SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED

AUDITED ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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CORPORATE INFORMATION

BOARD OF DIRECTORS	:	Abdul Gafoor Yakub Ahmad Saeed Anil Dua Damien Thesee David Howes Roger Toussaint Vincent Van Heyste
SECRETARY	:	Pinnacle Financial Consultants P.O. Box 6, Victoria, Mahé, Seychelles
REGISTERED OFFICE	:	Nouvobanq House, Victoria, Mahé, Seychelles
AUDITORS	:	Baker Tilly Chartered Accountants Seychelles

DIRECTORS' REPORT

The Directors present their report together with the audited financial statements of Seychelles International Mercantile Banking Corporation Limited (the "Bank") for the year ended December 31, 2018.

PRINCIPAL ACTIVITIES

The principal activities of the Bank consist of the provision of banking and financial services in Seychelles. The bank operates locally and its offshore activities are negligible; therefore no separate disclosures are presented in these Financial Statements. There has been no change to this activity for the financial year under review.

RESULTS

	SR' 000
Profit before tax	**275,049**
Tax expense	**(136,367)**
Profit for the year	**138,682**
Change on initial application of IFRS 9	**5,990**
Retained earnings brought forward	**301,575**
Profit available for distribution	**446,247**
Dividends	**(225,000)**
Retained earnings carried forward	**221,247**

DIVIDENDS

Interim Dividend of SR. 1,500 per share amounting to SR. 150 million (2017 : SR. 750 per share amounting to SR. 75 million) was declared and paid during the year. The Directors do not recommend any final dividend for the financial year under review (2017 : SR. 75 million).

PROPERTY AND EQUIPMENT

Additions to property and equipment of SR 9.4 million for the financial year under review (2017: SR 104.9 million) comprised mainly building, office equipment, furniture, fittings, equipment and motor vehicles. Disposal during the year of SR 34 million comprised of building.

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

DIRECTORS' AND THEIR INTEREST IN THE BANK

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

Abdul Gafoor Yakub
Ahmad Saeed
Anil Dua
Damien Thesee
David Howes
Roger Toussaint
Vincent Van Heyste

None of the Directors held any interest in the Bank during the financial year under review (2017 : Nil).

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 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.

The Directors confirms that the financial statements presented for audit are free from material misstatement and they have met their aforesaid responsibilities.

AUDITORS

The retiring auditors, Messers. Baker Tilly, being eligible offer themselves for re-appointment.

BOARD APPROVAL

Abdul Gafoor Yakub Director	**Ahmad Saeed** Director	**Anil Dua** Director	**Damien Thesee** Director
David Howes Director	**Roger Toussaint** Director	**Vincent Van Heyste** Director	

Dated: April 25, 2019
Victoria, Seychelles

BAKER TILLY
Assurance • Advisory • Taxation

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED

This report is made solely to the members of Seychelles International Mercantile Banking Corporation Limited (the "Bank"), as a body, in terms of our engagement to conduct the audit on their behalf. Our audit work has been undertaken so that we might state to the members those matters which we are required to state to them in an Auditors' 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on the Audit of the Financial Statements

Opinion

We have audited the attached financial statements of the Seychelles International Mercantile Banking Corporation Limited set out on pages 5 to 66 which comprise the Statement of Financial Position at December 31, 2018, the Statement of Comprehensive Income, Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements set out on pages 5 to 66 give a true and fair view of the financial position of the Bank at December 31, 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and in compliance with the Companies Act 1972, the Financial Institutions Act 2004, as amended and the regulations and directives of Central Bank of Seychelles.

Basis of 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 Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Seychelles, and we have fulfilled our other responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED

Report on the Audit of the Financial Statements *Continued*

Other information

The Bank Management is responsible for the other information.

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

In connection with our audit of the financial statements, our responsibility is to read the other information 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 on the other information that we obtained prior to the date of this auditor's report, 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 the Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the financial statements in accordance with International Financial Reporting Standards ('IFRS') and in compliance with the Companies Act 1972, the Financial Institutions Act 2004, as amended and the regulations and directives of Central Bank of Seychelles and for such internal control as the Bank Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management is 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 Management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED

Auditors' 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 judgment 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 management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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.

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 AUDITORS' REPORT TO THE MEMBERS OF

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED

Report on Other Legal Regulatory Requirements

Companies Act, 1972

We have no relationship with, or interests in, the Bank, other than in our capacity as auditors and dealings in the ordinary course of business.

We have obtained all information and explanations we have required.

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

The Financial Institutions Act, 2004, as amended and Regulations and Directives of the Central Bank of Seychelles requires that in carrying out our audit, we consider and report to you the following matters. We confirm that:

(i) 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 Financial Institutions Act, 2004 as amended and Regulations and Directives of the Central Bank of Seychelles.

