



SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
T/A NOUVOBANQ
AUDITED ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2023

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED**TABLE OF CONTENTS**

	Page
Corporate Information	3
Directors' Report	4 – 5
Report from the Independent Auditor	6 – 8
Statement of financial position	9
Statement of profit or loss and other comprehensive income	10
Statement of changes in equity	11
Statement of cash flows	12
Notes to the financial statements	13 – 80

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED

CORPORATE INFORMATION

Registered Address

Nouvobanq House
Rue de La Possession
Victoria, Mahé, Seychelles

Directors

	Date of first appointment	Date of re-appointment
David Howes	1 January 2018	1 July 2021
Michael Bluemner	17 February 2020	1 July 2021
Andrew Bainbridge	1 July 2021	-
Helene Maiche	1 July 2021	-
Odile Vidot	1 July 2021	-
Oliver Bastienne	1 July 2021	-
Christophe Edmond	1 July 2022	-
Jennifer Morel	15 August 2022	-
Philippe Pierre	1 October 2022	-

Company Secretary

Kelly Mothe
Nouvobanq House
Rue de La Possession
Victoria, Mahé, Seychelles

Executive Management

Christophe Edmond	Chief Executive Officer
Philippe Pierre	Deputy Chief Executive Officer
Joel Isaac	Chief Risk Officer
Mariza Tirant	Chief Financial Officer
Sandra Hall	Chief Compliance Officer
Anil Arnephy Ladouce	Chief Treasury Officer
Laurie-Mae Lepathy	Chief Corporate and Marketing Officer
Madelene Aalfs	Chief Human Resources Officer
Laurain Confait	Chief Operations Officer
Maureen Brioche	Chief Branch Officer

External Auditor

Deloitte
7th – 8th Floors, Standard Chartered Tower
19 – 21 Bank Street, Cybercity
Ebène, 72201
Republic of Mauritius

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED

DIRECTORS' REPORT

The Directors are pleased to present their report together with the audited financial statements of the **Seychelles International Mercantile Banking Corporation Limited** ("the Bank"/ "Nouvobanq") for the year ended 31 December 2023.

PRINCIPAL ACTIVITIES

The principal activities of the Bank consist of providing banking and financial services in Seychelles. There has been no change to the Bank's core activities for the financial year under review.

RESULTS

	SR'000
Profit for the year	367,492
Retained earnings brought forward	659,474
Dividends proposed and paid	(170,000)
Transfer to general loan loss reserve	(4,752)
	<hr/>
Retained earnings carried forward	852,214
	<hr/> <hr/>

DIVIDENDS

Final dividends to the ordinary shareholder amounting to **SR1,700** per share for a total of **SR170m** (2022: SR345m) were declared and paid during the year.

PROPERTY AND EQUIPMENT

The property and equipment of the Bank and the movements therein are detailed in Note 12 to the financial statements.

Property and equipment are stated at cost less accumulated depreciation. The Directors have estimated that the carrying amount of property and equipment at the reporting date approximate their fair value.

DIRECTORS' AND THEIR INTERESTS IN THE BANK

Refer to page 3 for the list of Directors of the Bank from the date of the last report till date.

None of the Directors held any interest in the Bank during the financial year under review (2022: Nil)

The Chief Executive Officer and Deputy Chief Executive Officer, who are executive directors of the Bank, have an employment contract with the Bank.

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The Directors are responsible for the overall management of the affairs of the Bank including the operations of the Bank and making investment decisions.

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards ("IFRS") and in compliance with the requirements of the Seychelles Companies Act 1972, the Financial Institutions Act 2004, as amended, and the Regulations and Directives of the Central Bank of Seychelles. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies that fall within the accounting policies adopted by the Bank as a whole and making accounting estimates that are reasonable in the circumstances.

The Directors have the general responsibility of safeguarding the Bank's assets.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED

DIRECTORS' REPORT

AUDITOR

Deloitte has been reconducted to office as the Bank's statutory auditor for the financial year ended 31 December 2023. Deloitte was first appointed as the Bank's statutory external auditor for the year ended 31 December 2022.

BOARD APPROVAL

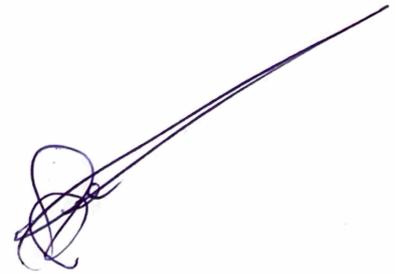
This report has been approved by the Directors of the Bank on **29 April 2024** and signed as follows:



Jennifer Morel
Chairperson



Christophe Edmond
*Chief Executive Officer
and Executive Director*



Philippe Pierre
*Deputy Chief Executive Officer
and Executive Director*



Andrew Bainbridge
Director



Michael Bluemner
Director



David Howes
Director



Odile Vidot
Director



Helene Maiche
Director



Oliver Bastienne
Director

**Independent auditor’s report to the Shareholders of
Seychelles International Mercantile Banking Corporation Limited**

Report on the audit of the financial statements

Opinion

We have audited the financial statements of **Seychelles International Mercantile Banking Corporation Limited** (the “Bank”) set out on pages 9 to 80, which comprise the statement of financial position as at 31 December 2023, the statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and the notes to the financial statements, including the material accounting policy information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2023, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), and comply with the requirements of the Seychelles Companies Act 1972, the Financial Institutions Act 2004 and the Regulations and Directives of the Central Bank of Seychelles.

Basis for opinion

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Provision for expected credit losses	
<p>Management determines the allowances for expected credit losses (‘ECL’) on financial instruments as required under IFRS 9 <i>Financial Instruments</i>. The key areas where we identified significant management judgements and estimates in the application of IFRS 9 are:</p> <ul style="list-style-type: none"> • Model estimations – Statistical modelling is used to estimate ECLs which involves determining Probabilities of Default (‘PD’), Loss Given Default (‘LGD’), and Exposures at Default (‘EAD’). The PD and LGD models are the key drivers of the ECL results and are therefore critical in the ECL modelling approach. • Macro-Economic Forecasts – IFRS 9 requires the measurement of ECL on a forward-looking basis using the most appropriate macro- economic forecasts. • Significant Increase in Credit Risk (‘SICR’) – Determining and identifying SICR involves a higher level of judgement, especially when facilities have maturity of greater than 12 months. • Qualitative adjustments – Adjustments to the model-driven ECL results are raised by management to address known impairment model limitations or emerging trends. Such adjustments are inherently uncertain which involve significant management judgement. <p>For impaired credits, the most significant judgements are whether impairment events have occurred and the valuation of any underlying collaterals, along with the determination of the corresponding PD and LGD.</p> <p>Due to the significance of the judgements and estimated involved in the overall determination of the allowances for ECL, this item is considered as a key audit matter.</p> <p>The details of the policies and processes for the determination of the allowances for ECL are disclosed in Notes 3 (k) and 5.3 to the financial statements.</p>	<p>Our procedures comprise the following:</p> <ul style="list-style-type: none"> • Involving our specialist team to validate the IFRS 9 model, including: <ul style="list-style-type: none"> ✓ Evaluating the appropriateness of the impairment methodologies applied by the Bank against the requirements of IFRS 9; ✓ Assessing the appropriateness of macro-economic forecasts used; and ✓ Independently assessing assumptions underlying the PD, LGD and EAD. • Testing the completeness and accuracy of data used for ECL calculation through sample testing; • Reviewing the criteria for staging of credit exposures and ensure these are in line with the requirements of IFRS 9 including any backstop used in the methodology; • Inspecting the minutes of the Risk Management and Credit Committee to ensure that there are governance controls in place in relation to the assessment of the allowances for ECL; <p>For impaired credits, we have further:</p> <ul style="list-style-type: none"> • Performed a risk-based test of loans and advances to customers to ensure timely identification of impaired loans to ensure appropriate and adequate allowances for ECL; and • Performed substantive tests of details on Stage 3 provisioning including validation of valuation of collateral securities and future cash flows. <p>We have also assessed whether the disclosures are in accordance with the requirements of IFRS.</p>

**Independent auditor's report to the Shareholders of
Seychelles International Mercantile Banking Corporation Limited (Cont'd)**

7

Other information

The directors are responsible for the other information. The other information comprises the corporate information and the directors' report, but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and in compliance with the requirements of the Seychelles Companies Act 1972, the Financial Institutions Act 2004 and the Regulations and Directives of the Central Bank of Seychelles and they are also responsible for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

**Independent auditor's report to the Shareholders of
Seychelles International Mercantile Banking Corporation Limited (Cont'd)**

8

Report on other legal and regulatory requirements

Seychelles Companies Act, 1972

In accordance with the requirements of the Seychelles Companies Act 1972, we report as follows:

- we have no relationship with, or interest in, the Bank other than in our capacity as auditor;
- we have obtained all information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by the Bank as far as appears from our examination of those records.

Financial Institutions Act 2004 and the Regulations and Directives of the Central Bank of Seychelles

- In our opinion, the financial statements have been prepared on a basis consistent with that of the preceding year and are complete, fair and properly drawn up and comply with the provisions of the Financial Institutions Act 2004 and the Regulations and Directives of the Central Bank of Seychelles.
- The explanations or information called for or given to us by the officers or agents of the Bank were satisfactory.
- The Bank did not carry out any fiduciary duties during the year under review.

Use of this report

This report is made solely to the Bank's shareholders, as a body, in accordance with the terms of our engagement to conduct the statutory audit of the Bank. Our audit work has been undertaken so that we might state to the Bank's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.


Deloitte

Chartered Accountants

29 April 2024

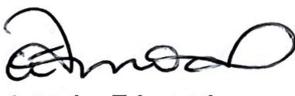

R. Srinivasa Sankar, FCA
Partner

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2023

	<u>Notes</u>	<u>2023</u>	<u>2022</u>
		SR' 000	SR' 000
ASSETS			
Cash and cash equivalents	8	1,863,826	2,214,504
Loans to and placements with banks and CBS	9	3,818,398	2,640,973
Loans and advances to customers	10	2,798,351	2,727,260
Investment securities	11	2,180,096	2,184,236
Investment in associate	38	7,987	-
Property and equipment	12	194,110	182,698
Intangible assets	13	15,915	10,420
Right-of-use assets	14(b)	20,115	22,967
Current tax assets	20	58,611	5,017
Deferred tax assets	16	191	1,651
Other assets	17	1,399,203	1,203,655
Retirement benefit assets	15	10,296	-
Total assets		<u>12,367,099</u>	<u>11,193,381</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Deposits from customers	18	10,913,951	9,971,765
Lease liabilities	14(c)	17,137	19,686
Borrowings	19	62,463	90,657
Other liabilities	21	61,291	37,835
Retirement benefit liabilities	15	7,828	24,883
Total liabilities		<u>11,062,670</u>	<u>10,144,826</u>
EQUITY			
Share capital	22	100,000	100,000
Statutory reserve	23	100,000	100,000
General loan loss reserve	24	15,356	10,604
Fair value reserve	25	246,412	196,372
Actuarial reserve	25	(9,553)	(17,895)
Retained earnings		852,214	659,474
Total equity		<u>1,304,429</u>	<u>1,048,555</u>
Total liabilities and equity		<u>12,367,099</u>	<u>11,193,381</u>

These financial statements were authorised and approved for issue by the Board of Directors on 29 April 2024.


Jennifer Morel
 Chairperson


Christophe Edmond
 Chief Executive Officer and
 Executive Director


Philippe Pierre
 Deputy Chief Executive Officer and
 Executive Director


Andrew Bainbridge
 Director


Michael Bluemner
 Director


David Howes
 Director


Odile Vidot
 Director


Helene Maiche
 Director


Oliver Bastienne
 Director

The notes on pages 13 to 80 form an integral part of these financial statements.
 The report from the independent auditor is on pages 6 to 8.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023

	<u>Notes</u>	<u>2023</u> SR' 000	<u>2022</u> SR' 000
Interest income calculated using the effective interest rate method	26	522,494	321,996
Interest expense	27	(73,954)	(34,550)
Net interest income		448,540	287,446
Fees and commission income	28(a)	122,335	110,252
Fees and commission expense	28(b)	(86,326)	(80,763)
Net fee and commission income		36,009	29,489
Net trading income	29	160,973	148,199
Other income	30	3,605	4,282
Revenue		649,127	469,416
Other expenses	31	(182,448)	(105,156)
Depreciation of property and equipment	12	(12,377)	(11,487)
Amortisation of intangible assets	13	(2,773)	(4,018)
Depreciation of right-of-use assets	14(b)	(4,029)	(3,942)
Share of results of associate	38	(2,013)	-
Net impairment (losses)/gains on financial assets	33	(33,527)	70,102
Profit before tax		411,960	414,915
Income tax expense	20	(44,468)	(136,411)
Profit for the year		367,492	278,504
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Remeasurement of net defined benefit liability	15(c)	12,451	(28,521)
Fair value gain/(loss) on investments in equity instruments designated as at fair value through other comprehensive income	11(a)(ii)	50,040	(10,953)
Income tax relating to items that will not be reclassified subsequently to profit or loss	16(b)	(4,109)	9,412
Other comprehensive income for the year net of tax		58,382	(30,062)
Total comprehensive income for the year		425,874	248,442

*The notes on pages 13 to 80 form an integral part of these financial statements.
The report from the independent auditor is on pages 6 to 8.*

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023

	Share capital	Statutory reserve	General loan loss reserve	Fair value reserve	Actuarial reserve	Retained earnings	Total equity
	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000
At 1 January 2023	100,000	100,000	10,604	196,372	(17,895)	659,474	1,048,555
Profit for the year	-	-	-	-	-	367,492	367,492
Other comprehensive income for the year	-	-	-	50,040	8,342	-	58,382
Total comprehensive income for the year	-	-	-	50,040	8,342	367,492	425,874
Transfer from general loan loss reserve	-	-	4,752	-	-	(4,752)	-
Dividends	-	-	-	-	-	(170,000)	(170,000)
At 31 December 2023	100,000	100,000	15,356	246,412	(9,553)	852,214	1,304,429
At 1 January 2022	100,000	100,000	-	207,325	1,214	736,574	1,145,113
Profit for the year	-	-	-	-	-	278,504	278,504
Other comprehensive income for the year	-	-	-	(10,953)	(19,109)	-	(30,062)
Total comprehensive income for the year	-	-	-	(10,953)	(19,109)	278,504	248,442
Transfer to general loan loss reserve	-	-	10,604	-	-	(10,604)	-
Dividends	-	-	-	-	-	(345,000)	(345,000)
At 31 December 2022	100,000	100,000	10,604	196,372	(17,895)	659,474	1,048,555

The notes on pages 13 to 80 form an integral part of these financial statements.

The report from the independent auditor is on pages 6 to 8.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023

	<u>2023</u>	<u>2022</u>
	SR' 000	SR' 000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	411,960	414,915
Adjustments for:		
Depreciation of property and equipment	12,377	11,487
Amortisation of intangible assets	2,773	4,018
Depreciation of right-of-use assets	4,029	3,942
Net impairment losses/(gains) on financial assets	33,527	(70,102)
Share of results of associate	2,013	-
Dividend income from investments	(2,712)	(2,441)
Write off of property and equipment	-	530
Gain on disposal of property and equipment	-	(610)
Net interest income	(448,540)	(287,446)
Retirement benefit charge	7,640	3,196
Exchange differences	(838)	(801)
Operating profit before working capital changes	<u>22,229</u>	<u>76,688</u>
Changes in working capital		
Other assets	(195,548)	(260,969)
Other liabilities	15,898	234
Loans to and placements with banks and CBS	(931,987)	(2,086,343)
Loans and advances to customers	(92,202)	(488,125)
Deposits from customers	923,330	1,398,886
Interest paid	(55,098)	(33,096)
Interest received	270,767	266,984
	<u>(42,611)</u>	<u>(1,125,741)</u>
Employer contribution towards employee benefits	(22,540)	(10,920)
Tax refund received	5,017	-
Tax paid	(105,728)	(131,672)
Net cash outflow used in operating activities	<u>(165,862)</u>	<u>(1,268,333)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(384,247)	(776,547)
Proceeds from sale of investment securities	434,858	808,745
Proceeds from disposal of property and equipment	-	610
Purchase of property and equipment	(23,789)	(3,116)
Purchase of intangible assets	(8,268)	(4,622)
Investment made in associates	(5,000)	-
Dividends received on investments	2,712	2,441
Net cash inflow from investing activities	<u>16,266</u>	<u>27,511</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	-	8,500
Repayments from borrowings	(28,194)	(7,249)
Repayment of principal portion of lease liabilities	(2,888)	(2,678)
Dividend paid	(170,000)	(345,000)
Net cash used in financing activities	<u>(201,082)</u>	<u>(346,427)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(350,678)</u>	<u>(1,587,249)</u>
CASH AND CASH EQUIVALENTS AT START OF YEAR	<u>2,214,504</u>	<u>3,801,753</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>1,863,826</u>	<u>2,214,504</u>

The notes on pages 13 to 80 form an integral part of these financial statements.

The report from the independent auditor is on pages 6 to 8.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

1. GENERAL INFORMATION

Seychelles International Mercantile Banking Corporation Limited (“the Bank”/ “Nouvobanq”) is a limited liability company incorporated and domiciled in Seychelles, trading under the name of Nouvobanq. The Bank holds a banking licence issued by the Central Bank of Seychelles under the Financial Institutions Act, 2004, as amended. The principal place of business is situated at the Nouvobanq House, Victoria, Mahé, Seychelles.

The principal activity of the Bank is the provision of banking and financial services to both retail and corporate clients in Seychelles.

The financial statements for the year ended 31 December 2023 were authorised for issue by the Board of Directors on **29 April 2024**.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

New and amended IFRS Standards that are effective for the current year

In the current year, the Bank has applied a number of amendments to IFRS Accounting Standards issued by the IASB that are mandatorily effective for an accounting period that begins on or after 1 January 2023. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements Disclosure of Accounting Policies

The Bank has adopted the amendments to IAS 1 for the first time in the current year. The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term ‘*significant accounting policies*’ with ‘*material accounting policy information*’. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements.

