ANNUAL REPORT

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED

FOR THE YEAR ENDED

31 DECEMBER 2012

CONTENTS

SEYCHELLES INTERNATIONAL MERCANTILE BANKING

CORPORATION LIMITED

DIRECTORS' REPORT

The Directors are pleased to present their report together with the audited financial statements of the Bank for the year ended 31 December 2012.

PRINCIPAL ACTIVITY

The Bank is principally engaged in providing banking services.

There has been no significant change in the nature of this activity during the financial year.

RESULTS

	SR'000
Profit before taxation	146,811
Taxation	(49,919)
Profit for the year	96,892
Retained earnings brought forward	186,974
Profit available for appropriation	283,866
Dividends	(100,000)
Retained earnings carried forward	183,866

DIVIDENDS

Interim dividends of SR 500 per share amounting to SR 50 million was declared and paid during the year.

PROPERTY, PLANT AND EQUIPMENT

Additions to property, plant and equipment of SR 23 million during the year comprised principally of office equipment, motor vehicle and construction in progress.

The Directors are of the opinion that the market and saleable value of the property, plant and equipment at 31 December 2012 does not differ substantially from the amount at which it is included in the Statement of Financial Position at that date.

DIRECTORS AND DIRECTORS' INTEREST

The Directors of the Bank since the date of the last report are:

Ahmad Saeed

Anil Dua

Panos Papakokkinos (Deceased)

Patrick Payet (Resigned 16th November 2012)

Marie-Pierre Lloyd (Resigned 16th November 2012)

Mohammed Afif (Resigned 16th November 2012)

Steve Fanny (Appointed 16th November 2012)

Lise Bastienne (Appointed 16th November 2012)

Stephen Jardine (Appointed 16th November 2012)

Charles Bastienne (Appointed 16th November 2012)

In accordance with the Articles of Association, Mr. Anil Dua retires by rotation at the forthcoming Annual General Meeting and being eligible, offers himself for re-election.

None of the Directors held an interest in the shares of the Bank during the financial year.

AUDITORS

The retiring auditors are Ernst & Young, Seychelles.

Ahmad Saeed **Director**	**Anil Dua** **Director**	**Steve Fanny** **Director**
Lise Bastienne **Director**	**Stephen Jardine** **Director**	**Charles Bastienne** **Director**

Victoria, Seychelles

07 MAY 2013

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED ('the Bank') on pages 4 to 37 which comprise the statement of financial position as at 31 December 2012 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in compliance with the requirements of the Seychelles Companies Act 1972 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements pages on 4 to 37 give a true and fair view of the financial position of the Bank at 31 December 2012 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Seychelles Companies Act

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED (CONTINUED)

Report on the Financial Statements (Continued)

Other matters

This report, including the opinion, has been prepared for and only for the Bank's members, as a body and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Report on other legal and regulatory requirements

Financial Institutions Act 2004

The Financial Institutions Act 2004 requires that in carrying out our audit, we consider and report to you on the following matters:

- In our opinion, the financial statements are complete and fair and properly drawn up; and

- The explanations and information called for from the employees and agents of the Bank were satisfactory.

Ernst & Young

ERNST & YOUNG
Mahé, Seychelles

Date 07 MAY 2013

	Notes	2012	2011
		SR'000	SR'000
Interest and similar income	3	167,482	122,917
Interest and similar expense	4	(33,147)	(19,792)
Net interest income		134,335	103,125
Fees and commission income	5	38,257	30,963
Fees and commission expense	5	(25,402)	(19,005)
Net fees and commission income		12,855	11,958
Net interest, fee and commission income		147,190	115,083
Net trading income	6	79,754	87,935
Other operating income		1,766	193
Total operating income		228,710	203,211
Credit loss expense	7	(37,942)	(26,667)
Net operating income		190,768	176,544
Depreciation of property and equipment	17	(2,040)	(1,662)
Amortisation of intangible assets	18	(2,373)	(2,374)
Other operating expenses	8	(41,642)	(35,539)
Total operating expenses		(46,055)	(39,575)
Operating profit		144,713	136,969
Share of profit in a jointly controlled entity	16	2,098	3,807
Profit before tax		146,811	140,776
Income tax expense	9	(49,919)	(45,966)
Profit for the year		96,892	94,810
Other comprehensive income:			
Currency translation of jointly controlled entity	16	(188)	1,433
Total Comprehensive income for the year		96,704	96,243

The notes on pages 7 to 51 form an integral part of these financial statements.
Auditors' report on pages 1 and 2.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

	Notes	2012	2011
		SR'000	SR'000
ASSETS			
Cash and balances with Central Bank	11	**349,022**	395,154
Due from banks	12	**1,729,389**	1,033,502
Loans and advances to customers	13	**1,299,894**	1,339,795
Financial investments:			
- Available-for-sale	14	**273,223**	76,274
- Held-to-maturity	15	**116,319**	458,599
Other assets	20	**20,078**	10,551
Investment in a jointly controlled entity	16	**20,957**	19,048
Property and equipment	17	**26,907**	6,077
Intangible assets	18	**8,413**	10,786
Deferred tax assets	19	**38,449**	29,736
Retirement benefit obligations	24	**3,006**	946
TOTAL ASSETS		**3,885,657**	3,380,468
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	21	**325,204**	2,887
Due to customers	22	**3,117,792**	2,935,732
Other liabilities	23	**30,309**	36,847
Current tax liabilities	9	**23,264**	12,619
TOTAL LIABILITIES		**3,496,569**	2,988,085
EQUITY			
Issued capital	25	**100,000**	100,000
Retained earnings		**183,866**	186,974
Statutory reserve	26 (a)	**100,000**	100,000
Foreign currency translation reserve	26 (b)	**5,222**	5,410
TOTAL EQUITY		**389,088**	392,384
TOTAL EQUITY AND LIABILITIES		**3,885,657**	3,380,468

The notes on pages 7 to 51 form an integral part of these financial statements.
Auditors' report on pages 1 and 2.

These financial statements have been approved for issue by the Board of Directors on 07 MAY 2013

Name of directors	Signature
Steve Fanny	
Lise Bastienne	LBastienne
Stephen Jardine	
Anil Dua	
Charles Bastienne	
Ahmad Saeed	

The notes on pages 7 to 50 form an integral part of these financial statements.
Auditors' report on pages 1 and 2.

	Notes	Share Capital	Retained Earnings	Statutory reserve	Foreign currency translation reserve	Total
		SR'000	**SR'000**	**SR'000**	**SR'000**	**SR'000**
Balance at 1 January 2011		100,000	142,164	100,000	3,977	346,141
Profit for the year		-	94,810	-	-	94,810
Other comprehensive income		-	-	-	1,433	1,433
Total comprehensive income		-	94,810	-	1,433	96,243
Dividends for the year	10	-	(50,000)	-	-	(50,000)
Balance at 31 December 2011		**100,000**	**186,974**	**100,000**	**5,410**	**392,384**
Balance at 1 January 2012		**100,000**	**186,974**	**100,000**	**5,410**	**392,384**
Profit for the year		**-**	**96,892**	**-**	**-**	**96,892**
Other comprehensive income		**-**	**-**	**-**	**(188)**	**(188)**
Total comprehensive income		**-**	**96,892**	**-**	**(188)**	**96,704**
Dividends for the year	10	**-**	**(100,000)**	**-**	**-**	**(100,000)**
Balance at 31 December 2012		**100,000**	**183,866**	**100,000**	**5,222**	**389,088**

The notes on pages 7 to 51 form an integral part of these financial statements.
Auditors' report on pages 1 and 2.

	Notes	2012	2011
		SR'000	SR'000
OPERATING ACTIVITIES			
Profit before tax		**146,811**	140,776
Adjustments for:			
- Retirement benefit obligations		**2,165**	2,040
- Depreciation of property and equipment	17	**2,040**	1,662
- Amortisation of intangible assets	18	**2,373**	2,374
- Share of profit in jointly controlled entity	16	**(2,098)**	(3,807)
- Property and equipment written off		**423**	13
- Interest accrued on held-to-maturity investments		**(6,816)**	(2,099)
Cash flow from operating profit before changes in operating assets and liabilities		**144,897**	140,959
Changes in gross loans and advances		**39,901**	22,268
Changes in other assets		**(9,527)**	(3,771)
Change in deposits from customers		**182,060**	59,417
Changes in balance due to banks		**322,317**	(4,879)
Changes in other liabilities		**(6,538)**	6,114
Due from other banks		**(5,266)**	(10,941)
Income tax paid	9 (c)	**(47,987)**	(85,467)
Contributions and direct benefits paid	24 (c)	**(4,225)**	(5,146)
Net cash flow from operating activities		**615,632**	118,553
INVESTING ACTIVITIES			
Purchase of property and equipment	17	**(23,293)**	(2,692)
Proceeds from redemption of treasury bills	14	**272,574**	603,484
Purchase of treasury bills	14	**(469,523)**	(169,714)
Purchase of held-to-maturity investments	15	**(2,804,228)**	(4,366,736)
Proceeds from redemption of held-to-maturity investments	15	**3,153,327**	4,297,146
Net cash flow from investing activities		**128,857**	361,488
FINANCING ACTIVITIES			
Dividends paid	10	**(100,000)**	(50,000)
Cash flow used in financing activities		(100,000)	(50,000)
Net increase in cash and cash equivalents		**644,489**	430,041
Cash and cash equivalents at 1 January		**1,403,188**	973,147
Cash and cash equivalents at 31 December	11	**2,047,677**	1,403,188

The notes on pages 7 to 51 form an integral part of these financial statements.
Auditors' report on pages 1 and 2.