(ii) The explanations or information called for or given to us by the management and employees of the Bank were satisfactory.

(iii) The Bank did not carry out any fiduciary duties for the year under review.

Other matter

The financial statements of the Company for the year ended December 31, 2017 were audited by another auditor who expressed an unmodified opinion on April 19, 2018.

Baker Tilly

BAKER TILLY P.O. Box 285 Seychelles CHARTERED ACCOUNTANTS

BAKER TILLY
Chartered Accountants

Victoria, Seychelles
Dated: April 25, 2019

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2018

	Notes	2018	2017
		SR' 000	SR' 000
ASSETS			
Cash and bank balances	5	**3,469,547**	2,557,672
Loans and Advances	6	**1,870,542**	1,951,357
Investment in financial assets	7	**1,028,733**	1,549,339
Property and equipment	8	**207,431**	242,751
Intangible assets	9	**13,084**	13,995
Other assets	10	**183,802**	25,111
Current tax	11	**5,202**	3,794
Deferred tax assets	12	**1,198**	48,084
Total Assets		**6,779,539**	6,392,103
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Customers deposits	13	**6,177,309**	5,833,597
Retirement benefit obligation	14	**12,829**	11,908
Other liabilities	15	**38,928**	44,901
Total Liabilities		**6,229,066**	5,890,406
EQUITY			
Share capital	16	**100,000**	100,000
Statutory reserve	17	**100,000**	100,000
Other reserves	18	**(3,193)**	122
Fair value reserve	7	**7,819**	-
Reserve on Property Foreclosed	10	**124,600**	-
Retained earnings		**221,247**	301,575
Total Equity		**550,473**	501,697
Total Liabilities and equity		**6,779,539**	6,392,103
CONTINGENT LIABILITIES			
Guarantees, bills of collection, letters of credit, and other obligations on account of customers	28	**209,637**	102,894
Loan commitments	28	**530,587**	546,446

These financial statements were approved for issue by the Board of Directors on April 25, 2019

Abdul Gafoor Yakub
Director

Ahmad Saeed
Director

Anil Dua
Director

Damien Thesee
Director

David Howes
Director

Roger Toussaint
Director

Vincent Van Heyste
Director

The notes on pages 9 to 66 form an integral part of these financial statements

Auditors' Report on pages 4 to 4 (c)

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2018

	Notes	2018	2017
		SR' 000	SR' 000
Interest Income from investments & short term funds	19	**106,193**	104,294
Interest income from advances	19	**143,473**	133,072
Interest expense	20	**(32,220)**	(31,683)
Net interest income		**217,446**	205,683
Fees and commission income	21	**76,061**	66,876
Fees and commission expense		**(60,080)**	(50,300)
		15,981	16,576
Net interest, fee and commission income		**233,427**	222,259
Net trading income	22	**124,298**	110,700
Other operating income	23	**4,666**	3,914
Total operating income		**362,391**	336,873
Non-interest expense			
Other operating expenses	24	**(74,810)**	(72,329)
Depreciation	8	**(10,977)**	(8,437)
Amortisation of intangibles	9	**(3,508)**	(3,520)
Amortisation of upfront lease payments	10	**(53)**	(53)
Total operating expenses		**(89,348)**	(84,339)
Operating profit		**273,043**	252,534
Provision for credit impairment	6	**2,006**	(6,122)
Profit before tax - As previously stated		**275,049**	246,412
Reclassification of CSR & TMT Tax from Administrative expenses		**-**	3,141
Profit before tax- As restated		**275,049**	249,553
Tax expenses	11	**(136,367)**	(79,773)
Profit for the year		**138,682**	169,780
Other comprehensive income			
Items that will not be reclassified subsequently to statement of profit or loss:			
Remeasurement of retirement benefit obligations		**(3,478)**	(2,985)
Deferred tax effect on remeasurement of retirement benefit obligations		**163**	985
Total other comprehensive loss for the year		**(3,315)**	(2,000)
Total comprehensive income net of tax for the year		**135,367**	167,780

The notes on pages 9 to 66 form an integral part of these financial statements
Auditors' Report on pages 4 to 4 (c)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2018

