, on behalf of the Board on



 DIJAL FERNANDO
 Company Secretary



 Dennis Smith
 Chief Executive Officer

* Reclassified to conform with the current year presentation

The accompanying notes form an integral part of the financial statements

ISP FINANCE SERVICES LIMITED
STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED DECEMBER 31, 2023

	Note	2023 \$	2022 \$
OPERATING INCOME:			
Interest income from loans	3(c)	507,509,698	431,278,945
Interest income from financial institutions and other receivables		<u>11,736,226</u>	<u>1,181,931</u>
Total interest income		519,245,924	432,460,876
Interest expense		<u>60,482,407</u>	<u>37,046,740</u>
Net interest income		458,763,517	395,414,136
Commission expenses on loans		<u>(23,026,986)</u>	<u>(16,217,934)</u>
		435,736,531	379,196,202
Other operating income:			
Foreign exchange (loss) / gain		(459,457)	31,171
Other income		<u>9,297,252</u>	<u>14,045,060</u>
		<u>8,837,795</u>	<u>14,076,231</u>
		<u>444,574,326</u>	<u>393,272,433</u>
OPERATING EXPENSES:			
Staff costs	16	103,656,685	112,795,116
Allowance for credit losses	5 (b)	128,800,000	93,000,000
Depreciation expense		9,355,950	10,607,458 *
Other operating expenses	17	<u>126,909,657</u>	<u>111,853,430 *</u>
		<u>368,722,292</u>	<u>328,256,004</u>
Profit before taxation	18	75,852,034	65,016,429
Taxation charge	19	<u>9,230,824</u>	<u>7,781,257</u>
Profit, being total comprehensive income for the year		<u><u>66,621,210</u></u>	<u><u>57,235,172</u></u>
Earnings per share (\$)	14(b)	<u><u>0.63</u></u>	<u><u>0.55</u></u>

* *Reclassified to conform with the current year presentation*

The accompanying notes form an integral part of the financial statements

ISP FINANCE SERVICES LIMITED
STATEMENT OF CHANGES IN EQUITY
YEAR ENDED DECEMBER 31, 2023

	Share Capital	Revaluation Surplus	Accumulated Surplus	Total
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Balance at December 31, 2021	195,903,128	11,052,413	256,181,074	463,136,615
Transfer of reserves (gain realized on disposal)	-	(7,210,817)	7,210,817	-
Adjustment from the adoption of IFRS 16	-	-	(2,146,206)	(2,146,206)
Net profit, being total comprehensive income for the year	-	-	<u>57,235,172</u>	<u>57,235,172</u>
Balance at December 31, 2022	195,903,128	3,841,596	318,480,857	518,225,581
Net profit, being total comprehensive income for the year	-	-	<u>66,621,210</u>	<u>66,621,210</u>
Balance at December 31, 2023	<u>195,903,128</u>	<u>3,841,596</u>	<u>385,102,067</u>	<u>584,846,791</u>

The accompanying notes form an integral part of the financial statements

ISP FINANCE SERVICES LIMITED
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2023