The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

The IASB has also developed guidance and examples to explain and demonstrate the application of the ‘four-step materiality process’ described in IFRS Practice Statement 2.

The amendments have had an impact on the Bank’s disclosures of accounting policies, but not on the measurement, recognition or presentation of any items in the Bank’s financial statements.

Amendments to IAS 12 Income Taxes—Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The Bank has adopted the amendments to IAS 12 for the first time in the current year. The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting profit nor taxable profit.

Following the amendments to IAS 12, an entity is required to recognise the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12.

The amendments had no impact on the Bank’s financial statements.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (CONTINUED)

New and amended IFRS Standards that are effective for the current year (continued)

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors—Definition of Accounting Estimates

The Bank has adopted the amendments to IAS 8 for the first time in the current year. The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. The definition of a change in accounting estimates was deleted.

These amendments to IAS 8 clarify the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments had no impact on the Bank’s financial statements.

New and revised IFRS Accounting Standards in issue but not yet effective

At the date of authorisation of these financial statements, the Bank has not applied the following new and revised IFRS Accounting Standards that have been issued but are not yet effective:

Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-Current</i>
Amendments to IAS 1	<i>Non-current liabilities with covenants</i>
Amendments to IAS 7 and IFRS 7	<i>Supplier Finance Arrangements</i>
Amendments to IFRS 16	<i>Lease Liability in a Sale and Leaseback</i>

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Bank in future periods, except if indicated below.

Amendments to IAS 1 Presentation of Financial Statements - Classification of Liabilities as Current or Non-current

The amendments to IAS 1 published in January 2020 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of ‘settlement’ to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2024, with early application permitted. The IASB has aligned the effective date with the 2022 amendments to IAS 1. If an entity applies the 2020 amendments for an earlier period, it is also required to apply the 2022 amendments early.

The directors of the Bank anticipate that the application of these amendments may have an impact on the Bank’s financial statements in future periods.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION

The accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied for all years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements of Seychelles International Mercantile Banking Corporation Limited have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee ("IFRIC") applicable to companies reporting under IFRS and are in compliance with the requirements Seychelles Companies Act, 1972, the Financial Institutions Act, 2004 as amended and Regulations and Directives of the Central Bank of Seychelles.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

The Bank presents its statement of financial position in order of liquidity based on the Bank's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item.

(b) Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

(c) Foreign Currencies

Functional and presentation currency

Items included in the financial statements are measured using Seychelles Rupee ("SR"), the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements of the Bank are presented in Seychelles Rupee, which is its functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on 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 profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(d) Financial instruments

Financial assets and financial liabilities are recognised in the Bank's statement of financial position when the Bank becomes a party to the contractual provisions of the instrument.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

(d) Financial instruments (continued)

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

If the transaction price differs from fair value at initial recognition, the Bank will account for such difference as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e. day 1 profit or loss);
- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

(e) Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the Bank's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI"), are subsequently measured at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income ("FVTOCI");
- all other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.

However, the Bank may make the following irrevocable election / designation at initial recognition of a financial asset on an asset-by-asset basis:

- the Bank may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in OCI; and
- the Bank may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

(f) Debt instruments at amortised cost or FVTOCI

The Bank assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Bank's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are SPPI.

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal).

Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI.

An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

Business model assessment

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Bank determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

The Bank's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Bank has more than one business model for managing its financial instruments which reflect how the Bank manages its financial assets in order to generate cash flows. The Bank's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Bank considers all relevant information available when making the business model assessment. However this assessment is not performed on the basis of scenarios that the Bank does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. The Bank takes into account all relevant evidence available such as:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

The Bank's retail and corporate banking business comprises primarily loans to customers that are held for collecting contractual cash flows. In the retail business the loans comprise mortgages, overdrafts and unsecured personal lending. Sales of loans from these portfolios have not occurred.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

(f) Debt instruments at amortised cost or FVTOCI (continued)

Certain debt securities are held by the Bank's Treasury in a separate portfolio for long-term yield. These securities may be sold, but such sales are not expected to be more than infrequent. The Bank considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows.

At initial recognition of a financial asset, the Bank determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Bank reassesses its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting periods the Bank has not identified a change in its business models.

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment. Refer to note 3(k).

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating the interest income or expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate.

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liabilities is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

(g) Financial assets at FVTPL

Financial assets at FVTPL are:

- assets with contractual cash flows that are not SPPI; or/and
- assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in note 3(s).

The Bank has not recognised any financial asset at FVTPL both in the current or prior financial years.

(h) Equity instruments designated as at FVTOCI

On initial recognition, the Bank may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination. Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the fair value reserve. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

(h) Equity instruments designated as at FVTOCI (continued)

Dividends on these investments in equity instruments are recognised in profit or loss in accordance with IFRS 9 unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the 'Other income' line item in profit or loss.

The Bank has designated all investments in equity instruments that are not held for trading as at FVTOCI on initial recognition.

A financial asset is held for trading if either:

- It has been acquired principally for the purpose of selling it in the near term.
- On initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has evidence of a recent actual pattern of short-term profit-taking.
- It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

(i) Reclassifications

If the business model under which the Bank holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Bank's financial assets. During the current financial year and previous accounting periods there was no change in the business model under which the Bank holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on modification and derecognition of financial assets described in Note 3(l).

(j) Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically:

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the 'other income' / 'other expenses' line item;
- for debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in profit or loss in the 'other income' / 'other expenses' line item. Other exchange differences are recognised in OCI in the fair value reserve;
- for financial assets measured at FVTPL that are not part of a designated hedge accounting relationship, exchange differences are recognised in profit or loss either in 'net trading income', if the asset is held for trading, or in 'net income from other financial instruments at FVTPL' if otherwise held at FVTPL; and
- for equity instruments measured at FVTOCI, exchange differences are recognised in OCI in the fair value reserve.

For the both the current and prior financial years, the Bank did not have any assets measured or designated at FVTPL.

(k) Impairment

The Bank recognises loss allowances for expected credit losses ("ECL") on the following financial instruments that are not measured at FVTPL:

- cash and cash equivalents;
- loans to and placements with banks and CBS;
- loans and advances to customers;
- Investment in debt securities;
- loan commitments issued; and
- financial guarantee contracts issued.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

(k) Impairment (continued)

No impairment loss is recognised on equity investments.

With the exception of purchased or originated credit-impaired (“POCI”) financial assets (which are considered separately below), ECL are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition.

For all other financial instruments, ECL are measured at an amount equal to the 12-month ECL. More details on the determination of a significant increase in credit risk are provided in notes 3(k)(iii) and 5.3.2.

(i) Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the fair value reserve. The Bank did not hold any debt instruments at FVTOCI for both the current and prior years;
- for loan commitments and financial guarantee contracts, as a provision; and
- where a financial instrument includes both a drawn and an undrawn component and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component; the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

(ii) Measurement of ECL

ECL are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset’s EIR.

For undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Bank if the holder of the commitment draws down the loan and the cash flows that the Bank expects to receive if the loan is drawn down; and

For financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Bank expects to receive from the holder, the debtor or any other party.

The Bank measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset’s expected cash flows using the asset’s original EIR, regardless of whether it is measured on an individual basis or a collective basis.

More information on measurement of ECLs is provided in note 5.3, including details on how instruments are grouped when they are assessed on a collective basis.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

(k) Impairment (continued)

(iii) Significant increase in credit risk

The Bank monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Bank will measure the loss allowance based on lifetime rather than 12-month ECL. The Bank's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result the Bank monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to impairment for significant increase in credit risk.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Bank's historical experience and expert credit assessment including forward-looking information. Forward-looking information includes consideration of external sources of actual and forecast economic information, e.g. from the International Monetary Fund. Refer to note 5.3.3 for more details about forward-looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

The Bank allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

- the remaining lifetime PD at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

The PDs used are forward-looking and the Bank uses the same methodologies and data used to measure the loss allowance for ECL (Refer to note 5.3.4).

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However the Bank still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate lending there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated. For retail lending the Bank considers the expectation of forbearance and payment holidays, credit scores and events such as unemployment, bankruptcy, divorce or death.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD.

As a back-stop when an asset becomes 30 days past due, the Bank considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL. In addition loans that are individually assessed and are included on a watch list are in stage 2 of the impairment model. As note in Note 3 (k) (iv) if there is evidence of credit-impairment the assets are at stage 3 of the ECL model.

More information about significant increase in credit risk is provided in note 5.3.2.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

(k) Impairment (continued)

(iv) Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event - instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Bank considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default.

The definition of default (see below) includes unlikelihood to pay indicators and a back-stop if amounts are overdue for 90 days or more.

(v) Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECL and the identification of a significant increase in credit risk (Refer to note 5.3.2).

The Bank considers the following as constituting an event of default:

- the borrower is past due more than 90 days on any material credit obligation to the Bank; or
- the borrower is unlikely to pay its credit obligations to the Bank in full.

This definition of default is used by the Bank for accounting purposes as well as for internal credit risk management purposes and is broadly aligned to the regulatory definition of default. The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Bank uses a variety of sources of information to assess default which are either developed internally or obtained from external sources. More details are provided in note 5.3. As noted in the definition of credit impaired financial assets above, default is evidence that an asset is credit impaired. Therefore credit impaired assets will include defaulted assets, but will also include other non-defaulted given the definition of credit impaired is broader than the definition of default.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

(k) Impairment (continued)

(vi) Write-offs

Financial assets are written-off, in whole or in part, when the Bank has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. Indicators that there is no reasonable expectation of recovery include among others, customer files for bankruptcy, the failure of a customer to engage in a repayment plan with the Bank, and a failure to make contractual payments for a period of greater than 365 days past due.

The Bank may write-off financial assets that are still subject to enforcement activity when the Bank seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

The Bank complies with the regulatory requirements with respect to write-offs, as set out by the Central Bank of Seychelles through the *Financial Institutions (Credit Classification and Provisioning) Regulation, 2010 (as amended in 2011 and 2019)*.

(l) Modification and derecognition of financial assets

Refer to Note 3(p) for details of modification of a financial asset and when it can result in a derecognition. This note provides details on the ECL.

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the loan receivable is considered to be originated-credit impaired. This applies only in the case where the fair value of the new loan receivable is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Bank monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Bank determines if the financial asset's credit risk has increased significantly since initial recognition by comparing the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms with the remaining lifetime PD at the reporting date based on the modified terms.

For financial assets modified as part of the Bank's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Bank's ability to collect the modified cash flows taking into account the Bank's previous experience of similar forbearance action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL. If a forborne loan is credit impaired due to the existence of evidence of credit impairment, the Bank performs an ongoing assessment to ascertain if the problems of the exposure are cured, to determine if the lease is no longer credit-impaired. The loss allowance on forborne leases will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition, the Bank calculates the modification loss by comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Modification losses for financial assets, if any, are included in profit or loss under 'Losses on modification of financial assets'. Then the Bank measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Bank derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

(l) Modification and derecognition of financial assets (continued)

If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of a transferred asset), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain/loss allocated to it that had been recognised in OCI is recognised in profit or loss. A cumulative gain/loss that had been recognised in OCI is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

(m) Financial liabilities and equity

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Bank or a contract that will or may be settled in the Bank's own equity instruments and is a non-derivative contract for which the Bank is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Bank's own equity instruments.

(n) Equity instruments and reserves

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issue costs. The reserves recorded in equity in the Bank's statement of financial position include:

- The cumulative net change in the fair value of equity instruments classified at FVTOCI is recorded in the fair value reserve;
- The general loan loss reserve which caters for the shortfall between the IFRS 9 provisions and the regulatory provisions as required under *Section 8(1) of Financial Institutions (Credit Classification and Provisioning) Regulation, 2010* (as amended in 2011 and 2019);
- Cumulative actuarial gains/losses emanating from retirement benefit obligations which are maintained in the actuarial reserve;
- The share capital which meets the minimum unimpaired paid-up capital as prescribed under Section 23(1) of Part III of the Financial Institutions Act, 2004.
- The statutory reserve which complies with the requirement of Section 24(1) of Part III of the Financial Institutions Act 2004 which requires 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.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

(o) Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. For all financial liabilities the amount presented on the statement of financial position represent all amounts payable including interest accruals where applicable.

Other financial liabilities, including deposits from customers and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

(p) Modification and derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Bank exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Bank accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. To determine if the modified terms of a liability are substantially different to the original terms a similar process with modification of financial assets is followed. The modification is assessed at first on a qualitative basis, factors such as a change in currency or the introduction of a non-closely related embedded derivative that significantly modifies the cash flows are regarded as substantially different. If it is not clear from the qualitative assessment that a modification has resulted in a substantial change in a financial liability, a quantitative assessment is applied. It is assumed that the terms of the financial liability are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification is not substantial, the Bank recalculates the amortised cost of the modified financial liability by discounting the modified contractual cash flows using the original effective interest rate. The Bank recognises any adjustment to the amortised cost of the financial liability in profit or loss as income or expense at the date of the modification. The financial liability modification gain/loss is not significant for the Bank. Modification gains are presented in 'other income' and modification losses are presented in 'other expenses' in profit or loss.

(q) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS Standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(r) Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments. Financial guarantees are initially recognised 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 profit or loss and an allowance for ECL.

The premium received is recognised in profit or loss under "fees and commission income" on a straight-line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are within the scope of the ECL requirements.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

(s) Fair value

Fair value is as per defined under Note 3(a).

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 -	Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
Level 2 -	Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3 -	Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. Refer to Note 7 for more details.

(t) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, highly liquid financial assets that are subject to an insignificant risk of changes in their fair value and are used by the Bank in the management of its short-term commitments, non-restricted current accounts with Central Bank of Seychelles and amounts due from banks on demand or with an original maturity of three months or less and bank overdrafts.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts and including short term investments with an original contractual maturity of less than three months and form an integral part of the Bank's cash management.

(u) Property and equipment

Property and equipment are carried at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

Depreciation is calculated on the straight-line method to write off the cost of the assets to their residual values over their estimated useful lives as follows:

	Years
Buildings	Leasehold period
Leasehold improvements	Leasehold period
Furniture, fixtures and equipment	5 to 10
Motor vehicles	4

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

(u) Property and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss under 'Other income'.

Work-in-Progress ("WIP") is not subject to depreciation. Once the WIP is ready to be used, it will be capitalised and will be depreciated over its useful life.

(v) Intangibles

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over the estimated useful life of the asset. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets comprise software and licenses which have a finite economic life.

Acquired computer software and licenses are capitalised on the basis of costs incurred to acquire and bring to use the specific software and are amortised using the straight-line method over the estimated useful life of 5 years.

Costs associated with maintaining computer software programmes are recognised as an expense when incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditure that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Software work-in-progress ("WIP") is not subject to amortisation. Once the WIP software is ready to be used, it will be capitalised and will be amortised over its useful life. WIP software relate to the setup and implementation costs of a new software.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

(w) Impairment of property and equipment and intangible assets

At each reporting date, the Bank reviews the carrying amounts of its property and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss to the extent that it eliminates the impairment loss which has been recognised for the asset in prior years. Any increase in excess of this amount is treated as a revaluation increase.

(x) Leases – The Bank as a lessee

The Bank assesses whether a contract is, or contains, a lease, at inception of the contract. The Bank recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Bank recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Bank uses its incremental borrowing rate. The incremental borrowing rate depends on the term, currency and start date of the lease and is determined based on a series of inputs including: the risk-free rate based on government bond rates; a country-specific risk adjustment; a credit risk adjustment based on bond yields; and an entity-specific adjustment when the risk profile of the entity that enters into the lease is different to that of the Bank and the lease does not benefit from a guarantee from the Bank.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

(x) Leases – The Bank as a lessee (continued)

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Bank remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the right-of-use asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the statement of financial position.

The Bank applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in Note 3(w).

(y) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. The Bank's inventories include stock of stationeries and spare parts for ATMs.

(z) Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit plans are accounted for as payments to defined contribution plans where the Bank's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

(z) Retirement benefit costs (continued)

(i) Short-term and other long-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Bank in respect of services provided by employees up to the reporting date.

(ii) Defined contribution plans

A defined contribution plan is a pension plan under which the Bank pays a fixed contribution into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the funds do not hold sufficient assets to pay all employees the benefits relating to employees' service in the current and prior periods.

The Bank and its employees (other than expatriate staff) contribute to the Seychelles Pension Fund (SPF). This is a pension scheme which was promulgated under the Seychelles Pension Fund Act, 2005.

(iii) Length of service compensation

As per the Seychelles Employment Act, employees are entitled one day wage for each completed month of service provided the employee has completed five years continuous service. The Bank accrues this liability on the basis of a post-employment benefit as per the independent actuarial valuation performed at reporting date and carries it to a provision account for payments to be made as and when they occur.

(iv) Defined benefit plans

For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period.

Remeasurements comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on plan assets (excluding interest) are recognised immediately in the statement of financial position with a charge or credit to other comprehensive income in the period in which they occur. Remeasurements recognised in other comprehensive income are not reclassified. Past service cost is recognised in profit or loss when the plan amendment or curtailment occurs, or when the Bank recognises related restructuring costs or termination benefits, if earlier. Gains or losses on settlement of a defined benefit plan are recognised when the settlement occurs. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset. Defined benefit costs are split into three categories:

- Service costs, which includes current service cost, past service cost and gains and losses on curtailments and settlements;
- Net interest expense or income; and
- Remeasurements.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

(z) Retirement benefit costs (continued)

(iv) Defined benefit plans (continued)

The retirement benefit obligation recognised in the statement of financial position represents the deficit or surplus in the Bank's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

(v) Risks associated with the defined benefit plan

The plan exposes the Bank to normal risks associated with defined benefit pension plans such as investment, interest, longevity and salary risks.