	Notes	Share Capital	Statutory reserve	Retained earnings	Reserve on Property Foreclosed	Fair Value reserve	Actuarial gain/ (losses)	Total
		SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
Balance at January 1, 2018		**100,000**	**100,000**	**301,575**	-	-	**122**	**501,697**
Effect of change in measurement of on initial application of IFRS 9	2.1	-	-	**5,990**	-	-	-	**5,990**
Profit for the year		-	-	**138,682**	-	-	**(3,315)**	**135,367**
Other comprehensive income		-	-	-	-	-	-	-
Movement during the year		-	-	-	**124,600**	**7,819**	-	**132,419**
Dividends	26	-	-	**(225,000)**	-	-	-	**(225,000)**
Balance at December 31, 2018		**100,000**	**100,000**	**221,247**	**124,600**	**7,819**	**(3,193)**	**550,473**
Balance at January 1, 2017		100,000	100,000	256,795	-	-	2,122	458,917
Profit for the year		-	-	169,780	-	-	-	169,780
Other comprehensive income		-	-	-	-	-	(2,000)	(2,000)
Dividends	26	-	-	(125,000)	-	-		(125,000)
Balance at December 31, 2017		100,000	100,000	301,575	-	-	122	501,697

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2018

	Notes	2018	2017
		SR' 000	SR' 000
OPERATING ACTIVITIES			
Profit before taxation		**275,049**	246,412
Adjustments for:			
Movement in credit impairment provision in loans and advances	6	**(137,199)**	1,643
Movements in credit impairment provision	6	**(2,006)**	6,122
Effect of change on initial application of IFRS 9	2.1	**5,990**	-
Interest accrued on loans and advances	6	**43,933**	(17,644)
Interest accrued on investments in financial assets	7	**(423)**	(460)
Interest released on investment in financial assets	7	**460**	335
Depreciation of property and equipment	8	**10,977**	8,437
Losses on assets written off	8	**(1)**	111
Amortisation of intangible assets	9	**3,509**	3,520
Amortisation of upfront lease payments	10 (a)	**53**	53
Movement in retirement benefit obligations		**2,290**	(809)
Profit on disposal of property and equipment		**(225)**	-
Effect of foreign exchange differences	17	**2,586**	3,176
Operating profit before working capital changes		**204,993**	250,897
Changes in working capital			
- Loans and advances		**176,087**	(209,890)
- Other assets	10	**(34,144)**	(343)
- Bank balances		**(106,216)**	2,764
- Customer deposits	12	**343,712**	708,060
- Other liabilities	14	**(5,973)**	(32,139)
Net generated from operations		**578,459**	719,349
Employer's contribution and direct benefits paid	14	**(4,847)**	4,528
Tax refund received	11	**6,786**	-
Tax paid	11	**(97,512)**	(120,306)
Net cash inflow from operating activities		**482,886**	603,571
INVESTING ACTIVITIES			
Purchase of investments in financial assets	7	**(9,657,834)**	(9,008,877)
Maturity of investments in financial assets	7	**10,186,222**	8,774,476
Purchase of property and equipment	8	**(9,432)**	(104,976)
Proceeds from disposal of property and equipment	8	**34,000**	-
Purchase of intangible assets	9	**(2,598)**	(13,674)
Net cash inflow/(outflow) from investing activities		**550,358**	(353,051)
FINANCING ACTIVITIES			
Dividends paid	26	**(225,000)**	(125,000)
Net cash outflow from financing activities		**(225,000)**	(125,000)
Net change in cash and cash equivalents		**808,244**	125,520
Movement in cash and cash equivalents:			
At January 1,		**2,500,055**	2,377,712
Increase		**808,244**	125,520
Effect of foreign exchange difference		**(2,586)**	(3,176)
At December 31,	6	**3,305,714**	2,500,055

The notes on pages 9 to 66 form an integral part of these financial statements
Auditors' Report on pages 4 to 4 (c)

1. GENERAL INFORMATION

The Seychelles International Mercantile Banking Corporation Limited is a limited liability company incorporated and domiciled in Seychelles. The principal activities of the Bank are as stated on page 1 of the Directors' Report. The principal place of business is situated at the Nouvobanq House, Victoria, Mahé, Seychelles. These financial statements will be submitted for consideration and approval at the forthcoming Annual General Meeting of Shareholders of the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal 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.

2.1 Basis of preparation

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and comply with the Companies Act, 1972, the Financial Institutions Act, 2004 as amended and the Regulations and Directives of the Central Bank of Seychelles. Where necessary, comparative figures have been amended to conform with the change in presentation in the current year. The financial statements are prepared under the historical cost convention with the exceptions stated below. The financial statements are presented in Seychelles Rupees (SCR).

i. Held-to-maturity financial assets and relevant financial assets and financial liabilities are stated at their amortised cost as applicable; and
ii. Relevant financial assets and financial liabilities are stated at their fair value.