1. CORPORATE INFORMATION

Seychelles International Mercantile Banking Corporation Ltd (hereafter referred to as the 'Bank') is a limited liability company, incorporated and domiciled in Seychelles. Its registered office is located at Victoria House, Mahé, Seychelles. The principal activities of the Company are that of providing banking services in Seychelles.

These financial statements were authorised for issue in accordance with a resolution of the board of directors dated …………………………....

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements have been prepared on a historical cost basis, except for certain financial instruments, that have been measured at fair value. The financial statements are presented in Seychelles rupees (SR) and all values are rounded to the nearest thousand except when otherwise indicated.

Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS).

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date as current and more than 12 months after the reporting date as non-current is presented in note 29.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses will not be offset in the Statement of Comprehensive Income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Bank.

2.2 Changes in accounting policy and disclosures

New and amended standards and interpretations

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2012, but they are not relevant to the Bank's operations:

IFRS 1 First-time Adoption of International Financial Reporting Standards (Amendment) - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective 1 July 2011)
The amendment provides that, when an entity's date of transition to IFRS is on, or after, the date its functional currency ceases to be subject to hyperinflation, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date that were subject to severe hyperinflation, at fair value, on the date of transition to IFRS. This fair value may be deemed cost of those assets and liabilities in the opening IFRS statement of financial position.

A further amendment to the Standard is the removal of the legacy fixed dates in IFRS 1 relating to derecognition and day one gain or loss transactions have also been removed. The standard now has these dates coinciding with the date of transition to IFRS.

2.2 Changes in accounting policy and disclosures (Continued)

IFRS 7 Financial Instruments: Disclosures (Amendment) (effective 1 July 2011)
The amendment requires additional qualitative and quantitative disclosures relating to transfers of financial assets, where financial assets are derecognised in their entitety, but where the the entity has a contunuing involvement in them and, secondly, where financial assets are not derecognised in their entirety.

IAS 12 Income Taxes (Amendments) - Deferred Taxes: Recovery of Underlying Assets (effective 1 January 2012)
The Standard introduces a rebuttable presumption that deferred tax on investment properties measured at fair value will be recognised on a sale basis, unless the entity has a business model that would indicate the investment property will be consumed in the business, in which case, a use basis will be adopted. The amendments also introduce the requirement that deferred tax on non-depreciable assets measured using the revaluation model in IAS 16 should always be measured on a sale basis.

2.3 Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. This listing is of standards and interpretations issued, which will be applicable at a future date. The Bank intends to adopt those standards when they become effective.

IFRS 1 Government Loans - Amendment to IFRS 1 (effective 1 January 2013)
The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. It provides the same relief to first-time adopters as is granted to existing preparers of IFRS financial statements when applying IAS 20 Accounting for Government Grants and Disclosure of Government Assistance. This will not affect the Bank given that they do not possess any Government loans.

IFRS 7 Financial Instruments: Disclosures (effective 1 January 2013)
Common disclosure requirements were issued that are intended to help investors and other users to better assess the effect or potential effect of offsetting arrangements on a company's financial position. The new requirements are set out in Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7). As part of that project the IASB also clarified aspects of IAS 32 Financial Instruments: Presentation. The amendments address consistencies in current practice when applying the requirements. The Bank does not offset any of its financial assets or liabilities and therefore this change will not affect the financial statements.

Financial Instruments: Disclosures (effective 1 January 2015)
On 16 December 2011, the IASB issued Mandatory Effective Date and Transition Disclosures (Amendments to IFRS 9 and IFRS 7), which: (i) amends the effective date of IFRS 9 Financial Instruments to annual periods beginning on or after 1 January 2015; (ii) modifies the relief from restating comparative periods and the associated disclosures in IFRS 7 Financial Instruments: Disclosures.

IFRS 9 Financial Instruments (effective 1 January 2013)
The Standard covers the classification and measurement of financial assets, as the first part of its project to replace IAS 39. It is effective as from 1 January 2013. These changes do not change the current disclosures made by the Bank.

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments - Classification and measurement of financial assets, Accounting for financial liabilities and derecognition (effective 1 January 2015)
The mandatory effective date of IFRS 9 has been deferred to 1 January 2015. The amendments also provide relief from restating comparative information and require disclosures (in IFRS 7) to enable users of financial statements to understand the effect of beginning to apply IFRS 9.

IFRS 10 Consolidated Financial Statements (effective 1 January 2013)
The Standard replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation - Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities (including 'special purpose entities' or 'structured entities' as they are now referred to in the new standards, or 'variable interest entities'). The changes introduced by IFRS 10 will require management to exercise significant judgement to determined which entities are controlled, and therefore are required to be consolidated by a parent which may imply changes in entities within a group. The Bank does not produce consolidated accounts so is not affected by this change.

IFRS 11 Joint Arrangements (effective 1 January 2013)
The Standard supercedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities - Non-monetary Contributions by Venturers. IFRS 11 uses some of the terms that were used in IAS 31, but with different meanings and describes the accounting for a 'joint arrangement'.The core principle of IFRS 11 is that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement. This does not affect the disclosures made by the Bank on their joint arrangements.

IFRS 12 Disclosure of Interests in Other Entities (effective 1 January 2013)
The Standard combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, associates and structures entities into one comprehensive disclosure standard. Many of the disclosure requirements were previously in IAS 27, 28 and 31, while others are new. The objective of IFRS 12 is for an entity to disclose information that helps users of its financial statements evaluate (i) the nature of, and risks associated with, its interests in other entities and (ii) the effects of those interests on its financial position, financial performance and cash flows. This does not affect current disclosures made by the Bank on their joint arrangements.

IFRS 13 Fair Value Measurement (effective 1 January 2013)
The Standard defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value. This does not affect current disclosures.

Amendments to IFRS 10, IFRS 11 and IFRS 12 (effective 1 January 2013)
On 28 June 2012, the IASB issued Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12). The amendments provide additional transition relief in IFRS 10, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied. The effective date of the amendments is annual periods beginning on or after 1 January 2013, which is aligned with the effective date of IFRS 10, 11 and 12. This does not affect current disclosures.

2. ACCOUNTING POLICIES (CONTINUED)

2.3 Standards issued but not yet effective (continued)

IAS 1 Presentation of Items in Other Comprehensive Income - Amendments to IAS 1 (effective 1 July 2012)
The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or ‘recycled’) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Bank's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012. This has been applied by the Bank in its presentation of investments held for sale.

IAS 19 Employee Benefits (Revised) (effective 1 January 2013)
The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The affect of this change would be that the unrecognised net loss would have to be recognised in other comprehensive income (OCI) so that the pension asset is changed to a pension liability of SCR 4,418k at the end of 2012.

IAS 27 Separate Financial Statements (as revised in 2011) (effective 1 January 2013)
As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Bank does not present separate financial statements.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011) (effective 1 January 2013)
As a consequence of the new IFRS 11 and IFRS 12. IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. This does not affect the current disclosures made by the Bank.

IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (effective 1 January 2014)
The amendments clarify the meaning of ‘currently has a legally enforceable right of set-off’; and that some gross settlement systems may be considered equivalent to net settlement. The Bank does not offset any of its financial assets or liabilities and therefore this change will not affect the financial statements.

2.4 Significant accounting judgements and estimates

Impairment losses on loans and advances

The Bank reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the Statement of Comprehensive Income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. In estimating these cash flows, the Bank makes judgements about the borrower's financial situation and the net realisable value of collateral. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This takes into consideration factors such as any deterioration in country risk, entity and technological obsolescence, as well as identified structural weakness or deterioration in cash flow.