	Note	2023 \$	2022 \$
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before taxation		75,852,034	65,016,429 *
Adjustments for items not affecting cash resources:			
Depreciation on property, plant and equipment	10	5,891,160	7,142,668
Depreciation on right-of-use-asset	9	3,464,790	3,464,790
Lease interest expense		645,905	886,961 *
Gain on disposal of property, plant and equipment		-	(821,941)
Amortization on bond and debenture		6,184,964	3,299,704
Unrealized foreign exchange loss / (gain)		459,457	(31,171)
		92,498,310	78,957,440
Increase in operating assets:			
Loans and other receivables		(262,367,425)	(49,927,120)
Decrease in operating liabilities:			
Accounts and other payables		(3,316,395)	(5,837,369)
Cash (used in) / provided by operating activities		(173,185,510)	23,192,951
Taxation paid		(8,518,000)	(12,356,914)
Net cash (used in) / provided by operating activities		(181,703,510)	10,836,037
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	10	(2,129,988)	(5,916,147)
Proceeds from sale of property, plant and equipment		-	1,420,000
Proceeds from the sale of investments		200,000,000	(215,000,000)
Net cash provided by / (used in) investing activities		197,870,012	(219,496,147)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bond		-	(232,000,000)
Proceeds from notes payable		750,000	4,500,000
Lease liabilities payments		(4,550,000)	(3,950,000)
Proceeds from secured bond		-	470,000,000
Bond issued costs		-	(18,554,891)
Net cash (used in) / provided by financing activities		(3,800,000)	219,995,109
NET INCREASE IN CASH AND CASH EQUIVALENTS		12,366,502	11,334,999
CASH AND CASH EQUIVALENTS - Beginning of the year		30,928,714	19,562,544
Exchange and gains on foreign cash balance		(459,457)	31,171
CASH AND CASH EQUIVALENTS - End of the year		42,835,759	30,928,714
REPRESENTED BY:			
Cash and cash equivalents		42,835,759	30,928,714

* *Reclassified to conform with the current year presentation*

The accompanying notes form an integral part of the financial statements

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023

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.

On July 26, 2023, the Company was granted a licence by Bank of Jamaica under the Microcredit Act, 2021.

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 Stanadrrs Board and the relevant requirements of the Acts.

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, 2023

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 8 'Changes in Accounting Estimates and Errors - Amendment', issued February 2021*
Effective for periods commencing on or after 1 January 2023
- *IAS 12 - 'Deferred Tax' - Amendment', issued May 2021*
Effective for periods commencing on or after 1 January 2023

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 January 2020*
Effective for periods commencing on or after 1 January 2024
- *IAS 21 'The Effects of Changes in Foreign Exchange Rates - Amendment', issued August 2023*
Effective for periods commencing on or after 1 January 2025
- *IFRS 16 'Leases - Amendment', issued January 2020*
Effective for periods commencing on or after 1 January 2024
- *IFRS S1' General Requirements for Disclosure of Sustainability - related Financial Information', issued June 2023.*
Effective for periods commencing on or after 1 January 2024

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, 2023

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 recognised 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, 2023

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

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

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

(d) Leases - estimating the incremental borrowing rate

If the Company cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as stand-alone credit rating).

(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.

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).

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023

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 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.

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, investments, loan receivable, other receivables, bonds, other liabilities 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.

(b) Allowance for impairment losses on loan receivables

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

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 make 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, 2023

3. MATERIAL 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.

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) Revenue recognition

Revenue is income that arises in the course of the ordinary activities of the Company. It is comprised principally of fees and net interest income earned from loans.

Interest income

Interest income is recognized based on the terms and rates specified in loan agreements with customers.

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

Fees

Fees are income recognised in profit or loss on the accrual basis when the service has been provided. Loan application fees are an integral part of the effective interest rate of the loan and are amortised using the effective interest rate method through interest income in the statement of comprehensive income over the period of the related loan agreement.

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023

3. MATERIAL ACCOUNTING POLICIES (CONT'D)

(c) 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.

The Company was listed on the Junior Market of the Jamaica Stock Exchange (JSE) on March 30, 2016 which allows for the remission of taxes for ten (10) years (years 1 – 5 at 100% and years 6 – 10 at 50%). This tax incentive requires the Company to remain listed on the Junior Market for a minimum of 15 years to benefit from the tax incentive, otherwise the Company will be liable to remit the taxes relieved under the concession. In years 6 to 10 on the Junior Market, the Company will be required to remit corporate tax at half the usual rate.

(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.

(d) 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.

(e) Interest-bearing borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently measured at amortised cost and any difference between net proceeds and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Interest expense is recognised in profit or loss using the effective interest method on the accrual basis.

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023

3. MATERIAL ACCOUNTING POLICIES (CONT'D)

(f) Financial instruments

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

Financial assets and liabilities are recognised 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. Transaction 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 recognised 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 investments. 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 amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

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 amortised 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.