The accounting policies adopted are consistent with those used in the previous financial year, except for the following new standards and amendments to IFRS that are mandatorily effective for accounting periods beginning on or after 1 January 2018, except as indicated otherwise:

New and amended standards

- IFRS 9 — Financial Instruments
- IFRS 15 — Revenue from Contracts with Customers
- Amendments to IAS 28 — Investments in Associates and Joint Ventures
- Amendments to IAS 40 — Transfers of Investment Property
- IFRIC 22 — Foreign Currency Transactions and Advance Consideration
- Amendments to IFRS 2 — Share-based Payment

Changes in accounting policies

IFRS 9 Financial Instruments

The Bank has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of January 1, 2018 which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Bank did not early adopt IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period. The Bank has also elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

2.1 Basis of preparation *Continued*

IFRS 9 Financial Instruments *Continued*

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Bank.

	Measurement Category	IAS 39 Carrying amount	IFRS 9 Carrying amount
		SR' 000	SR' 000
Financial assets			
Cash and bank balances	Amortised cost	2,557,672	2,554,739
Loans and advances	Amortised cost	1,951,357	1,960,357

There were no changes to the classification and measurement of financial instruments upon transition to IFRS 9 on January 1, 2018.

Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Bank performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on January 1, 2018:

	IAS 39 Carrying amount 31 Dec 2017	Reclassifi-cations	Remeasure-ments	IFRS 9 Carrying amount 1 Jan 2018
	SR' 000	SR' 000	SR' 000	SR' 000
AMORTISED COST:				
Cash and bank balances	2,557,672	-	(2,933)	2,554,739
Loans and Advances	1,951,357	-	9,000	1,960,357
Total financial assets at Amortised Cost	4,509,029	-	6,067	4,515,096
Off-balance sheet	649,340	-	(77)	649,263
Retained earnings effect on January 1, 2018				5,990

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *Continued*

2.1 **Basis of preparation** *Continued*

IFRS 9 Financial Instruments *Continued*

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

(i) **Classification of financial assets and financial liabilities**

On initial recognition, a financial asset is classified as measured: at amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income (OCI). This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

2.1 Basis of preparation *Continued*

IFRS 9 Financial Instruments *Continued*

Business model assessment:

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level as this best reflects the way the business is managed and information is provided to management. The information considered includes:

- 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 realizing 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 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 the 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.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest:

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rate.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *Continued*

2.1 **Basis of preparation** *Continued*

IFRS 9 Financial Instruments *Continued*

Reclassifications:

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Derecognition:

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as FVOCI is not recognised in profit or loss account on derecognition of such securities.

(ii) **Impairment**

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the financial instruments on which credit risk has not increased significantly since their initial recognition.

12-month ECL are the portion of life time ECL that result from default events on a financial instrument that are possible within the 12 months after reporting date.

Measurement of ECL

ECL are probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

2.1 Basis of preparation *Continued*

IFRS 9 Financial Instruments *Continued*

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset. The cash shortfalls are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. 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.

Evidence that a financial asset is credit-impaired includes the following observable data:
- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Purchased or originated credit impaired assets (POCI)

POCI assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. Life time ECLs are only recognised or released to the extent that there is a subsequent change in the ECL.

Revolving facilities

The Bank's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities at a short notice. The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Bank's expectations of the customer behavior, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities.

Based on past experience and the Bank's expectations, the period over which the Bank calculates ECLs for these products, is estimated based on the period over which the Bank is exposed to credit risk and where the credit losses would not be mitigated by management actions.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *Continued*

2.1 **Basis of preparation** *Continued*

IFRS 9 Financial Instruments *Continued*

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank has exhausted all legal and remedial efforts to recover from the customers. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

(iii) **Financial guarantees and loan commitments**

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holders for a loss they incur because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument. The financial guarantee liability is carried at amortised cost when payment under the contract has become probable.

'Loans commitments' are firm irrevocable commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or irrevocable commitments to provide credit are initially measured at fair value and their initial fair value is amortised over the life of the guarantee or the commitment. Subsequently, they are measured at the higher of this amortised amount and the amount of loss allowance.

(iv) **Derivatives and hedging**

IFRS 9 introduces a new hedge accounting model that expands the scope of hedged items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. The new model no longer specifies quantitative measures for effectiveness testing and does not permit hedge de-designation. As a result the 80-125% range under IAS 39 is replaced by an objectives- based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship.

The Bank does not have any hedging activities.

(v) **Foreign currencies**

Foreign currency differences arising on translation are generally recognized in profit or loss. However, foreign currency differences arising from the translation of equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI are recognised through OCI.