Investment risk:

The plan liability is calculated using a discount rate determined by reference to government bond yields; if the return on plan assets is below this rate, it will create a plan deficit and if it is higher, it will create a plan surplus.

Interest risk:

A decrease in the bond interest rate will increase the plan liability; however, this may be partially offset by an increase in the return on the plan's debt investments and a decrease in inflationary pressures on salary and pension increases.

Longevity risk:

The plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan liability.

Salary risk:

The plan liability is calculated by reference to the future projected salaries of plan participants. As such, an increase in the salary of the plan participants above the assumed rate will increase the plan liability whereas an increase below the assumed rate will decrease the liability.

(aa) Provisions

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

When the Bank expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in profit or loss net of any reimbursement.

(ab) 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 and the Central Bank of Seychelles. Interim dividends are deducted from equity when they are declared and are 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.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

(ac) Taxation

The income tax expense represents the sum of the tax currently payable and deferred tax.

(i) Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Bank supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

(ii) Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, a deferred tax liability is not recognised if the temporary difference arises from the initial recognition of goodwill.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the reporting date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

(iii) Current tax and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

(ad) Interest income and expense

Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated as at FVTPL are recognised in 'Net interest income' as 'Interest income' and 'Interest expense' in profit or loss using the effective interest method. Interest on financial instruments measured as at FVTPL is included within the fair value movement during the period, under 'Net trading income'.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

(ad) Interest income and expense (continued)

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognised in profit or loss at initial recognition.

The interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)). For financial assets originated or purchased credit-impaired (POCI) the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

In line with the requirements of Sections 10(1) and 10(3) of the *Financial Institutions (Credit Classification and Provisioning) Regulation, 2010 (as amended in 2011 and 2019)*, all categories of non-performing credit shall be placed on a non-accrual basis, that is interest due but uncollected should not be accrued as income but instead should be shown as interest in suspense. All interest on non-performing credit previously accrued into income but collected shall be reversed and credited into interest in suspense account until paid in cash by the borrower.

(ae) Fees and commission

Fee and commission income is recognised at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services. Commission and fees arising from negotiating or participating in the negotiations of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction.

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate. Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

When the Bank provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time.

The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition policies under IFRS 15
Retail and corporate banking service	The Bank provides banking services to retail and corporate customers, including, provision of overdraft facilities, foreign currency transactions, credit card, cheque books and servicing fees. Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place.	Revenue related to transactions is recognised at the point in time when the transaction takes place.

It should be noted that the Bank does not offer services with multiple non-distinct/distinct performance obligations.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

(af) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest and foreign exchange differences.

(ag) Investment in associates

The Bank holds an interest in an associate, Nebula Fintech Limited. The financial statements of Nebula Fintech Limited are prepared for the same reporting period as the Bank. The accounting policies of the associate are aligned with the Bank. Therefore, no adjustments are made when measuring and recognising the Bank's share of the profit or loss of the investee after the date of acquisition.

An associate is an entity over which the Bank has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5.

Under the equity method, an investment in an associate is recognised initially in the statement of financial position at cost and adjusted thereafter to recognise the Bank's share of the profit or loss and other comprehensive income of the associate. When the Bank's share of losses of an associate exceeds the Bank's interest in that associate (which includes any long-term interests that, in substance, form part of the Bank's net investment in the associate), the Bank discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Bank's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Bank's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

If there is objective evidence that the Bank's net investment in an associate is impaired, the requirements of IAS 36 *Impairment of Assets* are applied to determine whether it is necessary to recognise any impairment loss with respect to the Bank's investment. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Bank discontinues the use of the equity method from the date when the investment ceases to be an associate. When the Bank retains an interest in the former associate and the retained interest is a financial asset, the Bank measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Bank accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Bank reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the associate is disposed of.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

(ag) Investment in associates (continued)

When the Bank reduces its ownership interest in an associate but the Bank continues to use the equity method, the Bank reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

(ah) Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information. Where IAS 8 applies, comparative figures have been adjusted to conform with changes in presentation in the current year.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In applying the Bank's accounting policies, which are described in note 3, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

4.1 Critical judgements in applying the Bank's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

4.1.1 Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated.

The Bank monitors financial assets measured at amortised cost prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

4.1.2 Significant increase of credit risk

As explained in notes 3 and 5.3.2, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward-looking information. In doing so, the Bank makes judgements about the appropriate indicators used as SICR triggers. The triggers that the Bank has determined as appropriate include the 30-day backstop, movement in PD and other qualitative factors, such as moving a customer/facility to the watch list, or the account becoming forborne.

**SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023**

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

4.1 Critical judgements in applying the Bank's accounting policies (continued)

4.1.3 Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to note 5.3.5 for details of the characteristics considered in this judgement. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

4.1.4 Models and assumptions used

The Bank uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note 3(k) and note 5.3.4 for more details on ECL and note 7 for more details on fair value measurement.

4.1.5 Significant influence over Nebula Fintech Limited

Note 38 describes that Nebula Fintech Limited an associate of the Bank with a 30 per cent ownership interest. The Bank also has significant influence over the associate by virtue of its rights to appoint one out of six directors to the board of directors of that entity.

4.2 Key sources of uncertainty

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

4.2.1 Calculation of expected credit losses

The measurement of impairment losses under IFRS 9 requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes which can result in different levels of allowances.

The Bank's ECL calculations are outputs from complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- Establishing the number and relative weightings of forward-looking scenarios for each type of product and determining the forward-looking information relevant to each scenario: When measuring ECL the Bank uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.
- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

4.2 Key sources of uncertainty (continued)

4.2.1 Calculation of expected credit losses (continued)

- Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Refer to note 5.3.3 for more details, including analysis of the sensitivity of the reported ECL to changes in the various estimates including on:

- the development of ECL models, including the various formulas and the choice of inputs; and
- the selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

4.2.2 Discount rate used to determine the carrying amount of the Bank's defined benefit obligations

The determination of the Bank's retirement benefit obligations depends on certain assumptions, which include selection of the discount rate. The discount rate is set by reference to market yields at the end of the reporting period on high quality government bonds. Significant assumptions are required to be made when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the quality of the bonds, the tenor and the identification of outliers which are excluded. These assumptions are considered to be a key source of estimation uncertainty as relatively small changes in the assumptions used may have a significant effect on the Bank's financial statements within the next year.

Further information on the carrying amounts of the Bank's retirement benefit obligations and the sensitivity of those amounts to changes in discount rate are provided in note 15.

4.2.3 Fair value measurements and valuation processes

Some of the Bank's assets and liabilities are measured at fair value for financial reporting purposes. The Finance Team determines the appropriate valuation techniques and inputs for fair value measurements. In estimating the fair value of an asset or a liability, the Bank uses market-observable data to the extent it is available. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques. Significant valuation issues are reported to the Board of Directors and further information about the assumptions made in measuring fair values is included in the relevant notes to the financial statements.

4.2.4 Leases

The application of IFRS 16 requires significant judgements and certain key estimations. Critical judgements include determination of whether it is reasonably certain that an extension or termination option will be exercised. Key sources of estimation uncertainty in the application of IFRS 16 include estimation of the lease terms, determination of the appropriate rate to discount the lease payments and assessment of whether a right-of-use asset is impaired.

Given that the Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its Incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as credit rating, or to reflect the terms and conditions of the lease).

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

5. FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors and management

The Bank's activities expose it to a variety of financial risks including market risk (including currency and interest rate risk), credit risk and liquidity risk. Its overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effect on the Bank's financial performance. 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 sustained performance.

The Board of Directors is ultimately responsible for identifying and controlling risks. However, there are separate independent bodies responsible for managing and monitoring risks. The Board of Directors as well as the Bank's senior management are responsible for understanding both the nature and level of risks taken by the Bank. The Board is also responsible for the overall risk management approach and for approving the risk strategies and principles. Monitoring and controlling risks is primarily performed based on limits established by the Bank in line with regulatory prescriptions. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank are willing to accept.

Management has constituted an Assets and Liabilities Committee to manage the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for managing the funding and liquidity risks of the Bank. The Board's Risk Management and Credit Committee, on the other hand, is responsible for the management of risk decisions and monitoring risk levels. Operationally, the Bank's Chief Risk Officer has an overall oversight of the Bank's risk management framework, whilst the Bank's overall Risk Governance Structure is set out below:



Information compiled from all of the businesses is processed in order to analyse, control and identify risks on a timely basis. This information is presented and explained to the Board of Directors, the Risk Management and Credit Committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, liquidity ratios and risk profile changes amongst others. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Board of Directors receives a comprehensive risk report every 2 months which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

At all levels of the Bank's operations, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information. The risk management process implemented by the Bank typically includes 3 steps; evaluate, respond and monitor. This enables Management to identify and assess risks, determine appropriate response and then monitor the effectiveness of that response and any changes to the risk profile.

It is the Bank's policy to ensure that a robust risk awareness is embedded in its organisational risk culture. Employees are expected to take ownership and be accountable for the risks the Bank is exposed to that they decide to take on. The Bank's continuous training and development emphasises that employees are made aware of the Bank's risk appetite and they are supported in their roles and responsibilities to monitor and keep their exposure to risk within the Bank's risk appetite limits.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Financial risk factors and management (continued)

In the course of the financial year ended 31 December 2023, the Bank has revised a number of its existing policies and procedures, including its Enterprise Risk Management Framework, which has been enhanced to comply with the Basel Committee Banking Supervision ("BCBS") Guidelines for Corporate Governance principles for Banks and the Seychelles Financial Institutions Act 2004.

The Bank has further reinforced its 3 lines of defence mechanism, which is outlined below:

1 st Line of Defense	2 nd Line of Defense	3 rd Line of Defense
Departments/Branches	Risk and Compliance	Internal and External Audit
<ul style="list-style-type: none"> ▪ Establish and operate proper governance. ▪ Develop and operate Processes and implement Procedures. ▪ Propose and agree risk appetite and supporting limits with second line of defense. ▪ Identify and manage risk activities and critical process engaged in, in line with approved risk appetite and limits. 	<ul style="list-style-type: none"> ▪ Framework and Policy development and conformance. ▪ Independent review and challenge of departmental risk appetites, underlying limits and profiles. ▪ Primary responsibility for managing regulatory relationships for risk and overseeing delivery of commitments. ▪ Establish and operate proper governance. 	<ul style="list-style-type: none"> ▪ Internal Audit provides independent assurance to the Board and Senior Management over the effectiveness of governance, risk management and control over current, systemic and evolving risks. ▪ Provide external independent assurance to the Board.
Combine Assurances Activities supports the Model		

As part of the reinforcement of the risk structure of the Bank, the Bank has further revisited its risk appetite statement, which sets out the risk boundaries linked to the strategic objectives of the Bank. Furthermore, the Bank has strengthened its stress testing mechanism surrounding key risks and ensured that appropriate contingency plans are in place to manage any likely impact on the Bank. These results are described in detailed in the ICAAP report which is submitted on an annual basis to the Central Bank of Seychelles.

The Bank's policy is that risk management processes throughout the Bank are audited annually by Internal Audit, which 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. A description of the significant risks is given in this note together with the risk management policies applicable.

5.2 Classification of financial assets and financial liabilities

The following table shows the measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities:

		<u>2023</u>	<u>2022</u>
	Classification and measurement category	SR' 000	SR' 000
Financial assets			
Cash and cash equivalents	Amortised cost	1,863,826	2,214,504
Loans to and placements with banks and CBS	Amortised cost	3,818,398	2,640,973
Loans and advances to customers	Amortised cost	2,798,351	2,727,260
Investment in debt securities	Amortised cost	1,906,847	1,961,027
Investment in equity securities	FVTOCI	273,249	223,209
Other assets	Amortised cost	1,391,465	1,194,703
Total financial assets		<u>12,052,136</u>	<u>10,961,676</u>

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 Classification of financial assets and financial liabilities (continued)

		2023	2022
	Classification and measurement category	SR' 000	SR' 000
Financial liabilities			
Deposits from customers	Amortised cost	10,913,951	9,971,765
Borrowings	Amortised cost	62,463	90,657
Other liabilities	Amortised cost	56,286	35,389
Lease liabilities	Amortised cost	17,737	19,686
Total financial liabilities		11,050,437	10,117,497

An amount of **SR7.8m** (2022: SR9.0m) relating to prepayments and other non-financial assets, has been excluded from other assets in the above table. Refer to the breakdown in note 17.

5.3 Credit risk

Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial losses to the Bank. The Bank's main income generating activity is lending to customers and therefore credit risk is a principal risk. Credit risk mainly arises from loans and advances to customers and banks (including related commitments to lend such as loan or credit card facilities) and investments in debt securities. The Bank considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

The Bank has also taken note of the *Guidance on the requirements of IFRS 9 – Financial Instruments*, with reference FSD/GEN/1 issued on 22 March 2023 by the Central Bank of Seychelles and has thus enhanced the IFRS 9 and IFRS 7 disclosures within these financial statements as per the regulatory requirements.

5.3.1 Credit risk management

The Bank's Risk Management and Credit Committee is responsible for managing the Bank's credit risk by:

- Ensuring that the Bank has appropriate credit risk practices, including an effective system of internal control, to consistently determine adequate allowances in accordance with the Bank's stated policies and procedures, IFRS and relevant supervisory guidance.
- Identifying, assessing and measuring credit risk across the Bank, from an individual instrument to a portfolio level.
- Creating credit policies to protect the Bank against the identified risks including the requirements to obtain collateral from borrowers, to perform robust ongoing credit assessment of borrowers and to continually monitor exposures against internal risk limits.
- Limiting concentrations of exposure by type of asset, counterparties, industry, etc.
- Establishing a robust control framework regarding the authorisation structure for the approval and renewal of credit facilities.
- Developing and maintaining the Bank's processes for measuring ECL including monitoring of credit risk, incorporation of forward-looking information and the method used to measure ECL.
- Ensuring that the Bank has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.
- Establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for ECL.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

Internal Audit performs regular audits making sure that the established controls and procedures are adequately designed and implemented. The Bank's approach to credit risk management is based on the foundation of independence and integrity of risk management. This is ensured through a well-defined and robust organisation structure duly supported by various risk committees, forums, systems, policies, procedures and processes providing a strong risk infrastructure and management framework.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Credit risk (continued)

5.3.1 Credit risk management (continued)

The Bank's credit policy focuses on the core credit principles, lending guidelines and parameters, control and monitoring requirements, problem loan identification, management of high-risk counterparties and provisioning. Standard procedures specific to businesses have been established to manage various types of risks across different business segments, products and portfolios.

5.3.1.1 Retail and Corporate banking credit risk management

Credit facilities are granted based on the detailed credit risk assessment of the counterparty. The assessment considers amongst other things the purpose of the facility, sources of re-payment, prevailing and potential macro-economic factors, industry trends, customers' credit worthiness and standing within the industry.

The credit facility administration process is undertaken by an independent function to ensure proper execution of all credit approvals, maintenance of documentation and proactive controls over maturities, expiry of limits and collaterals. Operations are managed by independent units responsible for processing transactions in line with credit approvals and standard operating guidelines.

5.3.1.2 Consumer banking credit risk management

The Bank has a structured management framework for consumer banking risk management. The framework enables the Bank in identification and evaluation of the significance of all credit risks that the Bank faces, which may have an adverse material impact on its financial position.

In the Consumer Banking portfolio, losses stem from outright default due to inability or unwillingness of a customer to meet commitments in relation to lending transactions.

The Bank's provisioning policy, which is in line with the IFRS and the regulatory guidelines, allows the Bank to prudently recognise impairment on its portfolios.

5.3.1.3 Credit-related commitments risks

The main purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Documentary and commercial letters of credit, which are written undertakings by the Bank to pay a third party, on behalf of its customers up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

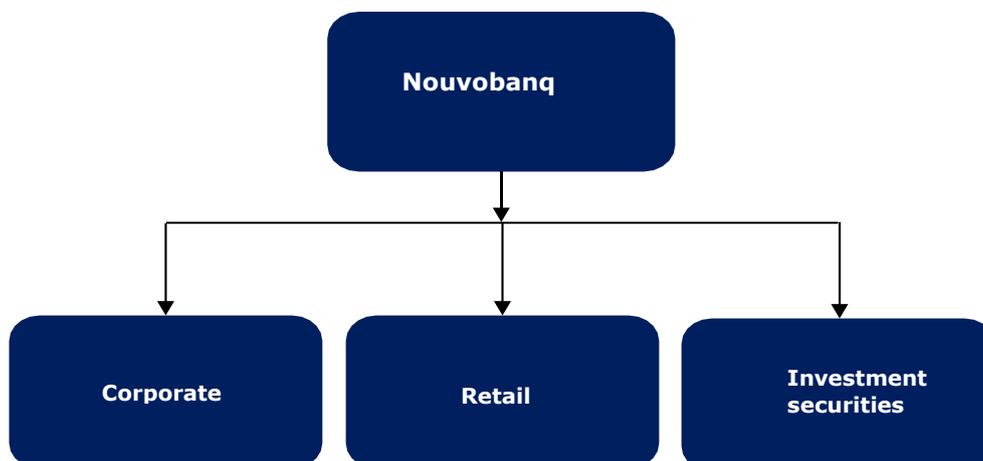
However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers continuously adhering to specific credit standards. The Bank monitors the term to maturity of credit commitments because longer term commitments generally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

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Credit risk (continued)

5.3.2 Overview of the Bank's portfolios subject to ECL



Corporate portfolios include overdraft and term loans. This has been segmented based on the size of each industry within the loan book. Real estate, tourism, trade and transport were identified to have significant segments and have been modelled individually to arrive at the Probability of Default (PD) and the remaining industries have been combined together for the modelling purpose.

Retail portfolio includes mortgage loans, private households loans and consumer loans. The loan book is relatively smaller in size, and therefore has not been considered for distinct segmentation.