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023

3. MATERIAL ACCOUNTING POLICIES (CONT'D)

(f) Financial instruments (cont'd)

Financial assets (cont'd)

Subsequent measurement

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

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

Modification of loans

The Company sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers and debt instruments. When this happens, the Company assesses whether the new terms are substantially different to the original terms. The Company does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flow to amounts the borrower is expected to be able to pay;
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan;
- Significant extensions of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate;
- Change in the currency in which the loan is denominated; and
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a Company of similar financial assets) is primarily derecognised (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, 2023

3. MATERIAL ACCOUNTING POLICIES (CONT'D)

(f) Financial instruments (cont'd)

Financial assets (cont'd)

Impairment

The Company recognises an allowance for expected credit losses (ECLs) on the financial instruments measured at amortised 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 recognised 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 recognises 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 amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised 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 amortisation 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, 2023

3. MATERIAL ACCOUNTING POLICIES (CONT'D)

(g) 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.

(h) 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 recognised whenever the carrying amount of an asset, or Company of operating assets, exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

(i) Employee benefits

Employee benefits are all forms of consideration given by the Company in exchange for service rendered by employees. These include current or short-term benefits such as salaries, bonuses, NIS contributions, annual vacation leave, and non-monetary benefits such as medical care and other long-term employee benefits such as termination benefits.

Short-term employee benefits are charged as expense. The expected cost of vacation leave that accumulates is recognised over the period that the employee becomes entitled to the leave.

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023

3. MATERIAL ACCOUNTING POLICIES (CONT'D)

(j) Leases

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 a single recognition and measurement approach for all leases, except for short term leases and leases of low value assets. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying assets is available for use). The right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of the initial lease liabilities recognized, initial direct costs incurred, and lease payments made on or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentive receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023

4. CASH AND CASH EQUIVALENTS

	2023	2022
	\$	\$
Cash at bank and cash in hand	<u>42,835,759</u>	<u>30,928,714</u>

5. LOANS, NET OF PROVISIONS FOR CREDIT LOSSES

	2023	2022
	\$	\$
Loans	<u>1,024,989,649</u>	<u>760,623,841</u>

(a) Loans consist of unsecured notes due from the Company's clients.

The loans are at applicable interest rates ranging from 50% - 65% for the years ended December 31, 2023 and 2022.

	2023	2022
	\$	\$
Loans	1,119,443,754	851,821,550
Less:		
Provision for credit losses	<u>(94,454,105)</u>	<u>(91,197,709)</u>
	<u>1,024,989,649</u>	<u>760,623,841</u>

(b) Analysis of allowance for credit losses are as follows:

	2023	2022
	\$	\$
Balance at the beginning of the year	(91,197,709)	(222,324,564)
Recognised in the statement of comprehensive income		
allowance for credit losses	<u>(128,800,000)</u>	<u>(93,000,000)</u>
	(219,997,709)	(315,324,564)
Irrecoverable debts	<u>125,543,604</u>	<u>224,126,855</u>
Balance at the end of the year	<u>(94,454,105)</u>	<u>(91,197,709)</u>

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023

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

(c) Analysis of loans are as follows:

	2023	2022
	\$	\$
Personal loans	<u>942,336,175</u>	<u>795,693,403</u>
Business loans:		
Agriculture	1,546,935	1,732,108
Services	122,816,328	24,098,840
Trading	22,555,356	30,160,197
Manufacturing	<u>30,188,960</u>	<u>137,002</u>
	<u>177,107,579</u>	<u>56,128,147</u>
	<u><u>1,119,443,754</u></u>	<u><u>851,821,550</u></u>

(d) Loans are comprised of, and mature as follows:

Remaining term of maturity	2023	2022
	\$	\$
Due in 1 month	810,516,247	492,101,753
1 - 3 months	65,514,984	58,196,276
3 - 12 months	137,091,611	139,608,381
over 12 months	<u>106,320,912</u>	<u>161,915,140</u>
	<u>1,119,443,754</u>	<u>851,821,550</u>
Less: Provision for credit losses	<u>(94,454,105)</u>	<u>(91,197,709)</u>
	<u><u>1,024,989,649</u></u>	<u><u>760,623,841</u></u>

(e) Impairment losses on loans

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

	2023	
	Gross	Impairment
	\$	\$
Current	810,516,247	1,469,162
1 to 3 months past due	65,514,984	500,253
3 to 12 months past due	137,091,611	56,196,816
over 12 months past due	<u>106,320,912</u>	<u>36,287,874</u>
	<u><u>1,119,443,754</u></u>	<u><u>94,454,105</u></u>

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023

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

(d) Loans are comprised of, and mature as follows:

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

	2022	
	Gross	Impairment
	\$	\$
Current	492,101,753	821,803
1 to 3 months past due	58,196,276	945,271
3 to 12 months past due	139,608,381	20,941,257
over 12 months past due	161,915,140	68,489,378
	<u>851,821,550</u>	<u>91,197,709</u>

6. OTHER RECEIVABLES

	2023	2022
	\$	\$
Other accounts receivables	824,241	3,254,707
Prepaid expenses	981,925	2,913,127
Staff advances	851,549	691,410
Withholding tax	1,926,305	614,947
Other	1,971,243	1,079,454
	<u>6,555,263</u>	<u>8,553,645</u>

7. INVESTMENTS

	2023	2022
	\$	\$
(i) Victoria Mutual Investments Limited Unsecured Bond	10,000,000	10,000,000
(ii) Secured Corporate Bond	15,000,000	15,000,000
(iii) Bank of Nova Scotia Term Deposit	-	200,000,000
	<u>25,000,000</u>	<u>225,000,000</u>

(i) This represents a 5.5% unsecured fixed rate corporate bond, maturing in 2024.

(ii) This represents a 10.81% secured variable rate corporate bond, maturing in 2025.

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023

8. DEFERRED TAX ASSET

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:

	2023	2022
	\$	\$
Deferred tax asset	<u>836,191</u>	<u>161,178</u>

Deferred tax liabilities and assets are attributable to the following:

	2023	2022
	\$	\$
Depreciation and capital allowances	721,327	161,178
Other allowances, net	<u>114,864</u>	<u>-</u>
	<u>836,191</u>	<u>161,178</u>

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

	2023	2022
	\$	\$
Balance at the beginning of the year	161,178	(646,096)
Movement during the year	<u>675,013</u>	<u>807,274</u>
Balance at the end of the year	<u>836,191</u>	<u>161,178</u>

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023

9. RIGHT-OF-USE ASSET / LEASE LIABILITY

The operating lease was recognised by the Company as a right-of-use asset with a corresponding lease liability. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's annual incremental borrowing rate of 7.0%.

Information about lease for which the Company is a lessee is presented below:

(a) Right -of-use asset

	2023	2022
At Cost	\$	\$
Cost at January 1	<u>17,323,953</u>	<u>17,323,953</u>
Accumulated Depreciation		
Balance at January 1	(8,950,710)	(5,485,920)
Charge for year	(3,464,790)	(3,464,790)
	<u>(12,415,500)</u>	<u>(8,950,710)</u>
Balance at December 31	<u>4,908,453</u>	<u>8,373,243</u>

(b) Lease liability

	2023	2022
	\$	\$
Current	4,805,952	3,904,095
Non-current	<u>2,211,155</u>	<u>7,017,107</u>
	<u>7,017,107</u>	<u>10,921,202</u>

(c) Maturity analysis - contractual undiscounted cash flows:

	2023	2022
	\$	\$
Less than one year	5,150,000	4,550,000
One to five years	<u>2,250,000</u>	<u>7,400,000</u>
Total undiscounted lease liability	<u>7,400,000</u>	<u>11,950,000</u>