(vi) **Loans and advances**

'Loans and advances' captions in the statement of financial position include:

- Loans and advances measured at amortised cost: they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method; and
- Loans and advances measured at FVTPL or designated as at FVTPL: these are measured at fair value with changes recognised immediately in profit or loss, if applicable.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *Continued*

2.1 **Basis of preparation** *Continued*

IFRS 9 Financial Instruments *Continued*

(vii) **Investment in financial assets**

The 'Investment in financial assets' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost: these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities measured at FVTPL or designated as at FVTPL: these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost.

- Interest revenue using the effective interest method;
- ECL and reversals; and
- Foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Bank elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses on equity instruments recognised in OCI are transferred to retained earnings on disposal of an investment.

Further information on the measurement of the impairment allowance under IFRS 9 can be found in note 3.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces all existing revenue requirements in IFRS and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as IAS 17 (or IFRS 16 Leases, once applied). Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, plant and equipment and intangible

The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS is applied using a five step model.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

2.1 Basis of preparation *Continued*

IFRS 15 Revenue from Contracts with Customers *Continued*

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. Application guidance is provided in IFRS 15 to assist entities in applying its requirements to certain common arrangements, including licenses of intellectual property, warranties, rights of return, principal-versus-agent considerations, options for additional goods or services and breakage. *This amendment is not expected to have any impact on the Bank's financial statements as the Bank does not have material contracts with customers that are within the scope of IFRS 15.*

Amendments to IAS 28 included in the 2014-2016 Annual Improvements Cycle

The 2014-2016 Annual Improvements Cycle includes amendments to a number of IFRSs, one of which is effective for annual periods beginning on or after 1 January 2018. The amendments to IAS 28 clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition. In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture. *This amendment is not expected to have any impact on the Bank's financial statements.*

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that the situations listed in IAS 40 are not exhaustive and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties). *This new standard is not expected to have any impact on the Bank's financial statements.*

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue).

The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration. *This amendment is not expected to have any impact on the Bank's financial statements.*

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *Continued*

2.1 **Basis of preparation** *Continued*

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. *This amendment is not expected to have any impact on the Bank's financial statements.*

Standards, amendments and interpretations in issue but not yet effective

The following new and revised IFRSs and interpretations are not mandatorily effective for the year ended December 31, 2018. However, they are available for early application. Paragraph 30 of IAS 8 requires entities to consider and disclose the potential impact of new and revised IFRSs and interpretations that have been issued but are not yet effective.

• IFRS 16	Leases (January 1, 2019)
• IFRS 17	Insurance Contracts (January 1, 2021)
• Amendments to IFRS 9	Financial Instruments - Prepayment Features with Negative Compensation
• Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
• Annual improvements to IFRS Standards	Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs
• Amendments to IAS 19 Employee Benefits	Plan Amendment, Curtailment or Settlement
• IFRS 10 Consolidated Financial Statements and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
• IFRIC 23	Uncertainty over Income Tax Treatments (January 1, 2019)

Certain new Standards, revised IFRSs and interpretations that are not mandatorily effective for the year ended December 31, 2018 are not likely to have an impact on the Bank's financial statements. The Bank will adopt the other standards on their effective dates.

IFRS 16 Leases

IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

2.1 Basis of preparation *Continued*

Standards, amendments and interpretations in issue but not yet effective *Continued*

IFRS 16 Leases Continued

The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. The amendment is not likely to have an impact on the Bank's financial statements. The Bank will adopt the standard upon the effective date.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

The amendment is not likely to have an impact on the Bank's financial statements. The Bank will adopt the standard upon the effective date.

2.2 Foreign currency translation

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

Transactions and balances

Foreign currency transactions are initially recorded in the functional currency rate prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of 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 rate at the date the fair value is determined.

2.3 Financial instruments - initial recognition and subsequent measurement

Financial assets and liabilities are recognised on the Bank's Statement of Financial Position when the Bank has become a party to the contractual provisions of the instrument. The Bank's accounting policies in respect of the main financial instruments are set out below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

2.3 Financial instruments - initial recognition and subsequent measurement *Continued*

2.3.1 *Recognition and measurement*

Purchases and sales of financial assets are recognised on the trade-date (or settlement date), the date on which the Bank commits to purchase or sell the assets. The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. Financial instruments are initially measured at fair value plus any directly attributable incremental costs of acquisition or issue.

The policy applicable from 1 January 2018 (due to application of IFRS 9) is described in note 3.

2.3.2 *Held-to-maturity financial assets*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate.

2.3.3 *Loans and advances*

Loans and advances are financial assets under Loans and Receivables with fixed or determinable payments and fixed maturities that are not quoted in an active market. Loans originated from the Bank by providing money directly to the borrower are categorised as loans and are carried at amortised cost, which is defined as the fair value of cash consideration given to originate these loans as is determinable by reference to market prices at origination date. Third party expenses such as legal fees incurred in securing a loan are treated as part of the cost of the transaction.