2.4 Significant accounting judgements and estimates (continued)

Held-to-maturity investments

The Bank follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire category as available-for-sale. The investments would therefore be measured at fair value and not at amortised cost.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as volatility for longer–dated derivatives and discount rates, prepayment rates and default rate assumptions for asset-backed securities. The valuation of financial instruments is described in more detail in note 16.

Pensions

The cost of the defined benefit pension plan is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. See note 25 for the assumptions used.

2.5 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the financial statements are set out below:

(a) Foreign currency translation

The financial statements are presented in Seychelles Rupee (SR), which is the Bank's functional currency, that is the currency of the primary economic environment in which the entity operates.

Transactions and balances

Foreign currency transactions are initially recorded in the functional currency rate prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss .

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transactions.

(b) Financial instruments - initial recognition and subsequent measurement

(i) *Date of recognition*

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognised on the trade date, i.e the date that the Bank commits to purchase or sell the asset.

2. ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies

(b) Financial instruments - initial recognition and subsequent measurement (Continued)

(ii) *Initial recognition of financial instruments*

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All the financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

(iii) *Held-to-maturity financial investments*

Held-to-maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the Bank has the intention and ability to hold to maturity. After initial recognition, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'Interest and similar income' in the Statement of Comprehensive Income. The losses arising from impairment of such investments are recognised in the Statement of Comprehensive Income line ' Credit loss expense'.

(iv) *Due from banks and loans and advances to customers*

'Due from banks' and 'Loans and advances to customers' are financial assets classified as loans and receivables with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'Financial assets held for trading', designated as 'Financial investment - available-for-sale' or 'Financial assets designated at fair value through profit or loss'. After initial measurement, amounts due from banks and loans and advances to customers are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in 'Interest and similar income' in the Statement of Comprehensive Income. The losses arising from impairment are recognised in the Statement of Comprehensive Income in 'Credit loss expense'.

(v) *Available-for-sale financial instruments*

Available-for-sale financial investments are those which are designated as such or do not qualify to be classified at fair value through profit or loss, held to maturity or loans and advances. They include equity instruments, investments in money markets and other debt instruments.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in other comprehensive income in the 'Available-for-sale reserve'. When the security is disposed of, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the Statement of Comprehensive Income in ' Other operating income' or 'Other operating expenses'. Where the Bank holds more than one investment in the same security, they are deemed to be disposed on the first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate. Dividends earned whilst holding available-for-sale financial investments are recognised in the profit or loss as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the profit or loss in 'credit loss expense ' and removed from other comprehensive income.

2. ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies

(b) Financial instruments - initial recognition and subsequent measurement (Continued)

(vi) *Due to customers and other borrowed funds*

Due to customers and other borrowed funds are classified as loans and borrowings. After initial measurement, due to customers and other borrowed funds are subsequently measured at amortised cost using the effective interest rate method with such interest expense recognised in profit or loss. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

(c) Derecognition of financial assets and financial liabilities

(i) *Financial assets*

A financial asset (or where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Bank 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 Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

(ii) *Financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(d) Determination of fair value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

2. ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies

(e) Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired, if and only if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) *Financial assets carried at amortised cost*

For financial assets carried at amortised cost (such as amounts due from banks and loans and advances to customers, as well as held-to-maturity investments), the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss . Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the profit or loss.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collaterised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

2. ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (Continued)

(e) Impairment of financial assets (Continued)

(i) *Financial assets carried at amortised cost (continued)*

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) *Available for sale investments*

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost for instance when interest rates earned are below rates of inflation. When there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit or loss is removed from other comprehensive income and recognised in the profit or loss. Impairment losses on equity investments are not reversed through the profit or loss , increases in their fair value after impairment are recognised directly in Other Comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost in addition to a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'Interest and similar income'. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss , the impairment loss is reversed through profit or loss.

(iii) *Renegotiated loans*

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangement and the agreement of a new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate. There has been no loans which would become past due or impaired if their terms have not been renegociated.

2. ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (Continued)

(f) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(g) Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) *Interest and similar income and expenses*

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial investments assets, their interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of receipts or payments. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

However, for a reclassified financial asset for which the bank subsequently increases its estimates of future cash receipts as a result of increased recoverability for those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) *Fee and commission income*

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

2. ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(g) Recognition of income and expenses (continued)

(ii) *Fee and commission income (Continued)*

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfillment of the corresponding criteria.Fees that are part of the effective interest rate are incorporated into the calculation of the effective interest rate.

(iii) *Dividend income*

Revenue is recognised when the Bank's right to receive the payment is established.

(iv) *Net trading income*

This is made up of interest and dividend income or expenses according to the term of the contract or when the right to the payment has been establised. It also include foreign exchange gains as well as recovery of charges .

(h) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets include the value of computer software and upfront payment for the right to use leasehold land.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the profit or loss , in the expense category consistent with the function of the intangible asset.

Amortisation is calculated using the straight line method to write down the cost of intangible assets to their residual values over their estimated useful lives. Computer software is amortised over 5 years and upfront lease payment over 99 years.

2. ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(i) Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s (CGU) fair value less costs to sell and its value in use and is etermined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount not exceeding what the amortised cost would have been had no impairment loss been recognised previously.

(j) Investment in Jointly Controlled Entity

The Bank's investment in the jointly controlled entity is accounted for using the equity method of accounting. A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control(the venturers).

Under the equity method, the investment in the jointly controlled entity is carried in the Statement of Financial Position at cost plus post acquisition changes in the Bank's share of net assets of the jointly controlled entity. Losses in excess of the cost of investment in the jointly controlled entity are recognised when the Bank has incurred obligations on its behalf. Goodwill relating to a jointly controlled entity is included in the carrying amount of the investment and is not amortised. The profit or loss reflects the Bank's share of the results of operations of the jointly controlled entity. Where there has been a change recognised directly in the equity or other comprehensive income of the jointly controlled entity, the Bank recognises its share of any such changes and discloses this, when applicable, in equity or other comprehensive income. Profits and losses resulting from transactions between the Bank and the jointly controlled entity are eliminated to the extent of the interest in the jointly controlled entity.

2. ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(j) Investment in Jointly Controlled Entity (continued)

The reporting dates of the jointly controlled entity and the Bank are identical and the jointly controlled entity's accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

(k) Property and equipment

Property and equipment are stated at cost excluding the costs for day-to-day servicing, less accumulated depreciation and accumulated impairment in value.

The cost of an asset comprises its purchase price and any attributable costs of bringing the asset to working condition for its intended use. Subsequent expenditure for additions, improvements and renewals are capitalised only when they increase the current economic benefits and meet the recognition criteria.

Depreciation is calculated using the straight line method to write down the cost of the property and equipment to their residual values over their estimated useful lives. The estimated useful lives are as follows:

Leasehold improvements	Over the period of lease
Furniture and fittings	5 years
Motor vehicles	4 years
Office equipment	5 years
Premise's fixed equipment	5 years

Depreciation is charged to profit and loss on a straight-line basis to write off the cost of property, plant and equipment to their residual values over their expected useful lives. These residual values and expected useful lives are re-assessed at each financial year-end and adjusted prospectively if applicable.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' or 'Other operating expenses' in the Statement of Comprehensive Income in the year the asset is derecognised.

(l) Taxation

(i) *Current tax*

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. Current taxes relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income and not in profit and loss.

2. ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(l) Taxation (continued)

(ii) *Deferred tax*

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, joint ventures and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductable temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied in the year when the asset is realised or the liability is settled, based on the tax rates that have been enacted or substantively enacted at the reporting date. Deferred taxes relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income and not in profit and loss.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current liabilities and the deferred taxes relate to the same taxable entity and that same taxation authority.

2. ACCOUNTING POLICIES (CONTINUED)

2.5 Summary of significant accounting policies (continued)

(m) Pension benefits

The Bank operates a defined benefit pension plan, which requires contributions to be made to a separately administered fund. The defined benefit liability of providing benefits under the plan is determined separately using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting year exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plan.

Past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately following the introduction of, or changes to, a pension plan, the past service cost is recognised immediately.

The defined benefit liability (or asset) comprises the present value of the defined benefit obligation reduced by past service costs not yet recognised, the fair value of plan assets out of which the obligations are to be settled directly,and actuarial losses not yet recognised. The value of any asset is restricted to the sum of any actuarial losses and past service cost not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

(n) Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(o) Cash and cash equivalents

Cash and cash equivalents as referred to in the statement of cash flows, comprises of cash on hand, current accounts with Central Banks and amounts due from banks on demand or with an original maturity of three months or less measured at amortised cost. Thus balance is classified within loans and receivables in the statement of financial position.

(p) Leasing

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Bank as a lessee

Leases that do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they are incurred.