For the investment securities portfolio, the ECL computation was done separately for each product. This includes placements, treasury bills and bonds.

5.3.3 Significant increase in credit risk ("SICR") and staging

As explained in note 3(k)(iii) the Bank monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime rather than 12-month ECL.

Grading of loans and advances is based on the modified Central Bank of Seychelles ("CBS") grading guidelines aligning to the Bank's Days Past Due ("DPD") days as below:

CBS grading	Bank's grading	DPD Date	Staging
Pass	High to Standard	0 - 30	Stage 1
Special mention	Substandard	31 - 90	Stage 2
Substandard	Non-performing loans	91 - 180	Stage 3
Doubtful	Non-performing loans	181 - 365	Stage 3
Loss	Non-performing loans	> 365	Stage 3

Grading of other financial assets is based on Moody's rating which comprises grading from 1-4 classified as high grade, 5-16 as standard grade, 17-19 as substandard grading and 20 as non-performing.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Credit risk (continued)

5.3.3 Significant increase in credit risk (“SICR”) and staging (continued)

Loan commitments are assessed along with the category of loan the Bank is committed to provide, i.e. commitments to provide mortgages are assessed using similar criteria to mortgage loans, while commitments to provide a corporate loan are assessed using similar criteria to corporate loans.

Irrespective of the outcome of the above assessment, the Bank presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Bank has reasonable and supportable information that demonstrates otherwise.

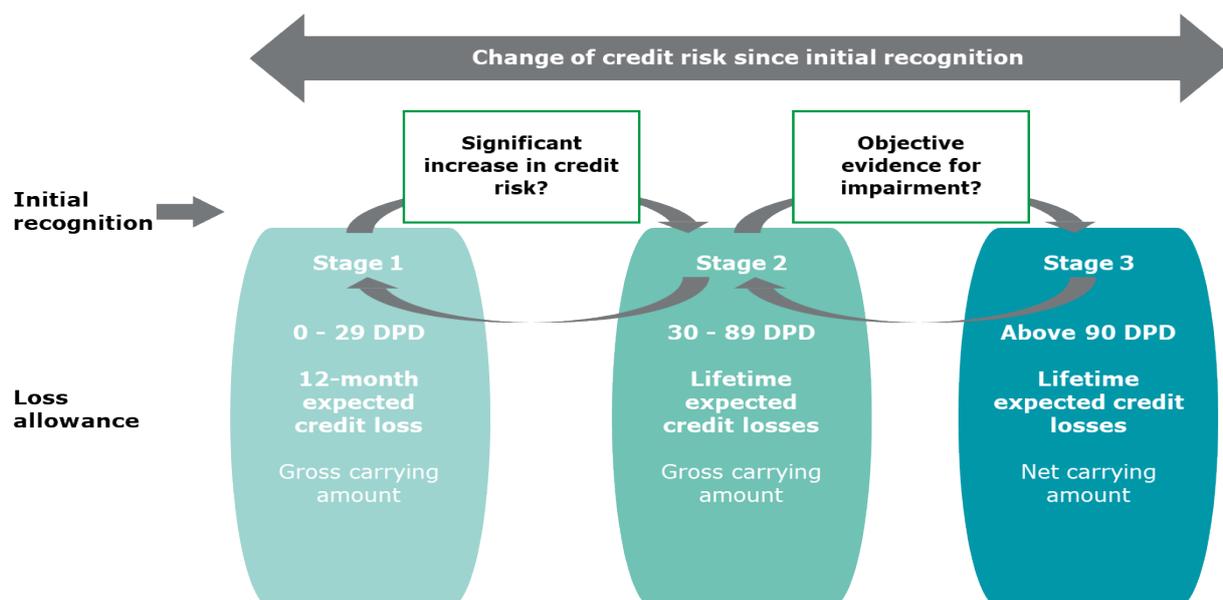
The Bank has monitoring procedures in place to make sure that the criteria used to identify significant increases in credit are effective, meaning that significant increase in credit risk is identified before the exposure is defaulted or when the asset becomes 30 days past due.

Under IFRS 9 requirements, credit exposures can also transition from higher credit risk categories to lower credit risk categories, i.e., from Stage 3 to Stage 2 ('backward transition').

When an improvement to the credit quality occurs, and there are adequate and documented reasons that make it possible to transfer credit claims from Stage 3 to Stage 2, or from Stage 2 to Stage 1. The transfer process shall be performed after verifying the credit status of the claim and obligation through payment of monthly instalments. Credit exposures may transition back from higher risk grades to lower risk grades. Set out below are considerations to be used in determining whether an exposure should transition back from Stage 3 to Stage 2 or Stage 2 to Stage 1:

- ✓ Up to date with payments: All outstanding payments on the credit facility are made on time and no payments are in arrears.
- ✓ Probation period: The PD has remained below the threshold that is considered a 'significant increase' for a minimum period of 3 months as per the Central Bank of Seychelles.

The figure below shows the staging and the SICR criteria suggested as per the IFRS9 framework:



SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Credit risk (continued)

5.3.3 Significant increase in credit risk (“SICR”) and staging (continued)

A few indicators showing qualitative and quantitative factors are described below:

Quantitative indicators:

- Significant changes in internal price indicators of credit risk as a result of a change in credit risk since inception, including, but not limited to, the credit spread that would result if a particular financial instrument (“FI”) or similar FI with the same terms and counterparty were newly originated or issued at the reporting date.
- Other changes in the rates or terms of an existing FI that would be significantly different if the instrument was newly originated or issued at the reporting date such as more stringent covenants, increased amounts of collateral or guarantees, or higher income coverage because of changes in the credit risk of the FI since initial recognition.
- Significant changes in external market indicators of credit risk for a particular FI or similar FIs with the same expected life. Changes in market indicators of credit risk include, but are not limited to:
 - The credit spread
 - The credit default swap prices for the borrower
 - The length of time or the extent to which the fair value of a financial asset has been less than its amortized cost and
 - Other market information related to the borrower, such as changes in the price of a borrower’s debt and equity instruments.
- An actual or expected significant change in the FIs external credit rating and internal credit rating downgrade for the borrower or decrease in behavioral scoring used to assess credit risk internally. Internal credit ratings and internal behavioral scoring are more reliable when they are mapped to external ratings or supported by default studies.
- Significant increases in credit risk on other FIs of the same borrower.

Qualitative indicators:

- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower’s ability to meet its debt obligations, such as an actual or expected increase in interest rates or an actual or expected significant increase in unemployment rates.
- An actual or expected significant change in the operating results of the borrower. Examples include actual or expected declining revenues or margins, increasing operating risks, working capital deficiencies, decreasing asset quality, increased balance sheet leverage, liquidity, management problems or changes in the scope of business or organizational structure such as the discontinuance of a segment of the business that results in a significant change in the borrower’s ability to meet its debt obligations.
- An actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower’s ability to meet its debt obligations, such as a decline in the demand for the borrower’s sales product because of a shift in technology.
- Significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements, which are expected to reduce the borrower’s economic incentive to make scheduled contractual payments or to otherwise have an effect on the probability of a default occurring. For example, if the value of collateral declines because house prices decline, borrowers in some jurisdictions have a greater incentive to default on their mortgages.
- A significant change in the quality of the guarantee provided by a shareholder (or an individual’s parents) if the shareholder (or parents) have an incentive and financial ability to prevent default by capital or cash infusion.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Credit risk (continued)

5.3.3 Significant increase in credit risk (“SICR”) and staging (continued)_

Qualitative indicators (continued):

- Significant changes, such as reductions in financial support from a parent entity or other affiliate or an actual or expected significant change in the quality of credit enhancement, that are expected to reduce the borrower’s economic incentive to make scheduled contractual payments. Credit quality enhancements or support include the consideration of the financial condition of the guarantor and/or, for interests issued in securitizations, whether subordinated interests are expected to be capable of absorbing expected credit losses.
- Expected changes in the loan documentation including an expected breach of contract that may lead to covenant waivers or amendments, interest payment holidays, interest rate step-ups, requiring additional collateral or guarantees, or other changes to the contractual framework of the instrument.
- Significant changes in the expected performance and behavior of the borrower, including changes in the payment status of borrowers in the group.
- Changes in the entity’s credit management approach in relation to the financial instrument; i.e., based on emerging indicators of changes in the credit risk of the financial instrument, the entity’s credit risk management practice is expected to become more active or to be focused on managing the instrument, including the instrument becoming more closely monitored or controlled, or the entity specifically intervening with the borrower.

5.3.4 Measurement of ECL

The key inputs used for measuring ECL are:

- ✓ probability of default (PD);
- ✓ loss given default (LGD); and
- ✓ exposure at default (EAD).

The above inputs are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

$$\text{ECL} = \text{PD} \times \text{LGD} \times \text{EAD}$$

PD is an estimate of the likelihood of default over a given time horizon. It is estimated at a point in time. The calculation is based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realisation of collateral, cross-collateralisation and seniority of claim, cost of realisation of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Bank’s modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default. The Bank uses EAD models that reflect the characteristics of the portfolios.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Credit risk (continued)

5.3.4 Measurement of ECL (continued)

5.3.4.1 Probability of default

Probability of Default (PD) is one of the three risk components needed to estimate ECL under IFRS9. PD is defined as the probability that a borrower will be unable to meet his/her debt obligations over a stipulated time. The PD estimate incorporates information relevant to assess the borrower's ability and willingness to repay debts, as well as information about the economic environment in which the borrower operates.

IFRS 9 requires PD to be a Point in Time (PIT) as opposed to a Through the Cycle (TTC) estimate, implying that the PD should reflect current economic conditions rather than the long-term average. This has been captured by applying a macroeconomic overlay on the TTC PD'S computed.

The Bank has decided to compute the TTC PD's by considering a rolling window of 5 years for both the corporate and retail portfolios. A macroeconomic overlay has been applied on the PD term structures to convert the TTC PDs to PIT PDs to comply with the IFRS 9 standard. This decision keeps in mind that as per IFRS 9, a TTC PD would require the data to capture an entire economic cycle which is typically 5-7 years and a forward-looking parameter would be considered on the PD to convert the TTC PD to PIT PD.

The table below provides an overall summary of the PD model for the Bank.

Portfolio	Methodology	Data Time Period
Retail	Run-off triangle	January 2019 – August 2023
Corporate	Run-off triangle	January 2019 – August 2023
Investment Securities	S&P term structure	January 2019 – August 2023

Corporate PD computation

The PD computation for the corporate portfolio is based on the run-off triangle. The corporate portfolio is segmented within the Bank based on the industries in which they have an exposure. For the PD model, the segmentation done for the corporate portfolio was based on the proportion of accounts present in each industry. The highest proportion of accounts were present in the following industries: real estate and building, tourism, transport, trade and manufacturing and others.

Based on the data availability, the run-off approach was implemented for TTC PD calculations. The one-year empirical TTC default rates, for each PD segment, using data for the mentioned above. The formula below shows the Bank's approach to calculating the through-the-cycle (TTC) default rate term structure.

$$\text{TTC PD} = \frac{\sum \text{defaults over all future periods}}{\text{Number of observations}}$$

The one-year default rate is calculated using the same formula but only considering defaults over the next 12 months. The one-year default rate is used on an S&P term structure of 15 years to obtain the cumulative and marginal TTC default rates.

Retail PD computation

The PD computation for the retail portfolio is based on the run-off triangle. The retail portfolio is segmented within the Bank based on the industries in which they have an exposure. For the PD model, the segmentation done for the retail portfolio was based on the proportion of accounts present in each industry, namely mortgages, consumer uses and private homes.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Credit risk (continued)

5.3.4 Measurement of ECL (continued)

5.3.4.1 Probability of default (continued)

Retail PD computation (continued)

Through the cycle (TTC) PD is computed using data that covers an economic cycle of 5 years. The one-year PD computation and the S&P term structure is used to create a TTC term structure for each segment of the portfolio.

Investment securities PD computation

The S&P term structure for investment grade and speculative grade is used for the banking portfolio which comprises mostly investment securities. Sovereign PDs were sourced from S&P's annual sovereign default and recovery rates study. Corporate PDs for money market instruments were sourced from S&P's annual corporate default and recovery rates study. For money market instruments where the exposure is to the government of the Seychelles, a sovereign default rate term structure is used.

5.3.4.2 Loss given default

Loss given default ("LGD") is an indication of the amount of loss a financial institution incurs in the event of a customer's default. Modelling LGD patterns is also required for the computation of ECL, along with the remaining risk components of PD and EAD.

LGD is usually indicated as the percentage of EAD that the financial institution stands to lose in case the borrower defaults. It depends, among other factors, on the type and amount of collateral as well as the type of borrower and the expected proceeds from the workout / recovery (e.g., sales proceeds from sales of collaterals/securities) of the assets. Also, LGD is exposure-specific, i.e., different exposures to the same borrower may have different LGDs.

Typically, there are three approaches to develop an LGD model, namely the workout LGD, implied market LGD, implied historical LGD and regulatory prescribed LGD. The availability of modelling data, collateral attributes, market attributes, recovery policies and capabilities, and portfolio characteristics, all determine the modelling strategy that can be adopted.

In the case of Nouvobanq, given the absence of a default history with very few accounts in the corporate and retail portfolios, these few cases might not necessarily be a correct representation of the portfolio and lead to biased results.

Therefore, since the default history was noted to be extremely low, the foundation IRB approach (F-IRB) which is based on regulatory prescribed LGDs has been adopted for all portfolios. In a situation where the Bank is not able to arrive at internal estimates for their risk components based on their internal data, the regulator prescribes an LGD value based on haircuts that can be applied on the collaterals. For Nouvobanq, this methodology was adopted due to the paucity of default data.

Under the foundation methodology, LGD is estimated through the application of standard supervisory rules, which differentiate the level of LGD based upon the characteristics and the presence of the type of collateral. The supervisory rules and treatments were chosen to be conservative. The starting point proposed by the Committee is use of a 50% LGD value for most unsecured transactions, with a higher LGD (75%) applied to subordinated exposures. For transactions with qualifying financial collateral, the LGD is scaled to the degree to which the transaction is secured, using a haircut methodology adapted from that described for the standardized approach.

In addition to the eligible financial collateral recognized in the standardized approach, under the FIRB approach some other forms of collateral, known as eligible IRB collateral, are also recognized. These include receivables, specified commercial and residential real estate, and other physical collateral, where they meet the minimum requirements.

As prescribed by Basel, the following haircuts have been applied.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Credit risk (continued)

5.3.4 Measurement of ECL(continued)

5.3.4.2 Loss given default (continued)

Nouvobanq Collateral Type#	Basel Collateral type	LGD (Secured Part)	LGD (Unsecured Part)	Haircuts	Final LGD*
Residential Real Estate (RRE)	Eligible residential real estate	20%	45%	40%	F-IRB formula
Eligible Commercial Real Estate (CRE)	Eligible commercial real estate	20%	45%	40%	F-IRB formula
Eligible Financial Collateral	Eligible financial collateral	0%	45%	40%	F-IRB formula
Eligible receivables	Eligible receivables	20%	45%	40%	F-IRB formula
Other collateral	Unsecured Claim				Refer to note 3
Senior Unsecured Claim	Unsecured Claim				Refer to note 4

Note: The following LGDs have been applied as per Basel guidelines.

1. A 20% floor is applied on all LGDs.
2. A 45% LGD is used for banks under loans including overdrafts.
3. Other collateral is classified as an unsecured claim as it does not pertain to either of Basel's collateral types.
4. A 40% LGD is applied to corporate senior unsecured claims while a 75% LGD is applied for retail unsecured claims.

The ECL computations for the different stages are described below:

Stage 1 - The 12-month ECL is calculated as the portion of Lifetime ECL that represents the ECL resulting from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12-month ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-months default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR.

Stage 2 - When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the Lifetime ECL. The mechanics are similar to those explained on stage 1 assets, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3 - For loans considered credit-impaired, the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

Note that a credit conversion factor of 40% is applied in the ECL computations for undrawn commitments.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Credit risk (continued)

5.3.5 Regulatory provisioning vs IFRS 9 provisioning

The ECL calculation for accounting purposes is different to the ECL calculation for regulatory purposes, although many inputs used are similar. The Bank has ensured that the appropriate methodology is used when calculating ECL for both accounting and regulatory purposes. The main differences between the methodologies used to measure ECL in accordance with IFRS 9 versus the ones applied for regulatory purposes are:

1. General provisions apply 1% provision for credits classified as Pass as per CBS grading disclosed under Note 5.3.2 and nil provisions for credits extended to the Government of Seychelles classified as Pass;
2. Specific provisions apply 5% of provision for credits classified as special mention, 25% of provisions for credits classified as substandard, 50% provision for credits classified as doubtful and 100% provision for credit classified as loss, as per CBS grading disclosed under Note 5.3.2.
3. Should the provisions computed under IFRS 9 be less than what is required under the above regulations set out in *Financial Institutions (Credit Classification and Provisioning) Regulation, 2010* (as amended in 2011 and 2019); the Bank shall assign the difference to a non-distributable equity reserve created through an appropriation of reserve. For the current year, the Bank has made an appropriation of **SR4.8m** (2022: SR10.6m) in respect of this shortfall to the general loan loss reserve.
4. Where IFRS 9 requires a higher provisioning than prescribed by the above regulations, the Bank shall provide for the greater amount in its books.

The measurement of ECL is based on probability weighted average credit loss. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis (although measurement on a collective basis is more practical for large portfolios of items).

In relation to the assessment of whether there has been a significant increase in credit risk it can be necessary to perform the assessment on a collective basis as noted below.

5.3.6 Incorporation of forward economic information

Macroeconomic models are typically designed to examine the dynamics of economy-level variables, or aggregate quantities such as the total amount of goods and services produced, total income earned, the level of employment of productive resources, and the level of prices. In other words, the macroeconomic models attempt to look at the overall economy of a region across key factors that affect the economy, while establishing relationships among them.