After initial measurement, advances are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment and any unearned discounts. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate.

All loans and advances are recognised when cash is advanced to borrowers. An allowance for credit impairment is established when there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of the loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of the expected cashflows, including amounts recoverable from guarantees and collaterals, discounted at the original effective interest rate of the loans.

The loan provision also covers losses where there is objective evidence that probable losses are present in the components of the loan portfolio at the end of the reporting period. When a loan is uncollectible, it is written off against the related provision for impairment, subsequent recoveries are credited to the provision for loss in the Statement of Profit or Loss.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *Continued*

2.3 **Financial instruments - initial recognition and subsequent measurement** *Continued*

2.3.4 ***Available-for-sale financial assets***

Available for sale financial assets are non derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve months to the end of the reporting period.

Purchases and sales of available-for-sale financial assets are recognised on trade-date (or settlement date), the date on which the Bank commits to purchase or sell the asset. They are initially measured at fair value plus transaction costs. Available-for-sale financial assets are subsequently carried at their fair values.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

Unrealised gains and losses arising from changes in the fair value of financial assets classified as available-for-sale are recognised in other comprehensive income. When financial assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in Statement of Profit or Loss as gains and losses on financial assets.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flows analysis, and option pricing models refined to reflect the issuer's specific circumstances.

2.3.5 ***Deposits***

Deposits are initially recognised on the day they are originated. Other financial liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

2.3.6 ***Other Liabilities***

Other liabilities consists of payables and accrued expenses, which is subsequently measured at amortised cost.

2.4 **Derecognition of financial assets and financial liabilities**

2.4.1 ***Financial assets***

Financial assets are derecognised when the rights to receive cash flows from the asset have expired or the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

2.4 Derecognition of financial assets and financial liabilities Continued

2.4.1 *Financial assets* Continued

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

2.4.2 *Financial liabilities*

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

2.5 Fair value

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

2.6 Impairment of assets

The policy applicable from 1 January 2018 (due to application of IFRS 9) is described in note 3.

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

Financial assets classified as available-for-sale

The Bank assesses, at the end of each reporting period, whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between acquisition cost and the current fair value, less impairment loss on the financial asset previously recognised in Statement of Other Comprehensive Income is removed from equity and recognised in Statement of Profit or Loss.

If the fair value of a previously impaired debt security classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed and the reversal recognised in profit or loss.

Financial assets carried at amortised cost

With respect to the loans and receivables category, the amount of the loss incurred is measured by calculating the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in Statement of Profit or Loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

However, if in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

2.7 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when the Bank has a legal enforceable right to set off the recognised amounts and the Bank intends either to settle on a net basis, or to realise the asset and liability simultaneously.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

2.8 Property and equipment and depreciation

Property and equipment are stated at cost (deemed cost) less accumulated depreciation and any impairment in value. Initial cost of equipment comprises its purchase price and any attributable costs of bringing the asset to its working condition for its intended use. Such cost also includes the cost of replacing components of the equipment. Borrowing costs for long-term construction projects are capitalised only if the recognition criteria is met. Subsequent costs are included in the asset's 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 and the cost can be reliably measured. Expenditure for additions, improvements and renewals are capitalised and expenditure for maintenance and repairs is charged to the Statement of Profit or Loss.

Properties in the course of construction and leasehold improvements for operations purposes are carried at cost less any recognized impairment losses. Cost includes professional fees for qualifying assets and borrowing costs capitalised only if the project is viable and the Bank would pursue it further. Depreciation of these assets is charged on the same basis as other equipment, and commences when the assets are ready for their intended use.

Depreciation of property and equipment is provided for on a straight line basis to write off the cost of each asset evenly to its residual value over their estimated useful lives as stated below:

	Years
Buildings	Leasehold period
Leasehold improvements	Leasehold period
Furniture and fittings	5
Premises' fixed equipment	5 to 10
Motor vehicles	4

The asset's residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount or amortised over a period determined by the management.

Property and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Profit or Loss.

Costs incurred for major maintenance is recognised in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are charged to the Statement of Profit or Loss. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of respective assets only if the recognition criteria for provision is met.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *Continued*

2.9 Intangible assets

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

Intangible assets are recognized when it is probable that the future economic benefits associated with the assets will flow to the entity and the cost of the assets can be measured reliably. Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Intangible assets are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The intangible assets are amortised using the straight line method over their estimated useful lives of 3 years. The amortisation period and the amortisation method are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets is recognised in the statement of profit or loss.