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023

10. PROPERTY, PLANT AND EQUIPMENT

	<u>Leasehold Improvements</u>	<u>Furniture and Equipment</u>	<u>Motor Cars</u>	<u>Computer Software & Equipment</u>	<u>Total</u>
At Cost/Valuation:					
Balance at December 31, 2021	32,435,901	16,032,828	11,449,295	36,512,280	96,430,304
Additions	-	1,566,940	218,000	4,131,207	5,916,147
Disposals	-	-	(4,838,958)	-	(4,838,958)
Balance at December 31, 2022	32,435,901	17,599,768	6,828,337	40,643,487	97,507,493
Additions	-	946,146	-	1,183,842	2,129,988
Balance at December 31, 2023	32,435,901	18,545,914	6,828,337	41,827,329	99,637,481
Accumulated Depreciation:					
Balance at December 31, 2021	21,405,541	11,068,895	9,548,842	31,998,320	74,021,598
Charge for year	2,799,920	1,112,332	1,161,895	2,068,521	7,142,668
Disposals	-	-	(4,240,898)	-	(4,240,898)
Balance at December 31, 2022	24,205,461	12,181,227	6,469,839	34,066,841	76,923,368
Charge for year	2,743,481	1,023,883	99,600	2,024,196	5,891,160
Balance at December 31, 2023	26,948,942	13,205,110	6,569,439	36,091,037	82,814,528
Net Book Value					
Balance at December 31, 2021	11,030,360	4,963,933	1,900,453	4,513,960	22,408,706
Balance at December 31, 2022	8,230,440	5,418,541	358,498	6,576,646	20,584,125
Balance at December 31, 2023	5,486,959	5,340,804	258,898	5,736,292	16,822,953

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023

11. ACCOUNTS AND OTHER PAYABLES

	2023	2022
	\$	\$
Accounts payable	8,067,123	10,356,912
Interest accrued	1,655,215	3,523,713
Statutory liabilities	1,926,022	1,577,772
Other accruals	7,778,974	5,897,495
	19,427,334	21,355,892
	19,427,334	21,355,892

12. SECURED BOND

	2023	2022
	\$	\$
11.5% Secured bond	470,000,000	470,000,000
Less: Deferred bond issue costs	(10,830,526)	(17,015,490)
	459,169,474	452,984,510
	459,169,474	452,984,510

This represented a secured corporate bond issued by the Company at a fixed interest rate of 11.5% per annum. The note is secured by all fixed and floating assets of the Company. The note matures September 30, 2025.

Interest expense charged on the bond during the current year totalled \$54,155,983.53 (2022 - \$30,256,356).

13. NOTES PAYABLE

	2023	2022
	\$	\$
Unsecured notes	52,535,511	51,785,511

The unsecured notes bear interest ranging from 11% - 13% for the years ended December 31, 2023 and 2022. The Company exercised the option to extend the maturity date of the notes to June 2024 and the notes continue to have a renewable option.

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023

13. NOTES PAYABLE (CONT'D)

	2023	2022
	\$	\$
Balances at the beginning of year	51,785,511	47,285,511
Additional loans received	<u>750,000</u>	<u>4,500,000</u>
 Balances at the end	 <u>52,535,511</u>	 <u>51,785,511</u>

Interest expense charged on these loans during the current year totalled \$6,326,433 (2022 - \$6,790,384). At year end, interest expense accrued totalled \$1,352,891 (2022 - \$3,523,71).

14. SHARE CAPITAL

	2023	2022
	\$	\$
	<u>Number ('000)</u>	<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, 2023

14. 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.

	2023	2022
Net profit for the year	<u>66,621,210</u>	<u>57,235,172</u>
Weighted average number of share	<u>105,000,000</u>	<u>105,000,000</u>
Earnings per share (\$)	<u><u>0.63</u></u>	<u><u>0.55</u></u>

15. REVALUATION SURPLUS

	2023	2022
	<u>\$</u>	<u>\$</u>
Revaluation surplus on motor cars	<u><u>3,841,596</u></u>	<u><u>3,841,596</u></u>

This represents surplus on motor cars that were revalued in previous years.