Given the nature of the portfolios at hand, in that the corporate and retail portfolios behave notably differently and that they are affected by differing macro-economic conditions, two separate models are developed for these portfolios, as follows:

Portfolio	Methodology	Model Type	Data Time Period
Corporate	Regression Analysis	Univariate Model	January 2019 – August 2023
Retail	Regression Analysis	Bivariate Model	January 2019 – August 2023

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Credit risk (continued)

5.3.6 Incorporation of forward economic information (continued)

Macroeconomic variable time series data pertaining to the Seychelles economy was sourced from the International Monetary Fund (“IMF”):

- ✓ Yearly macroeconomic variable data along with the forecasts till 2028.
- ✓ The macroeconomic variable data has been standardized and interpolated to quarterly data by keeping the yearly standardized macroeconomic data point constant for the respective quarters to determine impact of the variables on credit portfolio of the Bank and create sufficient data points for regression analysis.
- ✓ Several transformations of the macroeconomic variables have been considered like quarter- on-quarter change and lagged variables as usually macroeconomic variables do not impact the credit portfolios in real time and have lagged effects.

Based on the multiple analyses and tests performed, GP at constant prices, was selected to compute scenario projections and subsequently the scalar for the IFRS 9 model was based on this variable for the corporate portfolio. For the retail portfolio, the model uses the percent change in inflation as average consumer prices – 4 quarter lag and percent change in general government net lending/borrowing – 3 quarters lag as the appropriate macro-economic variables.

Additionally, 3 scenarios were developed, namely:

- i) Upturn scenario: Average (Baseline) + (1*Standard deviation (Baseline))
- ii) Downturn scenario: Average (Baseline) - (1*Standard deviation (Baseline))
- iii) Baseline scenario: Macroeconomic data from IMF

The scenario weights used are tabulated below:

Scenario	Weights
Baseline	35%
Upturn	30%
Downturn	35%

The Bank has performed a sensitivity analysis on how ECL on the main portfolios will change if the key assumptions used to calculate ECL change by 10%. The table below outlines the impact on ECL per portfolio as at 31 December 2023, if the assumptions used to measure ECL change by plus or minus 10%. The changes are applied in isolation for illustrative purposes, and are applied to each probability weighted scenarios used to develop the estimate of expected credit losses. In reality there will be interdependencies between the various economic inputs and the exposure to sensitivity will vary across the economic scenarios.

Retail portfolio	Change in variable	Impact on ECL (SR)
Macroeconomic variables	+10% improvement	(1,515)
	- 10% deterioration	1,585
Corporate portfolio		
Macroeconomic variables	+10% improvement	(478,499)
	- 10% deterioration	504,218

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Credit risk (continued)

5.3.7 Credit quality

The table summarises the loss allowance as of the year end by class of exposure/ asset.

	Notes	2023 SR' 000	2022 SR' 000
Loss allowance by class			
Cash and cash equivalents	8	1,853	-
Loans to and placements with banks and CBS	9	917	548
Loans and advances to customers	10	41,415	16,268
Investment in debt securities	11	3,864	265
Off balance sheet exposures including undrawn commitments	21	5,005	2,446
		53,054	19,527

Each of the above notes, where applicable, include references to:

- Tables analysing the movement of the loss allowance during the year for each class of asset;
- Tables analysing the significant changes in the gross carrying amount of financial assets during the period that contributed to changes in the loss allowance.

5.3.8 Write offs

The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity is **SR0.04m** at 31 December 2023 (31 December 2022: SR3.2m).

5.3.9 Modified financial assets

As a result of the Bank's forbearance activities financial assets might be modified. The Bank did not enter into significant restructuring agreements during the current year.

5.3.10 Collaterals held as security and other credit enhancements

The Bank holds collateral or other credit enhancements to mitigate credit risk associated with financial assets. The main types of collateral and the types of assets these are associated with are listed in the table below.

The collateral presented relates to instruments that are measured at FVTOCI and amortised cost. In addition to the collateral included in the table below, the Bank holds other types of collateral and credit enhancements, such as second charges and floating charges for which specific values are not generally available.

There was no change in the Bank's collateral policy during the year. More details with regards to collateral held for certain classes of financial assets can be found below.

	Type of collateral held
Mortgage lending	Residual properties as collateral for mortgage loans
Personal lending	Salary pledge, unsecured
Corporate lending	Guarantees, fixed charges on property, personal guarantees of shareholders.

For credit-impaired loans, the Bank obtains appraisals of collateral to inform its credit risk management actions.

At 31 December 2023, credit impaired loans stood at **SR89.4m** (2022: SR0.04m), against which the fair value of the collaterals stood in excess of **SR200m**.

**SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023**

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Credit risk (continued)

5.3.10 Collaterals held as security and other credit enhancements (continued)

The Bank holds investment in debt securities measured at amortised cost with a carrying amount of **SR1.9bn** at 31 December 2023 (2022: SR2.0bn). The investment securities held by the Bank are sovereign bonds, which are not collateralised.

The Bank has not taken possession of any collaterals held as security against loans and advances for both the financial years ended 31 December 2023 and 31 December 2022.

5.3.11 Concentration risk and exposure to credit risk

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Limits on the level of credit risk are approved by the Board of Directors with discretionary limits set for the Bank's Management.

Concentrations of credit risk arise when several distinct counterparties or exposures have comparable economic characteristics, or such counterparties are engaged in similar activities or operate in the same geographical areas or industry sectors so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, a number of controls and measures to minimise undue concentration of exposure in the Bank's portfolio have been implemented. The Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Any identified concentrations of credit risks are controlled and managed and in line with the Risk Appetite Framework.

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SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Credit risk (continued)

5.3.11 Concentration risk and exposure to credit risk (continued)

The following table shows the maximum exposure to credit risk for the components of the statement of financial position before the effect of mitigation through use collateral agreements. Where financial instruments are recorded at fair value, the amounts shown 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.

<u>Class of asset</u>	2023			2022		
	Gross exposure	E C L	Net exposure	Gross exposure	E C L	Net exposure
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
Cash and cash equivalents	1,865,679	(1,853)	1,863,826	2,214,504	-	2,214,504
Loans to and placements with banks and CBS	3,819,315	(917)	3,818,398	2,641,521	(548)	2,640,973
Loans and advances to customers	2,839,766	(41,415)	2,798,351	2,743,528	(16,268)	2,727,260
Investment in debt securities	1,910,711	(3,864)	1,906,847	1,961,292	(265)	1,961,027
Other assets	1,391,465	-	1,391,465	1,194,703	-	1,194,703
Total on balance sheet exposures	11,826,936	(48,049)	11,778,887	10,755,548	(17,081)	10,738,467
Off balance sheet items including undrawn commitments	1,623,017	(5,005)	1,618,012	1,033,235	(2,446)	1,030,789

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SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Credit risk (continued)

5.3.11 Concentration risk and exposure to credit risk (continued)

Analysis of concentration risk

<u>Gross balances</u>	Financial services	Government of Seychelles	Real estate	Tourism	Trade	Personal	Others*	Total
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
31 December 2023								
Cash and cash equivalents	1,865,679	-	-	-	-	-	-	1,865,679
Loans to and placements with banks and CBS	3,819,315	-	-	-	-	-	-	3,819,315
Loans and advances to customers	-	133,877	431,473	474,207	181,872	294,012	1,324,325	2,839,766
Investment in debt securities	107,439	1,772,912	-	-	-	-	30,360	1,910,711
Other assets	1,391,465	-	-	-	-	-	-	1,391,465
Total concentration of risk	7,183,898	1,906,789	431,473	474,207	181,872	294,012	1,354,685	11,826,936
31 December 2022								
Cash and cash equivalents	2,214,504	-	-	-	-	-	-	2,214,504
Loans to and placements with banks and CBS	2,641,521	-	-	-	-	-	-	2,641,521
Loans and advances to customers	114,816	185,324	435,721	494,466	155,161	236,795	1,121,245	2,743,528
Investment in debt securities	77,314	1,883,978	-	-	-	-	-	1,961,292
Other assets	1,189,041	-	-	-	-	-	5,662	1,194,703
Total concentration of risk	6,237,196	2,069,302	435,721	494,466	155,161	236,795	1,126,907	10,755,548

*Others comprise mainly credit exposures to Transport, Telecommunication and Construction industries.

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SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.4 Currency risk

Currency risk is defined as the risk that movements in foreign exchange rates adversely affect the value of the Bank's foreign currency positions. The latter is exposed with respect to foreign currency risk arising from trading in foreign currency and acceptances. In order to ensure adequacy of its foreign exchange requirements, foreign currency cash flow forecasts are prepared regularly, expenses monitored and actions taken accordingly.

The Bank managed its foreign currency exposure during the year under review to remain within limits set by the *Financial Institutions (Foreign Currency Exposure) Regulations, 2009* as amended issued by the Central Bank of Seychelles which requires that long and short position to capital ratio is not more than 30% respectively.

At 31 December 2023, if the Seychelles Rupee had weakened/strengthened by 5% against foreign currencies (mainly US dollar and Euro) with all other variables held constant, profit for the year would have been **SR24.7m** (2022: SR 17.8m) higher/lower, mainly as a result of foreign exchange gains/(losses) on translation of foreign currency denominated assets and liabilities balances.

The tables below show the gross carrying amounts of monetary assets and liabilities:

	EURO	USD	SCR	Others	Total
	SR'000	SR'000	SR'000	SR'000	SR'000
31 December 2023					
Assets					
Cash and cash equivalents	400,991	812,219	556,027	96,442	1,865,679
Loans to and placements with banks and CBS	1,113,416	2,461,064	227,893	16,942	3,819,315
Loans and advances to customers	296,134	644,130	1,899,502	-	2,839,766
Investment securities	751	268,084	1,915,125	-	2,183,960
Other assets	245,636	501,831	643,998	-	1,391,465
Total monetary financial assets	2,056,928	4,687,328	5,242,545	113,384	12,100,185
Liabilities					
Deposits from customers	2,050,341	4,208,320	4,550,585	104,705	10,913,951
Borrowings	-	-	62,463	-	62,463
Lease liabilities	-	-	17,137	-	17,137
Other liabilities	2	113	55,043	128	55,286
Total monetary financial liabilities	2,050,343	4,208,433	4,685,228	104,833	11,048,837
Net currency position	6,585	478,895	557,317	8,551	1,051,348
	EURO	USD	SCR	Others	Total
	SR'000	SR'000	SR'000	SR'000	SR'000
31 December 2022					
Assets					
Cash and cash equivalents	788,387	796,861	563,409	65,847	2,214,504
Loans to and placements with banks and CBS	309,753	2,288,020	-	43,748	2,641,521
Loans and advances to customers	372,290	771,510	1,599,728	-	2,743,528
Investment securities	674	221,898	1,961,929	-	2,184,501
Other assets	219,789	428,988	545,926	-	1,194,703
Total monetary financial assets	1,690,893	4,507,277	4,670,992	109,595	10,978,757
Liabilities					
Deposits from customers	1,683,064	4,166,313	4,017,863	104,525	9,971,765
Borrowings	-	-	90,657	-	90,657
Lease liabilities	565	-	19,121	-	19,686
Other liabilities	2	-	35,231	156	35,389
Total monetary financial liabilities	1,683,631	4,166,313	4,162,872	104,681	10,117,497
Net currency position	7,262	340,964	508,120	4,914	861,260

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.5 Liquidity risk

Liquidity risk is the risk that the Bank does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows which is inherent in all banking operations and can be affected by a range of Bank-specific and market-wide events.

Liquidity risk management

The Bank has established a comprehensive policy and control framework for managing liquidity risk. The Bank's Asset and Liability Management Committee (ALCO) is responsible for managing the Bank's liquidity risk via a combination of policy formation, review and governance, analysis, stress testing, limit setting and monitoring. In order to effectively manage liquidity risk the Bank maintains a portfolio of highly liquid assets with different tenors and monitors periodic liquidity reports analysing the expected maturity profile of assets and liabilities.

The Bank also complies with the Central Bank of Seychelles' requirements as a commercial bank and maintains liquid assets of an amount which shall not, as a daily average each month, be less than 20% of the Bank's total liabilities under the *Financial Institutions (Liquidity Risk Management) Regulations, 2009 as amended in 2012*. The Treasury function executes the Bank's liquidity and funding strategy in co-operation with other business units of the Bank.

The Bank met the guidelines of the Central Bank of Seychelles in terms of its liquidity ratio during the years 2023 and 2022.

The maturity profile of assets and liabilities is as follows:

At 31 December 2023	Up to 3 months SR'000	3 – 12 months SR'000	1 – 5 years SR'000	Over 5 years SR'000	SR'000
Financial assets					
Cash and cash equivalents	1,865,679	-	-	-	1,865,679
Loans to and placements with banks and CBS	1,326,138	1,936,825	556,352	-	3,819,315
Loans and advances to customers	443,363	118,792	228,467	2,049,144	2,839,766
Investment in debt securities	157,852	332,012	688,381	732,466	1,910,711
Other assets	1,386,962	4,503	-	-	1,391,465
	5,179,994	2,392,132	1,473,200	2,781,610	11,826,936
Financial liabilities					
Deposits from customers	9,875,860	1,028,573	9,518	-	10,913,951
Borrowings	122	5,910	17,341	39,090	62,463
Other liabilities	51,982	3,304	-	-	55,286
Lease liabilities	38	121	2,139	14,839	17,137
	9,928,002	1,037,908	28,998	53,929	11,048,837
Maturity gap	(4,748,008)	1,354,224	1,444,202	2,727,681	778,099
Loan and other commitments					(689,487)
Maturity gap					88,612

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.5 Liquidity risk (continued)

At 31 December 2022	Up to 3 months SR'000	3 – 12 months SR'000	1 – 5 years SR'000	Over 5 years SR'000	SR'000
Financial assets					
Cash and cash equivalents	2,214,504	-	-	-	2,214,504
Loans to and placements with banks and CBS	365,690	2,275,831	-	-	2,641,521
Loans and advances to customers	391,812	154,539	873,659	1,323,518	2,743,528
Investment in debt securities	118,212	227,973	1,299,706	315,401	1,961,292
Other assets	1,194,703	-	-	-	1,194,703
	<u>4,284,921</u>	<u>2,658,343</u>	<u>2,173,365</u>	<u>1,638,919</u>	<u>10,755,548</u>
Financial liabilities					
Deposits from customers	9,311,039	646,903	13,823	-	9,971,765
Borrowings	43,624	4,551	42,482	-	90,657
Other liabilities	32,078	-	2,262	1,049	35,389
Lease liabilities	-	486	2,698	16,502	19,686
	<u>9,386,741</u>	<u>651,940</u>	<u>61,265</u>	<u>17,551</u>	<u>10,117,497</u>
Maturity gap					
Undrawn loan commitments					638,051
Maturity gap					<u>(475,488)</u>
					<u>162,563</u>

The tables above present a maturity analysis of the Bank's financial assets and liabilities. The above maturity analysis for loans and advances and deposits from customers have not incorporated future coupon payments as management considers that these amounts would not significantly alter the liquidity gap analysis. Hence, the liquidity analysis is not shown on an undiscounted basis. The amounts shown are also gross of ECL and exclude investments in equity securities which the Bank holds for strategic purposes at FVTOCI. The amount for issued loan commitments is the maximum amount that may be drawn down under the loan commitment, or called under the financial guarantee contract, both included in the earliest possible period that these could be paid.

The Bank also holds financial assets and financial liabilities for which the expected cash flows are significantly different from the contractual cash flows. The most common examples of such instruments are the current deposits from customers which are largely repayable on demand and are not expected to be withdrawn immediately but to remain stable or increase. Similarly, retail mortgage loans might have a longer average contractual maturity but the average expected maturity could be lower since customers may take advantage of early repayment options.

Management has also put in place the required liquidity risk management framework, including liquidity contingency planning.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.6 Interest rate risk

Interest rate risk arises from changes in interest rates. The main type of interest rate risk to which the Bank is exposed is “re-pricing risk”, which is defined as the risk arising from timing differences in the maturity (for fixed rates) and re-pricing (for floating rates) of bank assets, liabilities and off-balance sheet exposures, which can expose the Bank’s income and/or underlying economic value to unanticipated fluctuations as interest rates vary. It is the policy of the Bank to limit exposure to re-pricing risk by systematically inserting a clause in its contract that allows the Bank to re-price as and when required in line with changes in interest rates, thereby mitigating the re-pricing risk.