Intangible assets are derecognized on disposal or when no future economic benefits are expected from its use. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

2.10 Retirement benefit obligations

2.10.1 Length of service compensation

The Bank provides for a payment of length-of-service compensation to permanent employees. Such compensations are paid upon retirement, for continuous service. The amount provisioned every year is based on the number of years the employee has worked after the last payment date. This type of employee benefits has the characteristics of a defined benefit plan.

2.10.2 Defined benefit plan

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the statement of financial position in respect of the defined benefit plan is the present value of the defined obligation at the reporting period less fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

Remeasurement of the net defined benefit liability, which comprise actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), is recognised immediately in other comprehensive income in the period in which they occur. Remeasurements are accumulated in a separate reserve and will not be reclassified to the statement of profit or loss in the subsequent periods.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *Continued*

2.10.2 **Defined benefit plan** *Continued*

The Bank determines the net interest/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset), taking into account any changes in the net defined liability/(asset) during the period as a result of contributions and benefit payments. Net interest expense/(income) is recognised in the statement of profit or loss.

The Bank recognises the following changes in the net benefit obligation under 'employment benefit expenses 'in the profit or loss:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements;
- Net interest expense or income; and
- Remeasurements of the net defined benefit liability (asset).

2.11 **Current and Deferred taxation**

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted at the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;

- In respect of taxable temporary differences, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and

- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

For the Bank the principal temporary differences arise from depreciation of property and equipment, provision for credit impairment on loans and advances and provision for retirement benefit obligation.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

2.11 Current and Deferred taxation *Continued*

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the income statement.

2.12 Recognition of income and expenses

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

2.12.1 Interest income and expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as held-to-maturity and available for sale financial assets, interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest and similar income' for financial assets and "Interest and similar expense" for financial liabilities. Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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

2.12.2 Other income

Other income relates to general fees pertaining to loan application, re-scheduling of loans and reminders of late payments. This income is recognised upon completion of the underlying transaction.

2.13 Cash and cash equivalents

In the Statement of Cash Flows, cash and cash equivalents includes money market placements, cash in hand, balances with banks, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

2.14 Leases

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement at the inception date and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset, even if that asset is not explicitly specified in an arrangement.

Bank as a lessee

A Lease is classified as the inception date as a finance lease or an operating lease. Leases that do not transfer substantially all of the risks and rewards of ownership of an asset to the Bank are classified as operating leases. Operating lease payments are recognised as an expense in the Income statement on a straight line basis over the lease term.

Bank as a lessor

The Bank has entered into property leasing. The Bank has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of the properties and accounts for the contracts as operating leases.

2.15 Acceptances

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be settled simultaneously with the reimbursement from the customers. Acceptances are disclosed as liabilities with corresponding contra-assets.

2.16 Contingent Liabilities

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events. Where the probability of outflow is considered to be probable, but a reliable estimate cannot be made, a contingent liability is disclosed by the Bank.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The activities of the Bank expose it to different financial risk, market risks (including currency and fair value interest risk), credit risk and liquidity risk. The management have the overall responsibility for the establishment, overseeing and monitoring of the Bank’s risk management framework and are assisted by the senior management. Senior management is responsible for designing, developing and monitoring the Bank’s risk management policies, which are approved by the Management.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *Continued*

3. **FINANCIAL RISK MANAGEMENT** *Continued*

3.1 **Financial risk factors** *Continued*

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank focusing on the unpredictability of financial markets, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Bank's activities and its role in the Republic of Seychelles. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The following are the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital. Further quantitative disclosures are included throughout these financial statements.

(i) ***Strategy in using financial instruments***

The Bank aims to generate profits by investing in bonds, advances to other banks and placements.

(ii) ***Capital adequacy***

Capital includes share capital and retained earnings.

The primary objectives of the Bank's capital management policy is to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong capital base and healthy capital ratios in order to support its business and to maximise shareholder value.

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities.

Regulatory capital consists of Tier I capital, which comprises share capital, retained earnings and statutory reserve. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the Central Bank of Seychelles. The other component of regulatory capital is Tier II capital, which includes net profit after tax and general provisions.

The Bank seeks to maintain a prudent balance between the different components of its capital, particularly the relative mix of Tier I and Tier II capital.

	2018	2017
	SR' 000	SR' 000
Capital Base (a)	**579,088**	594,027
Risk adjusted assets (b)	**3,389,731**	3,341,903
Capital adequacy (a/b)*100	**17.08%**	17.78%
Minimum Requirement	**12.00%**	12.00%

3. **FINANCIAL RISK MANAGEMENT** *Continued*

(ii) ***Capital adequacy*** Continued

Capital Base

	2018	2017
	SR' 000	SR' 000
Tier 1 Capital		
Share Capital	**100,000**	100,000
Statutory reserve	**100,000**	100,000
Retained earnings	**232,565**	206,795
Total Tier 1 Capital	**432,565**	406,795
Tier 2 Capital		
Year-to-date net profit after tax	**138,682**	168,327
General Provision	**7,842**	18,905
Total Tier 2 Capital	**146,524**	187,232
	579,088	594,027

The capital requirements are prescribed under the Financial Institutions (Capital Adequacy) Regulations, 2010. The Bank ascertains that it has met the guidelines of the Central Bank of Seychelles in terms of capital adequacy ratio during the year 2018.