16. STAFF COSTS

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

	2023	2022
Permanent	<u><u>63</u></u>	<u><u>44</u></u>

The aggregate payroll costs for these persons were as follows:

	2023	2022
	<u>\$</u>	<u>\$</u>
Salaries and profit related pay	<u>91,255,361</u>	<u>100,156,481</u>
Statutory payroll contributions	<u>8,298,692</u>	<u>8,172,335</u>
Other staff benefits	<u>4,102,632</u>	<u>4,466,300</u>
	<u><u>103,656,685</u></u>	<u><u>112,795,116</u></u>

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023

17. OTHER OPERATING EXPENSES

	2023	2022
	\$	\$
Directors' fees	-	1,400,000
Bank charges	3,816,694	3,707,612
Amortization of bond issue costs	6,184,964	3,299,704
Consulting fees	14,000,000	7,450,000
Building rental	3,910,584	4,837,878 *
Telephone	12,600,361	12,080,835
Electricity	1,494,313	1,967,965
Water	148,842	110,573
Computer expenses	11,483,044	9,866,823
Audit fees	3,000,000	2,750,000
Printing, stationery and postage	1,779,152	2,031,753
Repairs and maintenance	2,807,096	3,379,733
Professional fees	3,961,350	5,700,975
Legal fees	5,549,288	2,736,748
Trustee fees	2,738,030	970,002
Travelling and transportation	1,724,883	1,102,198
Motor vehicle expenses	5,323,785	5,413,426
Donation	55,000	80,000
Office expenses	18,700,677	14,828,901
Security	5,526,698	4,796,212
Cleaning and sanitation	768,000	815,000
Subscriptions and dues	660,000	660,000
Advertising and promotion	11,377,705	12,613,935
Insurance	801,332	717,905
Entertainment	6,801,304	7,482,291
JSE listing fees	1,159,155	1,007,961
Annual returns	537,400	45,000
	126,909,657	111,853,430

18. PROFIT BEFORE TAXATION

Stated after charging the following:

	2023	2022
	\$	\$
	75,852,034	65,016,429 *
Auditor's remuneration	3,000,000	2,750,000

* *Reclassified to conform with the current year presentation*

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023

19. TAXATION CHARGE

- (a) Income tax is computed at 25% and 33 1/3% (2022: 25%) of the pre-tax profit for the year, as adjusted for taxation purposes. Deferred taxation is computed at 33 1/3% for the financial year (2022: 25%) based on the applicable income tax rate for regulated companies.

The taxation charge is made up as follows:

	2023	2022
	\$	\$
Current:		
Provision for charge on current profit	9,905,837	8,588,531
Deferred:		
	<u>(675,013)</u>	<u>(807,274)</u>
Origination and reversal of temporary differences	<u>9,230,824</u>	<u>7,781,257</u>

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

	2023		2022	
	\$	%	\$	%
Profit before taxation	<u>75,852,034</u>		<u>65,418,181</u>	
Computed tax charge	21,596,654	28%	16,354,545	25%
Taxation differences between profit for financial statements and tax reporting purposes on:				
Depreciation and capital allowances	93,357	0%	(149,515)	0%
Remission of income taxes	(9,905,837)	-13%	(8,588,530)	-13%
Other adjustments	<u>(2,553,350)</u>	-3%	<u>164,757</u>	0%
Actual charge / rate%	<u>9,230,824</u>	12%	<u>7,781,257</u>	12%

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 \$9,905,837 (2022: \$8,588,530).

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023

20. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions or if both are subject to control or significant influence by the same party.

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

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Such persons comprise the directors and senior management of the Company.