At 31 December 2023

	Up to 12 months	1 to 3 years	Over 3 years	Non-interest items	Total
	SR'000	SR'000	SR'000	SR'000	SR'000
Financial assets					
Cash and cash equivalents	1,767,134	-	-	98,545	1,865,679
Loans to and placements with banks and CBS	3,381,915	437,400	-	-	3,819,315
Loans and advances to customers	562,156	332,655	1,944,955	-	2,839,766
Investment in debt securities	490,539	688,381	731,791	-	1,910,711
Other assets	-	-	-	1,391,465	1,391,465
	<u>6,201,744</u>	<u>1,458,436</u>	<u>2,676,746</u>	<u>1,490,010</u>	<u>11,826,936</u>
Financial liabilities					
Deposits from customers	4,446,328	9,518	-	6,458,105	10,913,951
Borrowings	-	-	-	62,463	62,463
Other liabilities	-	-	-	56,286	56,286
Lease liabilities	159	2,139	14,839	-	17,137
	<u>4,446,487</u>	<u>11,657</u>	<u>14,839</u>	<u>6,576,854</u>	<u>11,049,837</u>
Interest sensitivity gap	<u>1,755,257</u>	<u>1,446,779</u>	<u>2,661,907</u>	<u>(5,086,844)</u>	<u>777,099</u>

At 31 December 2022

	Up to 12 months	1 to 3 years	Over 3 years	Non-interest items	Total
	SR'000	SR'000	SR'000	SR'000	SR'000
Financial assets					
Cash and cash equivalents	2,147,879	-	-	66,625	2,214,504
Loans to and placements with banks and CBS	1,572,497	1,069,024	-	-	2,641,521
Loans and advances to customers	546,351	508,897	1,688,280	-	2,743,528
Investment in debt securities	346,185	600,309	1,014,798	-	1,961,292
Other assets	-	-	-	1,194,703	1,194,703
	<u>4,612,912</u>	<u>2,178,230</u>	<u>2,703,078</u>	<u>1,261,328</u>	<u>10,755,548</u>
Financial liabilities					
Deposits from customers	2,678,510	13,823	-	7,279,432	9,971,765
Borrowings	-	-	-	90,657	90,657
Other liabilities	-	-	-	35,389	35,389
Lease liabilities	486	2,698	16,502	-	19,686
	<u>2,678,996</u>	<u>16,521</u>	<u>16,502</u>	<u>7,405,478</u>	<u>10,117,497</u>
Interest sensitivity gap	<u>1,933,916</u>	<u>2,161,709</u>	<u>2,686,576</u>	<u>(6,144,150)</u>	<u>638,051</u>

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.6 Interest rate risk (continued)

If interest rates had been 5 basis points higher/lower and all other variables were held constant as at year-end, the Bank's results would have been increased/decreased as follows:

	<u>2023</u>	<u>2022</u>
	SR' 000	SR' 000
Increase/Decrease	<u>2,932</u>	<u>3,391</u>

5.7 Equity price risk

The Bank is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than for trading purposes and the Bank does not actively trade in these investments. Changes in prices / valuation of these investments are reflected in the other comprehensive income, except for impairment losses which are reported in the profit or loss.

A 5% increase in the price of equities held at the reporting date would have resulted in an unrealised gain to the other comprehensive income as reflected below. A 5% decrease would have resulted in an equivalent loss being booked.

	<u>2023</u>	<u>2022</u>
	SR' 000	SR' 000
Increase/Decrease in OCI	<u>13,662</u>	<u>11,160</u>

6. CAPITAL RISK MANAGEMENT

Capital risk is the risk that the Bank has insufficient capital resources to meet the minimum regulatory requirements in the jurisdiction where its regulated activities are undertaken, to support its credit rating and to support its growth and strategic options. The Bank's regulator is the Central Bank of Seychelles and sets the capital requirements for the Bank which is to maintain a minimum capital adequacy ratio of 12%.

The Bank's regulatory capital consists of the sum of the following elements:

- Tier 1 capital which is the sum of unimpaired paid-up share capital and retained earnings;
- Tier 2 capital which is the sum of the general provisions under IFRS 9/ and or general loan loss reserve which should not exceed 1.25% of the total amount of risk-adjusted assets and year-to-date net profit after tax and any subordinated term debt and hybrid capital instruments that have been deemed satisfactory by the Central Bank.
- The capital base is made up of the sum of Tier 1 capital and eligible Tier 2 capital.

In line with requirements of the *Financial Institutions (Capital Adequacy) Regulations 2010*, capital adequacy ratio is closely monitored in line with the requirements of the Financial Institutions Act, 2004 as amended and those of the Central Bank of Seychelles.

The capital adequacy ratio is given below:

	<u>2023</u>	<u>2022</u>
	SR'000	SR'000
Tier I Capital	<u>1,042,661</u>	841,579
Tier II Capital	<u>36,546</u>	26,858
Total Capital Base	<u>1,079,207</u>	<u>868,437</u>
Total Risk Weighted Assets for credit risk	<u>5,067,862</u>	3,842,792
Operational Risk Capital Requirement	<u>689,164</u>	642,305
Total Risk-adjusted Assets	<u>5,757,026</u>	4,485,097
Capital adequacy	<u>18.75%</u>	<u>19.36%</u>

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

6. CAPITAL RISK MANAGEMENT (CONTINUED)

The operational risk component is calculated by deriving the Bank's average annual gross income for the preceding three years, using only such years with positive gross income, and multiplying by 1.25.

The credit risk component is the sum of the risk-adjusted values of the Bank's assets and off-balance sheet assets after assignment of a credit risk-weight as per Schedule 2 and application of a credit conversion factor per Schedule 3 of the *Financial Institutions (Capital Adequacy) Regulations 2010* respectively.

The Bank has complied with the minimum capital adequacy ratio of 12% for both the current and prior years.

7. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques mainly include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, bond and equity prices and foreign currency exchange rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values.

Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets. Valuation models for financial instruments measured at fair value that employ significant unobservable inputs require a higher degree of management judgement and estimation in determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

7.1 Recurring financial instruments measured at fair value - fair value hierarchy

	Level 1	Level 2	Level 3	Total
	SR'000	SR'000	SR'000	SR'000
Investment in equity securities at FVOCI				
At 31 December 2023	217,292	55,957	-	273,249
At 31 December 2022	173,389	49,820	-	223,209

There has been no transfer between the fair value hierarchy level during the year.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

7. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

7.2 Financial instruments not measured at fair value

The table below sets out the fair values of financial instruments which are not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

	Carrying amount		Level 1		Level 2		Level 3		Total
	SR'000		SR'000		SR'000		SR'000		SR'000
<u>At 31 December 2023</u>									
<i>Financial assets</i>									
Loans to and placements with banks and CBS	3,818,398	-		3,818,398	-			3,818,398	
Loans and advances to customers	2,798,351	-		2,798,351	-			2,798,351	
Investment securities at amortised cost	1,906,847	-		1,906,847	-			1,906,847	
<i>Financial liabilities</i>									
Deposits from customers	10,913,951	-		10,913,951	-			10,913,951	
Borrowings	62,463	-		62,463	-			62,463	
<u>At 31 December 2022</u>									
<i>Financial assets</i>									
Loans to and placements with banks and CBS	2,640,973	-		2,640,973	-			2,640,973	
Loans and advances to customers	2,727,260	-		2,727,260	-			2,727,260	
Investment securities at amortised cost	1,961,027	-		1,961,027	-			1,961,027	
<i>Financial liabilities</i>									
Deposits from customers	9,971,765	-		9,971,765	-			9,971,765	
Borrowings	90,567	-		90,567	-			90,567	

The following is a list of financial instruments whose carrying amount is a reasonable approximation of the fair value because, for example, they are short term in nature or reprice to current market rates frequently:

- Cash and cash equivalents
- Other assets
- Other liabilities

7.3 Basis of valuation

The fair value measurement is the Bank's estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It does not reflect the economic benefits and costs that the Bank expects to flow from the instruments' cash flows over their expected future lives.

Loans are grouped, as far as possible, into homogeneous groups and stratified by loans with similar characteristics to improve the accuracy of estimated valuation outputs. The fair value of a loan reflects both loan impairments at the reporting date and estimates of market participants' expectations of impairment losses over the life of the loans, and the fair value effect of repricing between origination and the reporting date. The fair valuation of loans and advances is based on indirect observable inputs and therefore classifies under Level 2.

For the purpose of estimating fair value, deposits by banks and customer accounts are grouped by remaining contractual maturity. Fair values are estimated by applying current rates offered for deposits of similar remaining maturities, therefore the deposits by banks and customers' accounts are under Level 2 valuation techniques. The fair value of a deposit repayable on demand is approximated by its carrying value.

In the course of the financial year, the Bank valued its investments in the Development Bank of Seychelles and Afrexim using the NAV approach (using the latest available financial information) – the Bank has assessed that the resulting valuation would not have been materially different had management valued these investments using a market comparable approach. Accordingly, the investments are carried under Level 2 of the fair value hierarchy.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

8. CASH AND CASH EQUIVALENTS

	<u>Notes</u>	<u>2023</u> SR' 000	<u>2022</u> SR' 000
Cash in hand		98,546	66,625
Balances with Central Bank of Seychelles ("CBS")		1,869,878	1,691,924
Money market placements with foreign banks		4,628,197	4,057,849
Nostro balances with banks abroad		196,347	206,763
Nostro balances with local banks		1,695	5,255
Reclassification of mandatory balance with CBS to "Other assets"	17	(1,368,825)	(1,172,391)
Reclassification of placements with banks with original maturity of more than 3 months to "Loans to and placements with banks and CBS"	9	(3,562,158)	(2,641,521)
Reclassification of debt securities with original maturity of less than three months from "Investment securities"	11	1,999	-
Less allowance for expected credit loss (Stage 1)		(1,853)	-
		<u>1,863,826</u>	<u>2,214,504</u>

9. LOANS TO AND PLACEMENTS WITH BANKS AND CBS

	<u>Note</u>	<u>2023</u> SR' 000	<u>2022</u> SR' 000
Placements with banks with original maturity of more than 3 months, inclusive of interest receivable	8	3,562,158	2,641,521
Loans to banks		104,189	-
Placements with CBS		152,968	-
Less allowance for expected credit loss (Stage 1)		(917)	(548)
		<u>3,818,398</u>	<u>2,640,973</u>

(a) Movement in ECL during the year is as follows:

	<u>Note</u>	<u>2023</u> SR' 000	<u>2022</u> SR' 000
As at 1 January		548	380
ECL charge for the year	33	369	168
As at 31 December		<u>917</u>	<u>548</u>

(b) There were no transfers between stages during the year (2022: nil). A reconciliation of changes in gross carrying amount and corresponding ECL allowances in stage 1 is as follows:

	<u>2023</u>		<u>2022</u>	
	<u>Gross amount</u> SR' 000	<u>ECL</u> SR' 000	<u>Gross amount</u> SR' 000	<u>ECL</u> SR' 000
At 1 January	2,641,521	548	529,163	380
New assets originated or purchased	3,819,315	917	2,641,521	548
Payments and assets derecognised	(2,641,521)	(548)	(529,163)	(380)
At 31 December	<u>3,819,315</u>	<u>917</u>	<u>2,641,521</u>	<u>548</u>

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

10. LOANS AND ADVANCES TO CUSTOMERS

	<u>2023</u>	<u>2022</u>
	SR' 000	SR' 000
Loans and advances to customers	2,828,816	2,736,614
Interest receivable	10,950	6,914
Gross carrying amount	<u>2,839,766</u>	<u>2,743,528</u>
Less allowance for expected credit loss	<u>(41,415)</u>	<u>(16,268)</u>
	<u><u>2,798,351</u></u>	<u><u>2,727,260</u></u>

(a) Movement in ECL during the year is as follows:

	<u>Notes</u>	<u>2023</u>	<u>2022</u>
		SR' 000	SR' 000
As at 1 January		16,268	86,966
Allowance for expected credit loss for the year	33	25,190	(67,528)
Loans written off	33	(43)	(3,170)
As at 31 December		<u><u>41,415</u></u>	<u><u>16,268</u></u>

(b) Credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification by segment.

(i) **Corporate lending**

<u>Internal rating grade</u>	<u>2023</u>			<u>Total</u>
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	
	SR' 000	SR' 000	SR' 000	SR' 000
Performing				
High to Standard	2,371,034	-	-	2,371,034
Sub-standard grade	-	106,500	-	106,500
Non-performing				
Individually impaired	-	-	68,220	68,220
Gross carrying amount	<u>2,371,034</u>	<u>106,500</u>	<u>68,220</u>	<u>2,545,754</u>
Less allowance for expected credit loss	<u>(5,712)</u>	<u>(3,580)</u>	<u>(16,691)</u>	<u>(25,983)</u>
Net carrying amount	<u><u>2,365,322</u></u>	<u><u>102,920</u></u>	<u><u>51,529</u></u>	<u><u>2,519,771</u></u>

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SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

10. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

- (b) Credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification by segment. (Cont'd)

(i) Corporate lending (Cont'd)

Internal rating grade	2022			Total SR' 000
	Stage 1 SR' 000	Stage 2 SR' 000	Stage 3 SR' 000	
Performing				
High to Standard	2,345,467	-	-	2,345,467
Sub-Standard grade	-	161,266	-	161,266
Non-performing				
Individually impaired	-	-	-	-
Gross carrying amount	2,345,467	161,266	-	2,506,733
Less allowance for expected credit loss	(14,515)	(1,711)	-	(16,226)
Net carrying amount	2,330,952	159,555	-	2,490,507

(ii) Retail lending

Internal rating grade	2023			Total SR' 000
	Stage 1 SR' 000	Stage 2 SR' 000	Stage 3 SR' 000	
Performing				
High to Standard	271,209	-	-	271,209
Sub-standard grade	-	1,642	-	1,642
Non-performing				
Individually impaired	-	-	21,161	21,161
Gross carrying amount	271,209	1,642	21,161	294,012
Less allowance for expected credit loss	(191)	(69)	(15,172)	(15,432)
Net carrying amount	271,018	1,573	5,989	278,580

Internal rating grade	2022			Total SR' 000
	Stage 1 SR' 000	Stage 2 SR' 000	Stage 3 SR' 000	
Performing				
High to Standard	229,441	-	-	229,441
Sub-standard grade	-	7,318	-	7,318
Non-performing				
Individually impaired	-	-	36	36
Gross carrying amount	229,441	7,318	36	236,795
Less allowance for expected credit loss	(26)	(1)	(15)	(42)
Net carrying amount	229,415	7,317	21	236,753

- (c) Credit concentration of risk by industry sectors:

The credit concentration risk of loans and advances by industry sectors is shown under note 5.3.11.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

10. LOANS AND ADVANCES TO CUSTOMERS (CONT'D)

(d) The currencies and maturities profiles of loans and advances are shown under notes 5.4 and 5.5 respectively.

(e) Reconciliation of gross carrying amount and ECL

A reconciliation of changes in gross carrying amount and corresponding allowance for ECL by stage for loans and advances to customers is as follows:

	Stage 1		Stage 2		Stage 3		Total	
	Gross amount	ECL						
	carrying		carrying		carrying		carrying	
	SR' 000	SR' 000						
At 1 January 2023	2,574,908	14,541	168,584	1,712	36	15	2,743,528	16,268
New assets originated or purchased	1,372,414	2,949	32,324	2,983	18,344	11,551	1,423,082	17,483
Payments and assets derecognised	(2,050,678)	(7,556)	(5,124)	(13)	-	-	(2,055,802)	(7,569)
Transfers to Stage 1	126,101	1,184	(126,101)	(1,184)	-	-	-	-
Transfers to Stage 2	-	-	-	-	-	-	-	-
Transfers to Stage 3	(60,052)	(556)	(18,481)	(206)	78,533	762	-	-
Write offs	-	-	-	-	(99)	(43)	(99)	(43)
Other movements & Recalibration	679,550	(4,659)	56,940	357	(7,433)	19,578	729,057	15,276
At 31 December 2023	2,642,243	5,903	108,142	3,649	89,381	31,863	2,839,766	41,415

	Stage 1		Stage 2		Stage 3		Total	
	Gross amount	ECL						
	carrying		carrying		carrying		carrying	
	SR' 000	SR' 000						
At 1 January 2022	1,241,808	17,603	1,008,594	63,153	11,712	6,210	2,262,114	86,966
New assets originated or purchased	1,300,102	9,606	119,596	1,058	-	-	1,419,698	10,664
Payments and assets derecognised	(171,768)	(4,132)	(577,201)	(43,367)	(5,585)	(3,015)	(754,554)	(50,514)
Transfers to Stage 1	398,570	18,567	(398,311)	(18,537)	(259)	(30)	-	-
Transfers to Stage 2	(20,548)	(1,104)	20,548	1,104	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Write offs	-	-	-	-	(6,035)	(3,170)	(6,035)	(3,170)
Other movements	(173,256)	(25,999)	(4,642)	(1,699)	203	20	(177,695)	(27,678)
At 31 December 2022	2,574,908	14,541	168,584	1,712	36	15	2,743,528	16,268

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

11. INVESTMENT SECURITIES

	<u>Notes</u>	<u>2023</u> SR' 000	<u>2022</u> SR' 000
Investment in debt securities at amortised cost		1,876,973	1,925,585
Interest receivable		35,737	35,707
		1,912,710	1,961,292
Reclassification of debt securities with original maturity of less than three months to " <i>Cash and cash equivalents</i> "	8	(1,999)	-
	11(a) (i)	1,910,711	1,961,292
Less allowance for expected credit loss (Stage 1)		(3,864)	(265)
		1,906,847	1,961,027
Investment in equity securities designated at FVTOCI	11(a) (ii)	273,249	223,209
Net carrying amount		2,180,096	2,184,236

(a) The breakdown of investment securities is as follows:

(i) *Investment in debt securities at amortised cost*

The Bank's investment in debt securities at amortised cost are held with the Central Bank of Seychelles, Government of Seychelles, Cable and Wireless Seychelles ("CWS") and the Development Bank of Seychelles ("DBS"). Per internal rating grades, all local debt instruments are standard graded. There was no transfer between stages during the year (2022: none).

	<u>CWS bond</u> SR' 000	<u>Treasury bill</u> SR' 000	<u>Treasury bond</u> SR' 000	<u>DBS bond</u> SR' 000	<u>Total</u> SR' 000
As at 31 December 2023	30,360	206,776	1,566,136	107,439	1,910,711
As at 31 December 2022	-	167,315	1,716,663	77,314	1,961,292

(ii) *Investment in equity securities designated at FVTOCI*

The Bank has designated some investments in equity instruments at FVTOCI as these are investments which the Bank plans to hold in the long term for strategic reasons. The table below shows these investments.