(q) Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

(r) Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements (within ‘Other liabilities’) at fair value, being the premium received. Subsequent to initial recognition, the Bank’s liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the income statement in credit loss expense. The premium received is recognised in the income statement in net fees and commission income on a straight line basis over the life of the guarantee.

(s) *Going Concern*

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

3. INTEREST AND SIMILAR INCOME

	2012	2011
Interest income on:	SR'000	SR'000
- Cash and short term funds	10,330	10,582
- Trading securities	19,978	7,028
- Investment securities	26,348	10,657
- Loans and advances	110,826	94,650
	167,482	122,917

4. INTEREST AND SIMILAR EXPENSE

	2012	2011
Interest expense on amounts:	SR'000	SR'000
- Due to customers	33,061	19,781
- Others	86	11
	33,147	19,792

5. NET FEES AND COMMISSION INCOME

	2012	2011
Fees and commissions income	SR'000	SR'000
Portfolio and other management fees	2,158	3,773
Credit related fees and commissions	30,541	24,220
Other fees received	5,558	2,970
Total fees and commission income	38,257	30,963
Fees and commissions expense		
Brokerage fees payable	(2,065)	(1,881)
Card services payable	(23,336)	(17,124)
Total fees and commission expense	(25,402)	(19,005)
Net fees and commission income	12,856	11,958

6. NET TRADING INCOME

	2012	2011
	SR'000	SR'000
Net foreign exchange gains	73,400	83,106
Recovery of charges	6,354	4,829
	79,754	87,935

7. ALLOWANCE FOR CREDIT IMPAIRMENT

	2012	2011
Loans and advances to customers (Note 14 (b))	SR'000	SR'000
Government	-	(4,824)
Business	37,970	31,424
Personal	(28)	67
	37,942	26,667

8. OTHER OPERATING EXPENSES

	2012	2011
	SR'000	SR'000
Staff costs (Note (a))	21,701	19,007
Auditors' remuneration	411	282
Administration costs	9,854	8,753
Computer costs	2,035	1,594
Rent	3,897	2,619
Maintenance and other costs	3,745	3,284
	41,642	35,539

8. OTHER OPERATING EXPENSES (CONTINUED)

(a) **Staff costs**

	2012	2011
	SR'000	SR'000
Wages and salaries	**15,175**	13,506
Directors' emoluments (Note (b))	**1,720**	1,531
Social security costs	**140**	113
Pension costs	**2,359**	2,156
Compensation for length of service	**886**	1,008
Other staff costs	**1,421**	693
	21,701	19,007

(b) **Directors' emoluments**

	2012	2011
Directors' fees:	**SR'000**	SR'000
Mohammed Afif	**31**	22
Panos Papakokkinos	**7**	11
Anil Dua	**178**	74
Patrick Payet	**19**	11
Marie Pierre Lloyed	**19**	11
Steve Fanny	**8**	-
Lise Bastienne	**5**	-
Charles Bastienne	**5**	-
Stephen Jardine	**5**	-
	277	129
Directors' other emoluments (short-term employee benefits):		
Ahmed Saeed	**1,443**	1,402
Total emoluments	**1,720**	1,531

9. TAXATION

The components of income tax expense for the years ended 31 December 2012 and 2011 are:

(a) **Profit or loss**

	2012	2011
Current income tax	**SR'000**	SR'000
Current income tax charge	**58,632**	54,261
Deferred income tax		
Relating to origination and reversal of temporary differences (Note 20)	**(8,712)**	(8,295)
Income tax expense reported in the profit or loss	**49,919**	45,966

(b) **Reconciliation of the total tax charge**

A reconciliation between income tax expense and the accounting profit multiplied by Seychelles's domestic tax rate for the years ended 31 December 2012 and 2011 is as follows:

	2012	2011
	SR'000	SR'000
Accounting profit before tax	**146,811**	140,776
At statutory income tax rate of 32.95% (2011: 32.95%)	**48,386**	46,385
Non-deductible expenses	**1,869**	426
Share of profit in jointly controlled entity not deductible for tax	**-**	(1,017)
Exempt income from Government stocks	**(792)**	(967)
Overprovision of tax in prior years	**1,227**	1,139
Income tax expense reported in the profit of loss	**50,689**	45,966

9. TAXATION (CONTINUED)

(c) **Tax payable**

	2012	2011
	SR'000	SR'000
Opening balance	**12,619**	43,825
Paid during the year	**(47,987)**	(85,467)
Charge for the year	**58,632**	54,261
Closing balance	**23,264**	12,619

(d) Tax is charged at 32.95% (2011: 32.95%) on taxable income

10. DIVIDENDS PAID AND PROPOSED	**2012**	2011
Declared and paid during the year	**SR'000**	SR'000
Equity dividends on ordinary shares:		
Dividend for 2012: SR 1,000 (2011: SR 500) per share	**100,000**	50,000
Total dividends paid	**100,000**	50,000
Proposed for approval at Annual General Meeting (not recognised as a liability as at 31 December)		
Equity dividends on ordinary shares:		
Final dividend for 2012: SR NIL (2011: SR 500) per share	**-**	50,000

11. CASH AND BALANCES WITH CENTRAL BANK	**2012**	2011
	SR'000	SR'000
Cash in hand	**52,585**	47,956
Current account with Central Bank		
- Restricted balance	**295,162**	309,852
- Unrestricted balance	**1,275**	37,346
	349,022	395,154

Restricted balances represent mandatory reserve deposits and are not available for use in the Bank's day–to–day operations.

For the purpose of cash flow statement, cash and cash equivalents comprise of the following at 31 December:

	2012	2011
	SR'000	SR'000
Cash in hand	**52,585**	47,956
Short-term deposits (Note 29)	**1,698,655**	1,008,034
Current account with Central Bank	**296,437**	347,198
	2,047,677	1,403,188

12. DUE FROM BANKS	**2012**	2011
	SR'000	SR'000
Placements with other banks	**1,636,266**	812,564
Balances with other banks	**76,988**	200,077
Other amounts due	**16,135**	20,861
	1,729,389	1,033,502

13. LOANS AND ADVANCES TO CUSTOMERS	**2012**	2011
	SR'000	SR'000
Government	**460,557**	505,235
Business	**886,140**	873,236
Personal	**82,202**	52,387
Gross loans and advances	**1,428,899**	1,430,858
Less: Allowances for impairment	**(129,005)**	(91,063)
	1,299,894	1,339,795

13. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(a) **Credit concentration of risk by industry sectors**

	2012	2011
	SR'000	SR'000
Civil engineering	**332,731**	298,084
Commerce	**30,764**	27,435
Tourism	**244,501**	325,966
Agriculture	**1,940**	1,642
Fishing	**16,326**	7,602
Manufacturing	**2,244**	1,162
Transport	**29,576**	35,838
Government	**460,557**	500,183
Others	**181,253**	141,883
	1,299,894	1,339,795

(b) **Impairment allowance for loans and advances to customers**

A reconciliation of the allowance for impairment losses for loans and advances by class is as follows:

	Government	**Business**	**Personal**	**Total**
2012	**SR'000**	**SR'000**	**SR'000**	**SR'000**
At 1 January 2012	**-**	**90,192**	**871**	**91,063**
Charge for the year	**-**	**37,970**	**-**	**37,970**
Amount reversed	**-**	**-**	**(28)**	**(28)**
At 31 December 2012	**-**	**128,162**	**843**	**129,005**
Individual impairment	**-**	**119,672**	**21**	**119,693**
Collective impairment	**-**	**8,490**	**822**	**9,312**
	-	**128,162**	**843**	**129,005**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	**-**	**174,066**	**76**	**174,142**

	Government	**Business**	**Personal**	**Total**
2011	**SR'000**	**SR'000**	**SR'000**	**SR'000**
At 1 January 2011	4,824	58,768	804	64,396
Charge for the year	-	31,424	67	31,491
Amount reversed	(4,824)	-	-	(4,824)
At 31 December 2011	-	90,192	871	91,063
Individual impairment	-	81,664	351	82,015
Collective impairment	-	8,528	520	9,048
	0	90,192	871	91,063
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	-	165,674	76	165,750

13. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) The following is a reconciliation of the individual and collective allowances for impairment losses on loans

	Individual impairment	Collective Impairment	Total
	SR'000	SR'000	SR'000
At 1 January 2012	**82,015**	**9,048**	**91,063**
Charge for the year (Note 7)	**37,678**	**264**	**37,942**
At 31 December 2012	**119,693**	**9,312**	**129,005**

	Individual impairment	Collective Impairment	Total
	SR'000	SR'000	SR'000
At 1 January 2011	51,484	12,912	64,396
Charge for the year (Note 7)	30,531	(3,864)	26,667
At 31 December 2011	82,015	9,048	91,063

The fair value of collateral that the Bank holds relating to loans individually determined to be impaired at 31 December 2012 amounts to SR 1.787.9 million (2011:SR 2,556.9 million). The collateral consists of cash, securities, letters of guarantee and properties.