The compensation paid to key management for employee services is as shown below:

	2023	2022
	\$	\$
- Directors' remuneration	12,556,626	12,489,265
- Directors' fees	-	1,400,000
- Consultancy fees	14,000,000	7,450,000
- Building rental	3,387,919	5,147,059

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.

Management has adopted several measures specifically around financial risk management. These measures include:

- (a)** Implemented a liquidity recovery plan, the key aspects of the plan include:
 - Assessing the daily inflow and outflow of funds (liquidity forecasting);
 - Identifying and assessing the adequacy of financial resources for contingent needs;
 - Implementing measures geared at strengthening the entity's working capital; and
 - Defining escalation and decision-making procedures to ensure that the plan can be executed timely.
- (b)** Implemented measures to assist external clients during this crisis, such as:
 - Payment moratoria on loans. It is not expected that there will be reclassification of loans from Stage 1 to Stage 2 as these payment holidays should not trigger a significant increase in the credit risk (SICR) unless other criteria indicating SICR are identified; and
 - Special arrangements with clients, such as increasing their loan to value ratio, based on approval by the appropriate committee.
- (c)** On-going monitoring of working capital which included sensitivity analyses to determine:
 - The impact of a downward adjustment in asset values on our regulatory ratios
 - The impact of a downward adjustment in asset values on the projected profitability; and
 - The level of capital shortfall, if any, and how additional capital could be raised to address any projected shortfall.

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023

21. FINANCIAL INSTRUMENTS

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

(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 realised and the time value of money.

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023

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 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 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 base 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, 2023

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.

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 on these assets.

	2023 Stage 1 12-month ECL \$	2023 Stage 2 Lifetime ECL \$	2023 Stage 3 Lifetime ECL \$	2023 Total \$	2022 Total \$
Standard risk	810,516,247	184,478,411	-	994,994,658	665,763,324
Past due	-	18,128,184	-	18,128,184	24,143,086
Credit impaired	-	-	106,320,912	106,320,912	161,915,140
Gross carrying amount	810,516,247	202,606,595	106,320,912	1,119,443,754	851,821,550
Loss allowance	(1,969,415)	(56,196,816)	(36,287,874)	(94,454,105)	(91,197,709)
Carrying amount	<u>808,546,832</u>	<u>146,409,779</u>	<u>70,033,038</u>	<u>1,024,989,649</u>	<u>760,623,841</u>

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023

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:

	2023 Stage 1 12-month ECL \$	2023 Stage 2 Lifetime ECL \$	2023 Stage 3 Lifetime ECL \$	Total \$
As at 31 December 2022	(1,767,074)	(20,941,257)	(68,489,378)	(91,197,709)
Changes in PDs/LGDs/EADs	28,739,648	(35,255,559)	32,201,504	25,685,593
New financial assets originated	(28,941,989)	-	-	(28,941,989)
	(202,341)	(35,255,559)	32,201,504	(3,256,396)
As at 31 December 2023	(1,969,415)	(56,196,816)	(36,287,874)	(94,454,105)

(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, 2023

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:

	2023				
	Within 3 Months	3 to 12 Months	1 to 2 Years	2 to 5 Years	Total
	\$	\$	\$	\$	\$
Secured bond	13,512,500	40,537,500	54,050,000	524,050,000	632,150,000
Notes payable	2,250,000	2,250,000	54,339,772	-	58,839,772
	15,762,500	42,787,500	108,389,772	524,050,000	690,989,772

	2022				
	Within 3 Months	3 to 12 Months	1 to 2 Years	2 to 5 Years	Total
	\$	\$	\$	\$	\$
Secured bond and	13,512,500	40,537,500	54,050,000	524,050,000	632,150,000
Notes payable	2,250,000	2,250,000	53,499,772	-	57,999,772
	15,762,500	42,787,500	107,549,772	524,050,000	690,149,772

(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:

	2023	2022
	\$	\$
Financial assets	1,100,428,620	1,026,154,149
Financial liabilities	(531,132,319)	(526,125,913)
	569,296,301	500,028,236

ISP FINANCE SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023

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.