	<u>Visa shares</u> SR' 000	<u>Mastercard shares</u> SR' 000	<u>Afrexim shares</u> SR' 000	<u>SWIFT SCRL</u> SR' 000	<u>DBS shares</u> SR' 000	<u>Total</u> SR' 000
As at 1 January 2022	131,108	55,737	46,076	605	636	234,162
Fair value movement	<u>(10,256)</u>	<u>(3,875)</u>	<u>3,108</u>	<u>70</u>	<u>-</u>	<u>(10,953)</u>
As at 31 December 2022	120,852	51,862	49,184	675	636	223,209
Fair value movement	<u>31,637</u>	<u>12,189</u>	<u>2,360</u>	<u>77</u>	<u>3,777</u>	<u>50,040</u>
As at 31 December 2023	152,489	64,051	51,544	752	4,413	273,249

In 2023, the Bank received dividends of **SR2.7m** (2022: 2.4m) from its FVTOCI equity instruments which were recorded in profit or loss under "Other income" in Note 30.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

11. INVESTMENT SECURITIES (CONT'D)

(b) Fair value measurement

Refer to Note 7 for a description of the Bank's valuation methodology.

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

	Valuation method	Level 1 SR' 000	Level 2 SR' 000	Level 3 SR' 000	Total SR' 000
At 31 December 2023					
<u>Equity instruments at fair value through OCI</u>					
- Class C Visa shares	Market	152,489	-	-	152,489
- Mastercard shares	Market	64,051	-	-	64,051
- Afrexim shares	NAV	-	51,544	-	51,544
- SWIFT SCRL	Market	752	-	-	752
- DBS shares	NAV	-	4,413	-	4,413
Total financial assets measured at fair value		217,292	55,957	-	273,249
At 31 December 2022					
<u>Equity instruments at fair value through OCI</u>					
- Class C Visa shares	Market	120,852	-	-	120,852
- Mastercard shares	Market	51,862	-	-	51,862
- Afrexim shares	NAV	-	49,184	-	49,184
- SWIFT SCRL	Market	675	-	-	675
- DBS shares	Cost	-	636	-	636
Total financial assets measured at fair value		173,389	49,820	-	223,209

Refer to Note 7 for further disclosures as required under IFRS 13 *Fair Value Measurement* and IFRS 7 *Financial Instruments: Disclosures*.

(c) Allowance for expected credit loss (ECL)

Movement in ECL during the year is as follows:

	Notes	2023 SR' 000	2022 SR' 000
As at 1 January		265	321
ECL charge/(credit) during the year (Stage 1)	33	3,599	(56)
As at 31 December		3,864	265

(d) The currency profile of the investment securities is shown in notes 5.4. The maturity profile of the investment in debt securities is shown in note 5.5.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

12. PROPERTY AND EQUIPMENT

	Building	Improvement on leasehold assets	Furniture, fixtures & equipment	Motor vehicles	Work-in- Progress	Total
COST	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000
At 1 January 2022	158,101	1,909	88,299	3,435	-	251,744
Reclassifications	-	-	-	-	3,972	3,972
Additions	-	-	2,166	950	-	3,116
Disposals	-	-	-	(1,300)	-	(1,300)
Write offs	-	-	(3,560)	-	-	(3,560)
At 31 December 2022	158,101	1,909	86,905	3,085	3,972	253,972
Additions	-	2,811	8,791	-	12,187	23,789
Capitalisation of WIP	-	3,972	-	-	(3,972)	-
Write offs	-	-	(1,177)	-	-	(1,177)
At 31 December 2023	158,101	8,692	94,519	3,085	12,187	276,584
ACCUMULATED DEPRECIATION						
At 1 January 2022	8,293	1,898	50,799	3,127	-	64,117
Charge for the year	1,777	2	9,413	295	-	11,487
Disposals adjustments	-	-	-	(1,300)	-	(1,300)
Write-off adjustments	-	-	(3,030)	-	-	(3,030)
At 31 December 2022	10,070	1,900	57,182	2,122	-	71,274
Charge for the year	1,777	1,020	9,309	271	-	12,377
Write-off adjustments	-	-	(1,177)	-	-	(1,177)
At 31 December 2023	11,847	2,920	65,314	2,393	-	82,474
NET BOOK VALUE						
At 31 December 2023	146,254	5,772	29,205	692	12,187	194,110
At 31 December 2022	148,031	9	29,723	963	3,972	182,698

The Work-in-Progress relates to the ongoing costs associated with the extension project at a particular branch. Management has reviewed the carrying value of the property and equipment and are of the opinion that at the reporting date, the property and equipment has not suffered any impairment (2022: NIL).

13. INTANGIBLE ASSETS

	Software	Work-in- Progress	Total
COST	SR' 000	SR' 000	SR' 000
At 1 January 2022	35,506	-	35,506
Reclassifications from other assets	-	3,903	3,903
Additions	4,622	-	4,622
At 31 December 2022	40,128	3,903	44,031
Additions	4,342	3,926	8,268
Capitalised	3,903	(3,903)	-
At 31 December 2023	48,373	3,926	52,299
AMORTISATION CHARGE			
At 1 January 2022	29,593	-	29,593
Charge for the year	4,018	-	4,018
At 31 December 2022	33,611	-	33,611
Charge for the year	2,773	-	2,773
At 31 December 2023	36,384	-	36,384
NET BOOK VALUE			
At 31 December 2023	11,989	3,926	15,915
At 31 December 2022	6,517	3,903	10,420

The Work-in-Progress relates to the ongoing costs associated with the system enhancements relating to the Cards Project and Moody's CreditLens.

Management has reviewed the carrying value of the intangible assets and are of the opinion that at the reporting date, the intangible assets have not suffered any impairment (2022: NIL).

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

14. LEASES

(a) Lease contracts

The Bank has lease contracts for the land on which the Nouvobanq Building is situated, branches offices, ATM houses and staff accommodation. Leases of branch offices, ATM houses and staff accommodation have lease terms ranging between 1 and 10 years, while lease of land is 99 years. The Bank's obligations under its leases are secured by the lessors' titles to the leased assets. Generally, the Bank is restricted from assigning and subleasing the leased assets.

The Bank applied the short-term leases exemption for leases amounting to **SR 0.7m** (2022: SR 1.0m) which have been shown as rental expenses under "Other expenses" in note 31.

(b) Right-of-use assets

Set out below are the carrying amounts of the Bank's right-of-use assets recognised and the movements during the year under review.

	Land	Buildings	Total
	SR' 000	SR' 000	SR' 000
As at 1 January 2022	4,455	20,914	25,369
Additions	-	1,540	1,540
Depreciation charge for the year	(53)	(3,889)	(3,942)
As at 31 December 2022	4,402	18,565	22,967
Additions	-	1,580	1,580
Lease modifications	-	(403)	(403)
Depreciation charge for the year	(53)	(3,976)	(4,029)
As at 31 December 2023	4,349	15,766	20,115

(c) Lease liabilities

The carrying amounts of lease liabilities and the movements noted during the year as follows:

	SR' 000
As at 1 January 2022	21,625
Additions	1,540
Interest expense (Note 27)	1,273
Exchange movement	(801)
Payments (inclusive of interest paid)	(3,951)
As at 31 December 2022	19,686
Additions	1,580
Interest expense (Note 27)	1,132
Lease modifications	(403)
Exchange movement	(838)
Payments (inclusive of interest paid)	(4,020)
As at 31 December 2023	17,137

Maturity profile based on undiscounted cashflows:

	2023	2022
	SR' 000	SR' 000
Year 1	4,369	4,960
Year 2	3,212	3,242
Year 3	2,603	2,987
Year 4	2,603	2,603
Year 5	2,601	2,603
Above 5 years	5,203	7,804
	20,591	24,199

The Bank had total cash outflows for leases of **SR 4.0 m** (2022: SR 4.0m). The Bank does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Bank's treasury function.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

14. LEASES (CONT'D)

(d) The following are the amounts have been recognised in profit or loss:

	Notes	2023	2022
		SR' 000	SR' 000
Depreciation on right-of-use assets	14(b)	4,029	3,942
Interest expense on lease liabilities	27	1,132	1,273
Expense relating to short-term leases included in:		664	1,477
- Other expenses	31	664	970
- Employment benefit expenses	32	-	507
Total amount recognised in profit or loss		5,825	6,692

(e) The Bank entered into a 99 years lease agreement with Government of Seychelles on 20 June 2007. Lease premium and relevant taxes totalling SR 5.3m were paid in advance and were classified and amortised in other assets. Upon adoption of *IFRS 16 Leases* on 1 January 2019, the Bank transferred the net of SR 4.6m made of SR 5.3m upfront lease payments and SR 0.6m accumulated amortisation to right-of-use assets.

15. RETIREMENT BENEFIT (ASSETS)/ LIABILITIES

(a) The amounts recognised in the statement of financial position are as follows:

	Notes	2023	2022
		SR' 000	SR' 000
Defined pension benefits	15(d)(ii)	(10,296)	16,698
Other post retirement benefits	15(e)(i)	7,828	8,185
		(2,468)	24,883

(b) The amounts recognised in profit or loss are as follows:

	Notes	2023	2022
		SR' 000	SR' 000
Defined pension benefits	15(d)(vi)	5,949	1,677
Other post retirement benefits	15(e)(i)	1,691	1,519
		7,640	3,196

(c) The amounts recognised in other comprehensive income are as follows:

	Notes	2023	2022
		SR' 000	SR' 000
Remeasurement of net defined benefit liability	15(d)(vii) and 15(e)(i)	12,451	(28,521)

(d) Defined pension benefits

(i) The Bank contributes towards a defined pension plan which provides benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years of retirement.

The assets of the plan are administered by SIMBC Fiduciary Pension Fund ("the Fund"), which is separated from the Bank and was established in 1979 under the Schedule Rules of Standard Chartered Bank. The trustees of the pension fund are required under the Schedule Rules to act in the interest of the Fund and of all relevant stakeholders in the plan. The trustees of the Fund are responsible for the investment policy with regard to the assets of the Fund.

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligations were carried out at 31 December 2023 by AON Solutions Ltd and signed off by Bernard Yen, Fellow of the Institute of Actuaries. The present value of the defined benefit liability and the related service cost and past service cost were measured using the projected unit credit method.

(ii) Reconciliation of net defined benefit (asset)/ liability:

	2023	2022
	SR' 000	SR' 000
At 1 January	16,698	(8,105)
Amount recognised in profit or loss	5,949	1,677
Amount recognised in other comprehensive income	(10,721)	28,521
Less employer contributions	(22,222)	(5,395)
At 31 December	(10,296)	16,698

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

15. RETIREMENT BENEFIT (ASSETS)/ LIABILITIES (CONT'D)

(d) **Defined pension benefits (cont'd)**

(iii) The amount included in the statement of financial position arising from the Bank's obligations in respect of its defined benefit retirement benefit plans is as follows:

	Notes	2023	2022
		SR' 000	SR' 000
Present value of defined benefit obligations	15(d)(iv)	66,264	74,098
Fair value of plan assets	15(d)(v)	(76,560)	(57,400)
Net (asset)/ liability from defined benefit obligations		(10,296)	16,698

(iv) The movement in the defined benefit obligations over the year is as follows:

	2023	2022
	SR' 000	SR' 000
At 1 January	74,098	46,913
Current service cost	5,023	2,590
Interest cost	4,423	3,737
Past service cost	569	-
<i>Remeasurement gains:</i>		
Actuarial (gains)/ losses arising from experience adjustments	(293)	1,828
Actuarial (gains)/ losses arising from changes in financial assumptions	(11,950)	25,049
Benefits paid	(5,606)	(6,019)
At 31 December	66,264	74,098

(v) The movement in the fair value of plan assets of the year is as follows:

	2023	2022
	SR' 000	SR' 000
At 1 January	57,400	55,018
Interest income	4,066	4,650
Employer contributions	22,222	5,395
Benefits paid	(5,606)	(6,019)
Return on plan assets excluding interest income	(1,522)	(1,644)
Effect of asset ceiling	-	-
At 31 December	76,560	57,400

Fair value percentages of plan assets by category:

	2023	2022
	%	%
Equity in Seychelles	12	15
Property in Seychelles	41	58
Cash and others	34	10
Unquoted debts in Seychelles	13	17
	100	100

(vi) Amounts recognised in profit or loss are as follows:

	2023	2022
	SR' 000	SR' 000
Current service cost	5,023	2,590
Past service cost	569	-
Net interest on defined benefit plan	357	(913)
	5,949	1,677

(vii) Amounts recognised in other comprehensive income are as follows:

Actuarial (gains)/losses arising from experience adjustments	(293)	1,828
Actuarial (gains)/losses arising from changes in financial assumptions	(11,950)	25,049
Return on plan assets excluding interest income	1,522	1,644
	(10,721)	28,521

The liability financial gain due to change in financial assumptions of **SR11.9m** is mainly due to the increase in the discount rate from 6.2% p.a. in 2022 to 6.9% p.a. in 2023 and due to the assumed salary increase rate to be 4% p.a. for 2024 onwards.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

15. RETIREMENT BENEFIT (ASSETS)/ LIABILITIES (CONT'D)

(d) Defined pension benefits (cont'd)

(viii) Principal assumptions used at the end of the period:

	<u>2023</u>	<u>2022</u>
Discount rate	6.9%	6.2%
Rate of salary increases	4.0%	4.0%
Rate of pension increases	0.0%	0.0%
Average retirement age (ARA)* & Average life expectancy for:		
- Male	63 years	63 years
- Female	60 years	60 years
- Male at ARA	17.5 years	17.5 years
- Female at ARA	24.3 years	24.3 years

* The retirement age is as per the rules of the SIMBC Seychelles Pension Fiduciary Fund.

(ix) Sensitivity analysis on defined benefit obligation at end of period:

	<u>2023</u>	<u>2022</u>
	SR' 000	SR' 000
Increase in discount rate	11,311	13,350
Decrease in discount rate	8,818	10,340

(x) The defined benefit pension plan exposes the Bank to normal risks associated with defined benefit pension plans such as investment, interest, longevity and salary risks. The funding requirements are based on the pension fund's actuarial measurement framework set out in the funding policies of the plan. There has been no plan amendment, curtailment in settlement during the year. More details on the risks can be found in Note 3(z)(v).

(xi) The expected employer contribution for the next year amounts to **SR 6.3m**. The weighted average duration of the defined benefit obligation is **15 years** at the end of the reporting period.

(e) Other post retirement benefits

(i) Other post retirement benefits relates to length-of-service compensation payable under the Seychelles Employment Act, as amended. Movement in length-of-service compensation is as follows:

	<u>2023</u>	<u>2022</u>
	SR' 000	SR' 000
At 1 January	8,185	12,191
Charge to profit or loss	1,691	1,519
Amount recognised in other comprehensive income	(1,730)	-
Benefits paid	(318)	(5,525)
At 31 December	7,828	8,185

(ii) Amounts recognised in other comprehensive income are as follows:

Actuarial losses arising from experience adjustments	51	-
Actuarial gains arising from changes in financial assumptions	(1,781)	-
	(1,730)	-

The liability financial gain due to change in financial assumptions of **SR1.8m** is mainly due to the increase in the discount rate from 6.2% p.a. in 2022 to 6.9% p.a. in 2023 and due to the decrease in the assumed salary increase rate.

(iii) The movement in the other post retirement benefit obligations over the year is as follows:

	<u>2023</u>	<u>2022</u>
	SR' 000	SR' 000
At 1 January	8,185	12,191
Current service cost	1,193	1,519
Interest cost	498	-
<i>Remeasurement gains:</i>		
Actuarial losses arising from experience adjustments	51	-
Actuarial gains arising from changes in financial assumptions	(1,781)	-
Benefits paid	(318)	(5,525)
At 31 December	7,828	8,185

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

15. RETIREMENT BENEFIT (ASSETS)/ LIABILITIES (CONT'D)

(e) Other post retirement benefits (cont'd)

- (iv) The principal assumptions for the length of service compensation are the same as under the defined benefit obligations which have been disclosed under Note 15(d)(viii).
- (v) Sensitivity analysis on length of service compensation obligation at end of period:

	<u>2023</u> <u>SR' 000</u>
Increase in discount rate	1,273
Decrease in discount rate	1,033

The sensitivity analyses in Note 15(d) (ix) and 15(e)(v) have been carried out by recalculating the present value of obligation at end of period after increasing or decreasing the discount rate while leaving all other assumptions unchanged. Any similar variation in the other assumptions would have shown smaller variations in the obligations.

16. DEFERRED TAX

- (a) Deferred taxes are calculated on all temporary differences under the liability method at an effective tax rate of **33%** (2022: 33%).
- (b) There is a legally enforceable right to offset deferred tax assets and deferred tax liabilities when the deferred taxes relate to the same fiscal authority for the same entity.

	<u>2023</u> <u>SR' 000</u>	<u>2022</u> <u>SR' 000</u>
Net deferred tax assets	<u>191</u>	<u>1,651</u>

The movement in deferred tax account and amounts shown in the statement of financial position is as follows:

	<u>Notes</u>	<u>2023</u> <u>SR' 000</u>	<u>2022</u> <u>SR' 000</u>
At 1 January		1,651	18,653
Credit/ (charge) to profit or loss	20(c)	2,649	(26,414)
(Charge)/credit to other comprehensive income		(4,109)	9,412
At 31 December		<u>191</u>	<u>1,651</u>
Analysed as follows:			
Deferred tax assets		17,071	15,691
Deferred tax liabilities		(16,880)	(14,040)
		<u>191</u>	<u>1,651</u>

- (c) Deferred tax is recognised in the statement of financial position with respect to the following:

(i) DEFERRED TAX ASSETS

	Excess of obligation to right-of-use SR' 000	Payroll provisions* SR' 000	Provision for credit impairment SR' 000	Retirement benefit obligations SR' 000	Total SR' 000
At 1 January 2022	234	4,752	29,578	(3,698)	30,866
Credit/(charge) to profit or loss	135	(1,384)	(23,134)	(204)	(24,587)
Credit to other comprehensive income	-	-	-	9,412	9,412
At 31 December 2022	<u>369</u>	<u>3,368</u>	<u>6,444</u>	<u>5,510</u>	<u>15,691</u>
(Charge)/credit to profit or loss	(821)	601	11,079	(5,370)	5,489
Charge to other comprehensive income	-	(571)	-	(3,538)	(4,109)
At 31 December 2023	<u>(452)</u>	<u>3,398</u>	<u>17,523</u>	<u>(3,398)</u>	<u>17,071</u>

* Payroll provisions include gratuity and compensation of **SR7.8m** (2022: SR 8.2m) (note 15 (e)(i)) and leave pay provision amounting to **SR2.5m** (2022: SR 2.0m) included in other liabilities (note 21).