14. FINANCIAL INVESTMENTS: AVAILABLE-FOR-SALE

	2012	2011
Unquoted investments	**SR'000**	SR'000
Equities	**500**	500
Treasury bills	**272,723**	75,774
	273,223	76,274

All unquoted available-for-sale equities are recorded at fair value except for the Bank's investment of SR 0.5 million in Development Bank of Seychelles which is recorded at cost since its fair value cannot be reliably estimated. There is no market for this investment and the Bank intends to hold it for the long term.

The fair value of the unquoted treasury bills is determined by reference to published price quotations.

The movement in investment in available-for-sale financial investments is summarised as follows:

		2012	
	Equities	Treasury bills	Total
	SR'000	SR'000	SR'000
At 1 January	500	75,774	76,274
Additions	-	469,523	469,523
Maturity	-	(272,574)	(272,574)
At 31 December	**500**	**272,723**	**273,223**

14. FINANCIAL INVESTMENTS: AVAILABLE-FOR-SALE (CONTINUED)

	2011		
	Equities	**Treasury bills**	**Total**
	SR'000	SR'000	SR'000
At 1 January	500	509,544	510,044
Additions	-	169,714	169,714
Maturity	-	(603,484)	(603,484)
At 31 December	500	75,774	76,274

15. FINANCIAL INVESTMENTS: HELD-TO-MATURITY

	2012	2011
Unquoted investments	**SR'000**	SR'000
DBS bonds	**-**	25,058
Government bonds	**30,318**	30,318
Deposit Auction Arrangement with Central Bank	**86,001**	276,035
Reverse Repo Agreement with Central Bank	**-**	127,188
	116,319	458,599

The movement in investment in held-to-maturity investments is summarised as follows:

	2012				
	DBS Bonds	**Government Bonds**	**Deposit Auction Agreement**	**Reverse Repo Agreement**	**Total**
	SR'000	**SR'000**	**SR'000**	**SR'000**	**SR'000**
At 1 January 2012	25,058	30,318	276,035	127,188	**458,599**
Additions	-	-	2,684,228	120,000	**2,804,228**
Maturity	(25,058)	-	(2,879,228)	(247,000)	**(3,151,286)**
Interest released	-	(818)	(1,035)	(188)	**(2,041)**
Interest accrued	-	818	6,001	-	**6,819**
At 31 December 2012	**-**	**30,318**	**86,001**	**-**	**116,319**

	2011				
	DBS Bonds	**Government Bonds**	**Deposit Auction Agreement**	**Reverse Repo Agreement**	**Total**
	SR'000	**SR'000**	**SR'000**	**SR'000**	**SR'000**
At 1 January 2011	25,062	30,314	331,534	-	386,910
Additions	-	-	3,477,186	889,550	4,366,736
Maturity	-	-	(3,533,686)	(762,550)	(4,296,236)
Interest released	(62)	(814)	(34)	-	(910)
Interest accrued	58	818	1,035	188	2,099
At 31 December 2011	25,058	30,318	276,035	127,188	458,599

Investment in Government of Seychelles Bonds is a percentage of share capital and statutory reserve. This is mandatory as per Section 23(4) of the Financial Institutions Act of Seychelles and is required to be re-invested on maturity.

16. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	2012	2011
(a) **Investment in BMI Offshore Bank**	**SR'000**	SR'000
At 1 January 2011	**19,048**	13,808
Acquisition during the year	**-**	-
Share of profit (Note (b))	**2,098**	3,807
Foreign currency translation	**(188)**	1,433
Carrying amount of the investment	**20,957**	19,048

(b) The following table illustrates summarised financial information of the Bank's investment in BMI Offshore Bank in which the bank owns 50% stake.

	2012	2011
Share of the jointly controlled entity's Statement of financial position:	**SR'000**	SR'000
Assets	**1,161,150**	873,439
Liabilities	**(1,119,235)**	(835,343)
Net assets	**41,915**	38,096
Carrying amount of the investment	**20,957**	19,048
Share of the jointly controlled entity's revenue and loss:		
Revenue	**14,778**	10,261
Profit (Note (a))	**2,098**	3,807

On 1 March 2012, the Bank publicly announced the decision of its Board of Directors to dispose of BMI Offshore Bank Seychelles Limited. The business of BMI Offshore Bank Seychelles Limited has been operating in an unpredictable product environment, making it difficult for management to derive real growth and profitability from the segment. The disposal of BMI Offshore Bank Seychelles Limited is due to be completed during the 2013 financial year and, as at 31 December 2012, final negotiations for the sale were in progress. At 31 December 2012, BMI Offshore Bank Seychelles Limited still maintained its 50% shareholding in this entity and has therefore accounted for it using the equity method of accounting which is in line with prior years.

17. PROPERTY AND EQUIPMENT

	Leasehold improvements	Construction in Progress	Furniture and fittings	Motor vehicles	Office equipment	Premise's fixed equipment	TOTAL
COST	**SR'000**	**SR'000**	**SR'000**	**SR'000**	**SR'000**	**SR'000**	**SR'000**
At 1 January 2011	4,464	518	1,704	1,679	6,703	396	15,464
Additions	-	1,462	-	566	528	136	2,692
Disposals	-	-	-	(177)	(8)	(101)	(286)
At 31 December 2011	4,464	1,980	1,704	2,068	7,223	431	17,870
At 1 January 2012	4,464	1,980	1,704	2,068	7,223	431	17,870
Additions	**146**	**17,660**	**30**	**1,054**	**4,360**	**43**	**23,293**
Disposals	**(56)**	**-**	**-**	**(828)**	**(36)**	**-**	**(920)**
At 31 December 2012	**4,554**	**19,640**	**1,734**	**2,294**	**11,547**	**474**	**40,243**
ACCUMULATED DEPRECIATION							
At 1 January 2011	4,061	-	1,462	1,283	3,308	290	10,404
Charge for the year	114	-	81	350	1,065	52	1,662
Disposal adjustments	-	-	-	(177)	(5)	(91)	(273)
At 31 December 2011	4,175	-	1,543	1,456	4,368	251	11,793
At 1 January 2012	4,175	-	1,543	1,456	4,368	251	11,793
Charge for the year	**98**	**-**	**74**	**249**	**1,559**	**60**	**2,040**
Disposal adjustments	**(55)**	**-**	**-**	**(414)**	**(28)**	**-**	**(497)**
At 31 December 2012	**4,218**	**-**	**1,617**	**1,291**	**5,899**	**311**	**13,336**
NET BOOK VALUES							
At 31 December 2012	**336**	**19,640**	**117**	**1,003**	**5,648**	**163**	**26,907**
At 31 December 2011	289	1,980	161	612	2,855	180	6,077

18. INTANGIBLE ASSETS

	Upfront Lease Payment	Computer software	TOTAL
COSTS	**SR'000**	**SR'000**	**SR'000**
At 1 January 2011	5,250	13,294	18,544
Additions during the year	-	-	-
At 31 December 2011	**5,250**	**13,294**	**18,544**
At 1 January 2012	5,250	13,294	18,544
Additions during the year	-	-	-
At 31 December 2012	**5,250**	**13,294**	**18,544**
ACCUMULATED AMORTISATION			
At 1 January 2011	212	5,172	5,384
Charge for the year	53	2,321	2,374
At 31 December 2011	265	7,493	7,758
At 1 January 2012	265	7,493	7,758
Charge for the year	53	2,320	2,373
At 31 December 2012	**318**	**9,813**	**10,131**
NET BOOK VALUES			
At 31 December 2012	**4,932**	**3,481**	**8,413**
At 31 December 2011	4,985	5,801	10,786

19. DEFERRED TAXES

The deferred tax as at 31 December relates to the following:

	Statement of financial position		Profit or loss	
	2012	2011	**2012**	2011
Deferred tax liability	**SR'000**	SR'000	**SR'000**	SR'000
Accelerated depreciation for tax purposes	**(4,973)**	(2,604)	**(2,643)**	(390)
Discontinued operations (Note 14)	**-**	-	**(591)**	-
Retirement benefit obligations	**(991)**	(312)	**(679)**	(1,142)
Exchange gains on foreign currency	**-**	-	**-**	2,489
Provisions for fraud	**(397)**	-	**(73)**	
	(6,360)	(2,916)	**(3,986)**	957
Deferred tax asset				
Provision for credit losses	**42,353**	30,005	**12,340**	6,919
Provisions for staff compensation	**2,388**	2,124	**263**	(64)
Provision for law costs	**68**	523	**16**	483
Exchange losses on held for sale investments	**-**	-	**79**	-
	44,810	32,652	**12,698**	7,338
Deferred tax income (Note 9)			**8,712**	8,295
Deferred tax asset net	**38,449**	29,736		

Reflected in the statement of financial position as follows:

	2012	2011
Deferred tax assets	**44,810**	32,652
Deferred tax liabilities	**(6,360)**	(2,916)
Deferred tax asset net	**38,449**	29,736

20. OTHER ASSETS

	2012	2011
	SR'000	SR'000
Other receivables and prepayments	**20,078**	8,926

21. DUE TO OTHER BANKS

	2012	2011
	SR'000	SR'000
Bank overdrafts	**324,926**	2,671
Deposits from foreign banks	**278**	216
	325,204	2,887

22. DUE TO CUSTOMERS

	2012	2011
	SR'000	SR'000
Current accounts	**2,402,403**	2,114,356
Term deposits	**715,389**	821,376
	3,117,792	2,935,732

Due to customers is analysed as follows:	2012	2011
	SR'000	SR'000
Government		
- Current/savings accounts	**18,008**	52,758
- Term deposits	**79,887**	100,965
Business		
- Current/savings accounts	**1,828,595**	1,569,189
- Term deposits	**447,429**	520,827
Personal		
- Current/savings accounts	**555,800**	491,751
- Term deposits	**188,073**	196,113
	3,117,792	2,931,603

Included in 'Due to customers' accounts were deposits of SR 30 million (2011: SR 39 million) held as collateral for irrevocable commitments under import letter of credit.

23. OTHER LIABILITIES

	2012	2011
	SR'000	SR'000
Sundry creditors	**5,286**	10,662
Provisions	**8,451**	7,887
Accruals	**615**	536
Unutilised cover	**13,108**	15,065
Other payables	**2,849**	2,697
	30,309	36,847

SCR 11,379k (2011: SCR 4,129k) of accrued interests payable have been reclassified against the current account, savings account and term deposit account balances they relate to as the interest accrued should form part of the amortised cost of the amount due to customers under IFRS 7.7 (note 23).

23. OTHER LIABILITIES (CONTINUED)

The movement in provisions during 2012 is as follows:

	STAFF COMPENSATION 2012	OTHER PROVISIONS 2012	TOTAL 2012
	SR'000	SR'000	SR'000
At 1 January	**6,449**	**1,428**	**7,877**
Arising during the year	**1,684**	**1,205**	**2,889**
Utilised	**(887)**	**(1,428)**	**(2,315)**
At 31 December	**7,246**	**1,205**	**8,451**

Under the Employment Act, staff compensation is payable to emlpoyees that have worked for the Bank longer than 5 years.

Other provisions relate to past operational losses.

24. RETIREMENT BENEFIT OBLIGATIONS

The Bank has a defined benefit pension plan covering substantially all of its employees, which requires contributions to be made to separately administered funds.

The following tables summarise the components of net benefit expense recognised in the profit or loss and the funded status and amounts recognised in the Statement of financial position for the respective plan:

(a) **Net benefit expense (recognised in profit or loss)**

	2012	2011
	SR'000	SR'000
Current service cost	**1,586**	1,428
Interest cost on benefit obligation	**1,604**	1,376
Expected return on plan assets	**(1,315)**	(997)
Actuarial loss/(gain) recognised	**290**	233
Net benefit expense	**2,165**	2,040
Actual return on plan assets	**1,083**	858

(b) **Amounts recognised in the Statement of financial position as at 31 December**

	2012	2011
	SR'000	SR'000
Defined benefit obligation	**29,472**	26,813
Fair value of plan assets	**(25,054)**	(19,909)
	4,418	**6,904**
Unrecognised actuarial (loss)	**(7,424)**	**(7,850)**
Benefit (asset) / liability	**(3,006)**	**(946)**

(c) **Changes in the present value of the defined benefit obligation are as follows:**

	2012	2011
	SR'000	SR'000
Defined benefit obligation at 1 January	**26,813**	23,093
Current service cost	**1,586**	1,428
Interest cost	**1,604**	1,376
Actuarial loss	**(368)**	1,250
Benefits paid	**(163)**	(334)
Defined benefit obligation as at 31 December	**29,472**	26,813

24. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(d) **Changes in the fair value of plan assets are as follows:**

	2012	2011
	SR'000	SR'000
Fair value of plan assets at 1 January	**19,909**	14,239
Expected return on plan assets	**1,315**	997
Employer contributions	**4,225**	5,146
Benefits paid	**(163)**	(334)
Actuarial gain / (loss)	**(232)**	(139)
Fair value of plan assets at 31 December	**25,054**	19,909

(e) The Bank expects to contribute SR 1,880k to its defined benefit pension plans in 2012.

(f) The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	2012	2011
	%	%
Equities	**2**	3
Bonds	**4**	5
Deposits	**93**	92
Other	**1**	0
	100	100

(g) The overall expected rate of return on plan assets is determined based on the market expectations prevailing on that date, applicable to the period over which the obligation is to be settled.

(h) The principal assumptions used in determining pension and post-employment benefit obligations for the Bank's plans are shown below:

	2012	2011
	%	%
Discount rate	**7**	6
Expected rate of return on assets	**7**	6
Future salary increases	**6**	4.5

(i) Amounts for the current and previous four periods are as follows:

	2012	2011	2010	2009	2008
	SR'000	SR'000	SR'000	SR'000	SR'000
Fair value of plan assets	**25,054**	19,909	14,239	12,559	10,771
Present value of defined benefit obligations	**(29,472)**	(26,813)	(23,093)	(17,690)	(13,911)
(Deficit)/surplus	**(4,418)**	(6,904)	(8,854)	(5,131)	(3,140)
Experience adjustments on plan assets	**(232)**	(139)	(97)	436	107
Experience adjustments on plan liabilities	**(544)**	(1,250)	(2,901)	(2,286)	(1,776)

25. ISSUED CAPITAL

	2012 & 2011	
Share capital	**No. of shares**	**SR'000**
Authorised, issued and fully paid:		
Ordinary shares of SR 1,000 each	**100,000**	100,000

26. RESERVES

(a) Statutory reserve

The statutory reserve is maintained in accordance with the provisions of S 24(1) of the Financial Institutions Act 2004 which states that 'every financial institution shall maintain a reserve fund and shall, out of the net profits of each year, before any dividend is declared or any profits are transferred to the head office or elsewhere, transfer to that reserve fund a sum equivalent to not less than 20 percent of those profits until the amount of the reserve fund is equal to the paid-up or assigned capital, as the case may be'. In the Bank's case, this has already been achieved.

(b) Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the net investment in foreign operations of the jointly controlled entity.

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

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

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

The following table shows an analysis of financial instruments recorded at fair value by level of their value hierarchy:

31 December 2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets	**SR'000**	**SR'000**	**SR'000**	**SR'000**
Financial investments available-for-sale:				
Treasury bills	-	**272,723**	-	**272,723**

31 December 2011	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets	**SR'000**	**SR'000**	**SR'000**	**SR'000**
Financial investments available-for-sale:				
Treasury bills	-	75,774	-	**75,774**

27. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments recorded at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Bank's estimate of assumptions that a market participant would make when valuing the instruments.

Financial investments: Available-for-sale

The above treasury bills are valued using models which incorporate data observable in the market such as expected yield curve on similar instruments.

There has been no movements between the different levels.

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	2012					
	Classification of carrying amount					Fair value
	Loans and receivables	Held-to-Maturity Financial Assets	Available-for-Sale Financial Assets	Liabilities at amortised cost	Total	Total
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
Financial assets						
Cash and balances with Central Bank	349,022	-	-	-	349,022	349,022
Due from banks	1,729,389	-	-	-	1,729,389	1,729,389
Loans and advances to customers	1,299,894	-	-	-	1,299,894	1,299,894
Financial investments: Available-for-sale	-	-	273,223	-	273,223	273,223
Held-to-maturity	-	116,319	-	-	116,319	116,319
	3,378,305	116,319	273,223	-	3,767,847	3,767,847
Financial liabilities						
Other Liabilities	-	-	-	(30,309)	(30,309)	(30,309)
Due to banks	-	-	-	(325,204)	(325,204)	(325,204)
Due to customers	-	-	-	(3,117,792)	(3,117,792)	(3,117,792)
	-	-	-	(3,473,305)	(3,473,305)	(3,473,305)

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

27. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments recorded at fair value

Financial investments: Available-for-sale

The above treasury bills are valued using models which incorporate data observable in the market such as expected yield curve on similar instruments.

There has been no movements between the different levels.