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

16. DEFERRED TAX (CONT'D)

(ii) **DEFERRED TAX LIABILITIES**

	Accelerated tax depreciation
	SR' 000
At 1 January 2022	(12,213)
Charge to profit or loss	(1,827)
At 31 December 2022	(14,040)
Charge to profit or loss	(2,840)
At 31 December 2023	(16,880)

17. OTHER ASSETS

	Notes	2023	2022
		SR' 000	SR' 000
<i>Non-financial assets</i>			
Stock for stationeries and inventories for spare parts (e.g. ATMs)	17(b)	2,398	5,653
Prepayments		5,340	3,299
		<u>7,738</u>	<u>8,952</u>
<i>Financial assets</i>			
Mandatory balance with the Central Bank of Seychelles	8, 17(a)	1,368,825	1,172,391
Refundable deposits		984	249
Balances due in clearing		19,722	16,650
Other receivables	17(c)	1,934	5,413
		<u>1,391,465</u>	<u>1,194,703</u>
		<u>1,399,203</u>	<u>1,203,655</u>

- (a) The mandatory balance with the Central Bank of Seychelles refers to the minimum reserve requirement set out by the Central Bank of Seychelles. This balance is non-interest bearing and cannot be used for daily cash and treasury management of the Bank.
- (b) Management has performed an impairment assesment of the inventories held at year end and has not identified any impairment losses. (2022: Nil)
- (c) Other receivables include internal suspense and transitory accounts which are cleared subsequent to the year end.
- (d) The currency profile and maturity terms are detailed under notes 5.4 and 5.5 respectively.

18. DEPOSITS FROM CUSTOMERS

	2023	2022
	SR' 000	SR' 000
Current accounts	8,169,472	8,704,905
Term deposits	2,714,305	1,255,542
Interest payable	30,174	11,318
	<u>#####</u>	<u>9,971,765</u>

- (a) The currencies and maturity profiles of deposits from customers are shown under notes 5.4 and 5.5 respectively.
- (b) The range of interest on deposits from customers varied from **0.1% to 5.15%** (2022: 0.01% to 3.75%).

19. BORROWINGS

	2023	2022
	SR' 000	SR' 000
At 1 January	90,657	89,406
Additions during the year	-	8,500
Repayments during the year	(28,194)	(7,249)
At 31 December	<u>62,463</u>	<u>90,657</u>

- (a) The Central Bank of Seychelles ("CBS") extended lines of credit to financial institutions at nil interest rate for lending to entities affected by COVID-19 pandemic and are denominated in Seychelles Rupees. The lines of credit are available to Micro Business Small and Medium Enterprises (MSME) and Large Corporates (LC). The Government of Seychelles has agreed to guarantee 70% of the loans to MSME and 50% of the loans to Large Corporates.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

19. BORROWINGS (CONT'D)

- (b) As at 31 December 2023 the Bank had an amount of **SR 62.4m** (2022: SR 90.7m) owed to the CBS. Out of this, **SR 12.9m** (2022: SR 23.3m) had been lent to MSME and **SR 49.5m** (2022: SR 67.4m) to Large Corporates.
- (c) All funds received from the borrowers in repayment of any principal amount of a loan are to be remitted to CBS every quarter, commencing 31 December 2021 and are made within 15 days after the end of the relevant quarter. Refer to note 5.5 for the maturity profile.

20. CURRENT TAX

- (a) **Applicable tax rates are as follows:**

	<u>2023 & 2022</u>
Taxable income threshold	
< SR 1,000,000	25%
> SR 1,000,000	33%

- (b) **Statement of financial position**

	<u>2023</u>	<u>2022</u>
	<u>SR' 000</u>	<u>SR' 000</u>
<u>Current tax (assets)/liabilities</u>		
At 1 January	(5,017)	16,658
Refund received during the year	5,017	-
Income tax charge for the year	90,963	109,997
Over provision in previous years	(43,846)	-
Payments during the year	(105,728)	(131,672)
At 31 December	(58,611)	(5,017)

The Bank has obtained a Private Ruling & General Guidance from the Seychelles Revenue Commission clarifying that interest income earned on foreign sourced placements is exempt from business tax. Accordingly, the Bank has made a claim for refund of the excess tax paid in the past four fiscal years.

- (c) **Statement of profit or loss and other comprehensive income**

	<u>2023</u>	<u>2022</u>
	<u>SR' 000</u>	<u>SR' 000</u>
Current tax based on the profit for the year	90,963	109,997
Over provision in previous years	(43,846)	-
Deferred tax (credit)/charge	16(b) (2,649)	26,414
Income tax expense	44,468	136,411

- (d) **Reconciliation between tax expense and accounting profit is as follows:**

Tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the Bank as follows:

	<u>2023</u>	<u>2022</u>
	<u>SR' 000</u>	<u>SR' 000</u>
Profit before taxation	411,960	414,915
Tax calculated at applicable tax rates	135,867	136,922
- Income not subject to tax	(83,441)	(35,618)
- Overprovision in previous years	(43,846)	-
- Expenses not deductible for tax purposes	38,537	8,693
- Other temporary differences	(2,649)	26,414
	44,468	136,411

21. OTHER LIABILITIES

Foreign drafts and local cheques payable	2,292	2,189
Other payables	51,526	31,178
Allowance for ECLs on off balance sheet items	5,005	2,446
Provision for leave liability	2,468	2,022
	61,291	37,835

- (a) ECL on off balance sheet items is classified in Stage 1 and there were no movements within stages during the year under review.
- (b) Other payables comprise accruals and sundry creditors. These balances are unsecured, interest free and repayable within 6-12 months.
- (c) Movement in ECL during the year is as follows:

	<u>Notes</u>	<u>2023</u>	<u>2022</u>
		<u>SR' 000</u>	<u>SR' 000</u>
As at 1 January		2,446	1,962
ECL charge during the year	33	2,559	484
As at 31 December		5,005	2,446

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

22. SHARE CAPITAL

Authorised, issued and fully paid-up:

100,000 ordinary shares of SR 1,000 each

Fully paid ordinary shares carry one vote per share and carry the right to dividend.

2023 & 2022
SR' 000

100,000

23. STATUTORY RESERVE

At 31 December

The statutory reserve is maintained in accordance with section 24(1) of the Financial Institutions Act 2004 as amended and is equivalent to the share capital of SR100m.

100,000

24. GENERAL LOAN LOSS RESERVE

At 31 December

The general loan loss reserve has been created to cater for the shortfall between the IFRS 9 provisions and the regulatory provisions as required under Section 8(1) of *Financial Institutions (Credit Classification and Provisioning) Regulation, 2010* (as amended in 2011 and 2019).

	2023	2022
	SR' 000	SR' 000
	15,356	10,604

25. OTHER RESERVES

At 1 January 2022

Remeasurement of net defined benefit liability

Deferred tax on remeasurement of net defined benefit liability

Fair value movement on equity securities designated at FVTOCI

At 31 December 2022

Remeasurement of net defined benefit liability

Deferred tax on remeasurement of net defined benefit liability

Fair value movement on equity securities designated at FVTOCI

At 31 December 2023

	Actuarial reserve SR' 000	Fair value reserve SR' 000	Total SR' 000
At 1 January 2022	1,214	207,325	208,539
Remeasurement of net defined benefit liability	(28,521)	-	(28,521)
Deferred tax on remeasurement of net defined benefit liability	9,412	-	9,412
Fair value movement on equity securities designated at FVTOCI	-	(10,953)	(10,953)
At 31 December 2022	(17,895)	196,372	178,477
Remeasurement of net defined benefit liability	12,451	-	12,451
Deferred tax on remeasurement of net defined benefit liability	(4,109)	-	(4,109)
Fair value movement on equity securities designated at FVTOCI	-	50,040	50,040
At 31 December 2023	(9,553)	246,412	236,859

26. INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST RATE METHOD

Interest income on financial assets at amortised cost

Loans and advances to banks and customers

Other financial assets including cash and placements

Investments in debt securities

Notes	2023	2022
	SR' 000	SR' 000
	200,284	153,443
	211,370	54,319
	110,840	114,234
	522,494	321,996

27. INTEREST EXPENSE

Interest expense on financial liabilities at amortised cost

Deposits from customers

Interest expense on other financial liabilities

Lease liabilities

	72,822	33,277
14 (c)	1,132	1,273
	73,954	34,550

28. FEES AND COMMISSION INCOME/ (EXPENSE)

(a) Fees and commissions income arising on:

- Card fees

- Commission on sale of forex

- Recovery of charges

- Letter of credit fees

- Loan commitment fees

- Portfolio and other management fees

- Other fees

76,367	70,454
8,262	8,281
13,059	9,743
5,557	1,511
4,388	8,290
7,234	6,592
7,468	5,381
122,335	110,252

(b) Fees and commission expense arising on:

- Card expenses

Net fee and commission income

(86,326)	(80,763)
36,009	29,489

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

29. NET TRADING INCOME

	Notes	2023 SR' 000	2022 SR' 000
Net foreign exchange gains including gains made on FX deals		<u>160,973</u>	<u>148,199</u>

30. OTHER INCOME

Dividend income	11(a)(ii)	2,712	2,441
Cashiers' surplus		-	-
Gain on disposal of property and equipment		-	610
Miscellaneous income		<u>893</u>	<u>1,231</u>
		<u>3,605</u>	<u>4,282</u>

31. OTHER EXPENSES

Employee benefit expenses	32	89,564	58,660
Auditors' remuneration and other associated costs		4,079	1,653
Administrative expenses		32,289	25,255
Computer costs		8,029	6,092
Rental expenses on short term leases	14(d)	664	970
Maintenance and other related costs		17,643	12,526
Provision for operational losses in relation to misappropriation	31(a)	30,180	-
		<u>182,448</u>	<u>105,156</u>

(a) In May 2023, the Bank discovered that it was subject to misappropriation in its cards business amounting to **SR30.2m** through the Purchase Authorisation Refund mechanism. A police complaint was lodged and criminal investigations are currently ongoing. Management has determined it prudent to provide for these operational losses, whilst continuing to pursue all avenues of recovery through the legal channels.

32. EMPLOYEE BENEFIT EXPENSES

Salaries and wages		62,476	45,627
Directors' emoluments	32(a)	7,655	5,716
Defined benefit obligations	15(b)	5,949	1,677
Other retirement benefit obligations	15(b)	1,691	1,519
Other staff costs		<u>11,793</u>	<u>4,121</u>
		<u>89,564</u>	<u>58,660</u>

(a) Directors' emoluments:

	2023				2022			
	Directors'		Other associated		Directors'		Other associated	
	fees	emoluments	costs	Total	fees	emoluments	costs	Total
	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000
Christophe Edmond*	-	3,753	-	3,753	-	1,860	-	1,860
Ahmad Saeed*	-	-	-	-	-	1,568	-	1,568
Jennifer Morel	300	-	-	300	112	-	-	112
Abdul Gafoor Yakub	-	-	-	-	74	-	-	74
David Howes**	150	-	191	341	95	-	36	131
Michael Bluemner	150	-	-	150	95	-	-	95
Andrew Bainbridge**	150	-	32	182	95	-	138	233
Helene Maiche	150	-	-	150	95	-	-	95
Phillipe Pierre*	-	2,479	-	2,479	-	549	-	549
Michael Benstrong	-	-	-	-	-	809	-	809
Odile Vidot	150	-	-	150	95	-	-	95
Oliver Bastienne	150	-	-	150	95	-	-	95
	<u>1,200</u>	<u>6,232</u>	<u>223</u>	<u>7,655</u>	<u>756</u>	<u>4,786</u>	<u>174</u>	<u>5,716</u>

* The other emoluments of Ahmad Saeed include rental of his residence borne by the Bank amounting to SR507k for the prior year. For Christophe Edmond and Philippe Pierre, the emoluments relate to the payment of salaries and wages, including bonuses and other benefits.

** These relate to flight and accommodation expenses to Seychelles for the directors, borne by the Bank.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

33. NET IMPAIRMENT (LOSSES)/ GAINS ON FINANCIAL ASSETS

		2023			
	Notes	Stage 1	Stage 2	Stage 3	Total
		SR' 000	SR' 000	SR' 000	SR' 000
Cash and cash equivalents	8(a)	1,853	-	-	1,853
Loans to and placements with banks	9(a)	369	-	-	369
Loans and advances to customers	10(e)(i)	(8,638)	1,937	31,848	25,147
Investment in debt securities	11(c)	3,599	-	-	3,599
Off balance sheet items	21	2,559	-	-	2,559
		(258)	1,937	31,848	33,527
		2022			
		Stage 1	Stage 2	Stage 3	Total
		SR' 000	SR' 000	SR' 000	SR' 000
Loans and advances to banks	9(a)	168	-	-	168
Loans and advances to customers	10(e)(i)	(3,062)	(61,441)	(6,195)	(70,698)
Investment in debt securities	11(c)	(56)	-	-	(56)
Undrawn loan commitments	21	484	-	-	484
		(2,466)	(61,441)	(6,195)	(70,102)

34. COMMITMENTS AND CONTINGENCIES

		2023	2022
		SR' 000	SR' 000
(a) Loan and other commitments			
Loans and other facilities approved but not yet disbursed		689,487	475,488
Guarantees, bills of collection, letters of credit, and other obligations on account of customers		933,530	557,747
		1,623,017	1,033,235
(b) Capital commitments			
		2023	2022
		SR' 000	SR' 000
Approved and contracted for		6,575	4,228
(c) Legal claim contingency			

Litigation being a common occurrence in the banking industry due to the nature of the business undertaken, the Bank has established 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.

For both the current and prior years, the Bank does not face any material legal contingencies.

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SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

35. RELATED PARTY TRANSACTIONS

There were the following transactions between the Bank and its related parties:

	Interest from related parties	Interest to related parties	Loans granted to related parties	Deposits from related parties
	SR' 000	SR' 000	SR' 000	SR' 000
31 December 2023				
Government of Seychelles	69	-	32,529	21
State owned or controlled enterprises	1,022	4,001	926,062	2,106,409
Non-controlling interest shareholder of the Bank	-	-	-	496
Directors	-	2	1,822	5,607
	<u>-</u>	<u>2</u>	<u>1,822</u>	<u>5,607</u>
	Interest from related parties	Interest to related parties	Loans granted to related parties	Deposits from related parties
	SR' 000	SR' 000	SR' 000	SR' 000
31 December 2022				
Government of Seychelles	119	-	60,357	1,262
State owned or controlled enterprises	1,242	-	819,699	1,683,713
Non-controlling interest shareholder of the Bank	-	-	-	496
Directors	1	7	2,982	5,050
	<u>1</u>	<u>7</u>	<u>2,982</u>	<u>5,050</u>

- (a) Transactions with related parties are made at normal market prices and are subject to the Bank's governance procedures for approval.
- (b) Outstanding balances of **SR 137m**, other than those relating to the directors, at the end of the reporting period are guaranteed by the Government of Seychelles. Remaining balances are adequately collateralised and all exposures to state owned or controlled enterprises require the approval of the Ministry of Finance, National Planning and Trade. ECL amounts relating to related parties have been estimated based on the Bank's ECL methodologies and assessed as not material for both the current and prior years.

(c) Key management personnel

	2023	2022
	SR' 000	SR' 000
(i) Salaries and related costs		
Salaries and other benefits	6,455	4,960
Directors' fees	1,200	756
Termination benefits including gratuity and length of service compensation	-	2,165
	<u>7,655</u>	<u>7,881</u>
(ii) Transactions during the year		
New loans net of repayments	(1,160)	(257)
New deposits net of encashments	557	966
	<u>(603)</u>	<u>709</u>

36. ULTIMATE HOLDING ENTITY

The Bank considers the Government of Seychelles as its immediate and ultimate holding entity with a 78% stake in its shareholding. Standard Chartered Africa PLC, of 1 Basinghall Avenue, London EC2V 5DD, United Kingdom, is the non-controlling interest shareholder with a 22% stake.

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023

37. DIVIDENDS

The Directors declared a dividend of **SR170m** for the year ended 31 December 2022 representing **SR1,700** per share during the board meeting held on 10 August 2023. The dividend were approved by the Central Bank of Seychelles on 27 July 2023.

38. INVESTMENT IN ASSOCIATE

Details of the Bank's associate at the end of the reporting period are as follows:

Name of associate	Principal activity	Place of incorporation and principal place of business	Proportion of ownership interest voting rights held by the Bank
Nebula Fintech Limited ("Nebula")	Payment services through electronic money	Seychelles	30%

The above associate is accounted for using the equity method as set out in the Bank's accounting policies.

Pursuant to a shareholder agreement entered on 26 July 2023, the Bank holds a 30% equity stake in the associate, with one representative on its Board of Directors.

The summarised financial information of the associate is set out below. The summarised financial information below represents amounts in Nebula's financial statements prepared in accordance with IFRS and with the same reporting year end as the Bank.

	SR' 000
Current assets	4,034
Non-current assets	3,735
Current liabilities	(179)
Non-current liabilities	(14,290)
Equity	(6,700)
Revenue	-
Losses for the year	(6,710)

Reconciliation of the above summarised financial information to the carrying amount of the interest in Nebula recognised in the Bank's financial statements:

	SR' 000
Initial cost of investment	10,000
Goodwill on acquisition of investment	-
Share of losses of associate	(2,013)
Carrying amount of the Bank's interest in the associate	7,987

39. EVENTS AFTER REPORTING PERIOD

The Directors are not aware of any matter or circumstance arising since the end of the financial year to the date of this report which could significantly affect the financial position of the Bank as at 31 December 2023.