Set out below is a comparison by class of the carrying amounts and fair values of the Bank's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	2011					
	Classification of carrying amount					Fair value
	Loans and receivables	Held-to-Maturity Financial Assets	Available-for-Sale Financial Assets	Liabilities at amortised cost	Total	Total
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
Financial assets						
Cash and balances with Central Bank	395,154	-	-	-	395,154	395,154
Due from banks	1,033,502	-	-	-	1,033,502	1,033,502
Loans and advances to customers	1,339,795	-	-	-	1,339,795	1,339,795
Financial investments - Available-for-sale	-	-	76,274	-	76,274	76,274
- Held-to-maturity	-	458,599	-	-	458,599	458,599
	2,768,451	458,599	76,274	-	3,303,324	3,303,324
Financial liabilities						
Other Liabilities	-	-	-	(40,976)	(40,976)	(40,976)
Due to banks	-	-	-	(2,887)	(2,887)	(2,887)
Due to customers	-	-	-	(2,931,603)	(2,931,603)	(2,931,603)
	-	-	-	(2,975,466)	(2,975,466)	(2,975,466)

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity and variable rate financial instruments.

28. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

	2012							
	Less than 3 months	3 to 12 months	Sub total less than 12 months	1 to 5 years	Over 5 years	Subtotal over 12 months	No specific Maturity	Total
Assets	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
Cash and balances with Central Bank	349,022	-	349,022	-	-	-	-	349,022
Due from banks	1,698,655	30,734	1,729,389	-	-	-	-	1,729,389
Loans and advances to customers	259,948	125,676	385,624	303,888	610,382	914,270	-	1,299,894
Retirement obligations	-	-	-	-	-	-	3,006	3,006
Financial investments - Available-for-sale	165,715	107,008	272,723	-	-	-	500	273,223
- Held-to-maturity	86,001	-	86,001	30,318	-	30,318	-	116,319
Total	2,559,341	263,418	2,822,759	334,206	610,382	944,588	3,506	3,770,853
Liabilities								
Due to other banks	325,204	-	325,204	-	-	-	-	325,204
Due to customers	2,873,102	231,690	3,104,792	13,000	-	13,000	-	3,117,792
Other liabilities	30,309	-	30,309	-	-	-	-	30,309
Total	3,228,615	231,690	3,460,305	13,000	-	13,000	-	3,473,305
Net	(669,274)	31,728	(637,546)	321,206	610,382	931,588	3,506	297,548

For undiscounted amounts relating to financial instruments, please refer to note 32 c.

28. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (CONTINUED)

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

	2011							
	Less than 3 months	**3 to 12 months**	**Sub total less than 12 months**	**1 to 5 years**	**Over 5 years**	**Subtotal over 12 months**	**No specific Maturity**	**Total**
Assets	**SR'000**	**SR'000**	**SR'000**	**SR'000**	**SR'000**	**SR'000**	**SR'000**	**SR'000**
Cash and balances with Central Bank	395,154	-	395,154	-	-	-	-	395,154
Due from banks	1,008,034	25,468	1,033,502	-	-	-	-	1,033,502
Loans and advances to customers	121,028	102,520	223,548	506,380	609,867	1,116,247	-	1,339,795
Retirement obligations	-	-	-	-	-	-	946	946
Financial investments - Available-for-sale	48,123	27,651	75,774	-	-	-	500	76,274
- Held-to-maturity	403,223	-	403,223	47,579	7,797	55,376	-	458,599
Total	1,975,562	155,639	2,131,201	553,959	617,664	1,171,623	1,446	3,304,270
Liabilities								
Due to other banks	2,887	-	2,887	-	-	-	-	2,887
Due to customers	2,679,877	239,771	2,919,648	11,955	-	11,955	-	2,931,603
Other liabilities	40,976	-	40,976	-	-	-	-	40,976
Total	2,723,740	239,771	2,963,511	11,955	-	11,955	-	2,975,466
Net	(748,178)	(84,132)	(832,310)	542,004	617,664	1,159,668	1,446	328,804

For undiscounted amounts relating to financial instruments, please refer to note 32 c.

29. CONTINGENT LIABILITIES AND COMMITMENTS

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Even though the obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank.

	2012	2011
Contingent liabilities	**SR'000**	SR'000
Guarantees	**39,724**	82,671
Bills of collection	**14,095**	10,696
Letters of credit	**61,459**	77,475
Other contingent liabilities	**5,177**	4,706
	120,455	175,548
Commitments		
Undrawn commitments to lend	**262,531**	108,268
Total	**382,986**	283,816

Contingent liabilities

Letters of credit, bills of collection and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Other contingent liabilities relate to security bonds and bankers liabilities. Guarantees and standby letters of credit carry a similar credit risk to loans.

Legal claims

Litigation is a common occurrence in the Banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year-end, the Bank had several unresolved legal claims.

Undrawn commitments to lend

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

However, the potential credit loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Lease arrangements

Operating lease commitments – Bank as lessee

The Bank has entered into commercial leases for premises and land. These leases have an average life of twenty five years with an annual renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments under cancellable operating leases as at 31 December are, as follows:

29. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

Lease commitments	2012 SR'000	2011 SR'000
Within 1 year	**976**	976
After one year but not more than five years	**3,904**	3,904
More than five years	**-**	976
	4,880	5,856

30. RELATED PARTY DISCLOSURES

Compensation of key management personnel of the Bank

	2012 SR'000	2011 SR'000
Compensation	**988**	678
Short-term employee benefits (Note 8b)	**1,720**	1,531
	2,708	2,209

Transactions with key management personnel of the Bank

The Bank enters into transactions, arrangements and agreements involving Directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates.

The following table provides the total amount of transactions, which has been entered into with key management personnel for the relevant financial year:

	2012		2011	
	Balances as at 31 December	Income from/ (expense) to	Balances as at 31 December	Income from/ (expense) to
	SR'000	SR'000	SR'000	SR'000
Loans and advances	**753**	**33**	869	37
Due to customers	**74**	**7**	14	-

Transactions with other related parties

In addition to transactions with key management personnel, the Bank enters into transactions with entities with significant influence over the Bank. The following table shows the outstanding balance and the corresponding interest during the year.

2012	Interest from related parties	Interest to related parties	Amount owed by related parties	Amount owed to related parties
	SR'000	SR'000	SR'000	SR'000
- The Government of Seychelles	**12,475**	**-**	**140,081**	**1,338**
- State owned or controlled enterprises	**24,775**	**3,190**	**311,275**	**60,110**
- Corporate shareholder of the bank	**-**	**-**	**-**	**153**
- Jointly controlled entity	**-**	**-**	**-**	**32,909**
	37,250	**3,190**	**451,356**	**94,509**

30. RELATED PARTY DISCLOSURES (CONTINUED)

Transactions with other related parties (continued)

2011	Interest from related parties	Interest to related parties	Amount owed by related parties	Amount owed to related parties
	SR'000	SR'000	SR'000	SR'000
- The Government of Seychelles	2,588	-	140,081	848
- State owned or controlled enterprises	19,484	1,453	362,566	99,434
- Corporate shareholder of the bank	-	-	-	130
- Jointly controlled entity	-	-	-	51,141
	22,072	1,453	502,647	151,553

Terms and conditions of transactions with related parties

The above mentioned outstanding balances arose from the ordinary course of business. The interest charged to and by related parties are at normal commercial rates. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2012, the Bank has not made any provision for doubtful debts relating to amounts owed by related parties.

31. RISK MANAGEMENT

(a) Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to operating risks.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors as well as the Bank's senior management is responsible for understanding both the nature and level of risks taken by the institution and how the risk relates to adequate capital levels. The Board is also responsible for the overall risk management approach and for approving the risk strategies and principles.

Internal Audit

Risk management processes throughout the Bank are audited annually by the Internal Audit function, that examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

31. RISK MANAGEMENT (CONTINUED)

(a) Introduction (continued)

Audit Committee

The Audit Committee is responsible for reviewing the financial reporting process, ensuring consistency and appropriateness of the audit processes, considering significant financial reporting risks that could have an impact on the financial reporting, assessing the appropriateness of financial statements to standard accounting principles, and reviewing the Bank's process for monitoring compliance with laws and regulations and with the Code of Conduct.

(b) Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has established a credit quality review process to provide early identification of possible changes in the credit worthiness of counterparties, including regular collateral revisions.

In measuring credit risk of loans and advances to customers and to Banks at a counterparty level, the Bank reflects three components (i) the probability of default by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Bank derives the exposure of default; and (iii) the likely recovery ratio on the defaulted obligations.

Credit related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to similar risks to loans and these are mitigated by the same control processes and policies.

Risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. In order to avoid excessive concentrations of risk to any particular sector/country, the Bank reviews on a monthly basis its exposure to different sectors to control concentrations. Appropriate levels of control via the Management Credit Committee is used within the Bank, to manage risk concentrations at both the relationship and sector/industry levels.

31. RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position . The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Gross maximum exposure 2012 SR'000	Gross maximum exposure 2011 SR'000
Cash and balances with Central Bank	**349,022**	395,154
Due from banks	**1,729,389**	1,033,502
Loans and advances to customers	**1,299,894**	1,339,795
Financial investments: Available-for-sale	**273,223**	76,274
Held-to-maturity	**116,319**	458,599
Total	**3,767,847**	3,303,324
Commitments	**382,986**	283,816
Total credit risk exposure	**4,150,833**	3,587,140

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2012 was SR 953,217,488 (2011: SR 336,436,897) in respect of placements with a bank.

The following table shows the Bank's credit exposure in respect of its loans to external customers.

	Gross maximum exposure 2012 SR'000	Gross maximum exposure 2011 SR'000
Agriculture	**1,940**	1,642
Construction, Infrastructure and real estate	**332,731**	298,084
Financial and business services	**16,326**	128,709
Government	**460,557**	505,235
Manufacturing	**2,244**	1,162
Tourism	**244,501**	51,516
Personal	**210,829**	325,965
Traders	**30,764**	27,482
	1,299,894	1,339,795

31. RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral obtained are as follows:
• Floating charges for commercial lending;
• Fixed charges for retail lending and for commercial lending;
• Cash deposits held under lien;
• Pledge of quoted shares.
The Bank also requests for personal guarantees from promoters, directors, shareholders and also corporate and cross guarantees from parent and sister companies.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. It is the Bank's policy to dispose of any collateral given as security for sub standard or impaired asset in line with existing standards and procedures in place. The proceeds will be used to reduce or repay the outstanding claim.

Credit quality per class of financial assets

The table below shows the percentage of the Bank's financial assets relating to loans and advances that are passed due and have therefore been impaired using the rating categories as taken from the Central Bank Directive:

Bank's rating	**2012**		2011	
	Loans and advances	**Impairment provision**	Loans and advances	Impairment provision
	(%)	**(%)**	(%)	(%)
Pass	**80.23**	**10.25**	90.51	-
Special Mention	**0.21**	**-**	0.20	-
Substandard	**4.31**	**0.03**	5.83	-
Doubtful	**5.03**	**-**	0.00	-
Loss	**10.22**	**89.72**	3.46	100.00
Total	**100.00**	**100.00**	100.00	100.00

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

31. RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support, the realisable value of collateral and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention. As a result thereof, the Bank has made specific provision amounting to SR 148 million as at 31 December 2012 (2011: SR 82 million) (Note 14).

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and advances that are not individually significant and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Loans and advances to customers past due but not impaired

Loans and advances to customers less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

	2012			
	< 30 days SR'000	**31 - 90 days SR'000**	**> 90 days SR'000**	**Total SR'000**
Government	-	-	-	-
Business	2,994	61,131	216,673	280,798
Personal	33	62	-	95
	3,027	61,193	216,673	280,893

	2011			
	< 30 days SR'000	31 - 90 days SR'000	> 90 days SR'000	Total SR'000
Government	-	-	-	-
Business	177	-	-	177
Personal	393	-	-	393
	570	-	-	570

31. RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

Sources of liquidity risk include unforseen withdrawal of demand deposit, restricted access to new funding with appropriate maturity and interest rate characteristics, inability to liquidate a marketable asset timeously with minimum risk of capital loss, unpredicted non payment of a loan obligation and a sudden increased demand for loans.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains a statutory deposit with the Central Bank of Seychelles. The liquidity position is assessed and managed under a variety of scenarios giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities, set to reflect market conditions. The ratio during the period was as follows:

	2012	2011
31 December	**%**	%
Average during the period	**62**	70
Highest	**71**	78
Lowest	**46**	58

The targeted ratio for 2012 was 70%.

31. RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk and funding management (Continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2012 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial liabilities	**2012**				2011			
	Less than 3 months	**3 to 12 months**	**1 to 5 years**	**Total**	Less than 3 months	3 to 12 months	1 to 5 years	Total
	SR'000	**SR'000**	**SR'000**	**SR'000**	SR'000	SR'000	SR'000	SR'000
Due to banks	**325,204**	**-**	**-**	**325,204**	2,887	-	-	2,887
Due to customers	**2,873,102**	**231,690**	**13,000**	**3,117,792**	2,679,877	239,771	11,955	2,931,603
Other liabilities	**17,201**	**-**	**-**	**17,201**	36,847	-	-	36,847
Total undiscounted financial liabilities	**3,215,507**	**231,690**	**13,000**	**3,460,197**	2,719,611	239,771	11,955	2,971,337

The table below shows the contractual expiry by maturity of the Bank's commitments.

	2012				2011			
	Less than 3 months	**3 to 12 months**	**1 to 5 years**	**Total**	Less than 3 months	3 to 12 months	1 to 5 years	Total
	SR'000	**SR'000**	**SR'000**	**SR'000**	SR'000	SR'000	SR'000	SR'000
Contingent liabilities	**71,982**	**44,760**	**3,713**	**120,455**	134,827	37,060	3,661	175,548

The Bank expects that not all the contingent liabilities will be drawn before expiry of commitments.

31. RISK MANAGEMENT (CONTINUED)

(d) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates. The Bank classifies exposures to market risk into either trading or non trading portfolios.

Trading portfolios include those positions arising from market making transactions where the Bank acts as principal with clients or with the market.

Non-trading portfolios primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Bank's held-to-maturity and available-for-sale investments.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Management has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis to ensure positions are maintained within the established limits.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Bank's interest bearing net financial assets. The sensitivity of the profit or loss is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2011, including the effect of hedging instruments. The sensitivity of other comprehensive income is analysed by changes in the fair value of the available for sale financial instrument.

		Change in basis points	Effect on profit before tax	Effect on other comprehensive income
			SR'000	SR'000
2012	**Interest bearing net financial assets**	**+1**	**851**	**-**
		-1	**(851)**	**-**
2011	Interest bearing net financial assets	+1	512	-
		-1	(512)	-

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Management has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

31. RISK MANAGEMENT (CONTINUED)

Currency risk (Continued)

The following table demonstrates the sensitivity of the Bank's profit before tax and the Bank's equity, to a realistically possible change in the USD, GBP and EUR foreign currency exchange rates, being the main currencies used by the Bank, with all other variables held constant.

	Increase/ Decrease in foreign currency exchange rate	Euro		USD		GBP	
		Effect on:		Effect on:		Effect on:	
		Profit before tax	Other comprehensive income	Profit before tax	Other comprehensive income	Profit before tax	Other comprehensive income
		SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
2012	**+15%**	**52,514**	**-**	**(8,681)**	**-**	**2,211**	
	-15%	**(52,514)**	**-**	**8,681**	**-**	**(2,211)**	**-**
2011	+15%	18,535	-	(1,209)	-	146	
	-15%	(18,535)	-	1,209	-	(146)	-

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

32. CAPITAL MANAGEMENT

Capital includes issued capital, retained earnings , statutory reserve , available for sale reserve and foreign currency translation reserve.

The primary objectives of the bank’s capital management policy are to ensure that the bank complies with externally imposed capital requirements and that the bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

The bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes yet have been made in the objectives, policies and processes from the previous years, however, it is under constant scrutiny of the Board.

No changes were made in the objectives, policies, or process during the years end 31 December 2012 and 31 December 2011.

32. CAPITAL MANAGEMENT (CONTINUED)

The Company monitors capital using a gearing ratio which is debt divided by total capital . The company includes as debts its amount due to banks and customers .

	2012	2011
	SR'000	SR'000
Due to banks	**325,204**	2,887
Due to customers	**3,117,792**	2,935,732
Total Debt	**3,442,996**	2,938,619
Equity	**389,088**	392,384
Gearing ratio	885%	749%

33. EVENTS AFTER THE REPORTING DATE

On 1 March 2012, the Bank publicly announced the decision of its Board of Directors to dispose of BMI Offshore Bank Seychelles Limited. The business of BMI Offshore Bank Seychelles Limited has been operating in an unpredictable product environment, making it difficult for management to derive real growth and profitability from the segment. The disposal of BMI Offshore Bank Seychelles Limited is due to be completed during the 2013 financial year and, as at 31 December 2012, final negotiations for the sale were in progress. At 31 December 2012, BMI Offshore Bank Seychelles Limited still maintained its 50% shareholding in this entity and has therefore accounted for it using the equity method of accounting which is in line with prior years.