(iii) ***Credit risk***

The Bank is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Banks 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 are subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these limits where appropriate. Exposure to credit risk is also managed by obtaining collateral and personal guarantees.

Credit risk management

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.

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.

Portfolio performance is periodically measured against risk appetite parameters and breaches if any are actioned by the Bank's Executive Committee.

3. **FINANCIAL RISK MANAGEMENT** *Continued*

(iii) ***Credit risk*** *Continued*

Credit risk management *Continued*

Retail & 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.

Management of Early Alert (EA), Watch List (WL) & Impaired Non Performing Loans (NPL) - The Bank has a well-defined process for identification of Early Alert and & Impaired Non Performing Loans (accounts and dealing with them effectively. There are policies which govern credit grading of EA, WL & NPL accounts and impairment, in line with IFRS and regulatory guidelines.

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 recognize impairment on its portfolios.

Model risk management

The Bank has utilised models in many of its financial and business activities from underwriting a credit facility to reporting expected loss under the IFRS 9 accounting standards.

To manage the model risks, the Bank has implemented a Model Framework (the Framework). According to the Framework, all internally or externally (vendor based) developed risk quantification models that directly affect the financial reporting on Expected Loss and Lifetime Expected Loss require independent validation.

3. **FINANCIAL RISK MANAGEMENT** *Continued*

(iii) ***Credit risk*** *Continued*

Model risk management Continued

The Framework establishes a systematic approach to manage the development, validation, approval, implementation and on-going use of the models. It sets out an effective management structure with clearly defined roles and responsibilities, policies and controls for managing model risk. The Framework is reviewed on a regular basis to ensure it meets regulatory standards and international practices. Any major change to the Framework must be approved by the Board of Directors.

Credit approving authorities

Board Credit & Investment Committee has delegated credit approving authorities to the members of senior management to facilitate and effectively manage the business. However, Board has retained the ultimate authority to approve credits beyond Management authority.

Credit risk measurement

As of January 1, 2018, the estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9.

Credit risk grading:

The Bank uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Bank use internal rating models tailored to the various categories of counterparty. To determine if the risk of default of a financial instrument has increased significantly since initial recognition, the current risk of default at the reporting date should be compared with the risk of default at initial recognition. The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade.

Prior to the approval of a credit proposal, a detailed credit risk assessment shall be carried out which includes an analysis of each obligor's financial condition, market position, business environment, and quality of management. The risk assessment shall be done using the Bank's internal rating model that generates an internal credit risk rating for each exposure.

The following are additional considerations for each type of portfolio held by the Bank:

- *Retail:*

  After the date of initial recognition, for retail business, the payment behavior of the borrower is monitored on a periodic basis to develop a behavioral score. Any other known information about the borrower which impacts their credit worthiness such as previous delinquency history is also incorporated into the behavior score. This score is mapped to a PD.

3. **FINANCIAL RISK MANAGEMENT** *Continued*

(iii) ***Credit risk*** *Continued*

Credit risk measurement *Continued*

- *Corporate:*

  For wholesale business, the rating is determined at the borrower level. A relationship manager will incorporate any updated or new information/credit assessment into the credit system on an ongoing basis. In addition, the relationship manager will also update information about the creditworthiness of the borrower every year from sources such as public financial statements. This will determine the updated internal credit rating and PD.

- *Treasury:*

  Debt securities in the Treasury portfolio comprise of Investments, Bank placements and Nostros, external rating agency credit grades are used. As at the date of this report, no ECL provision has been considered, other than with regards to MEFIC on which provisioning has been done based on the best estimate on the management.

  The Bank's internal rating scale are mapped with external ratings. The master scale assigns each rating category a specified range of probabilities of default, which is stable over time. The rating models are reviewed for recalibration so that they reflect the latest projections in the light of all actually observed defaults.

The Bank doesn't provide any ECL provision against loans and advances to the Government of Seychelles unless there is a concern about the recoverability of such balances.

Expected credit loss measurement:

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward- looking information.
- A summary of the impairment requirements under IFRS 9 is as allows:

Change in credit quality since initial recognition:

Stage 1	- Initial recognition	12 months expected credit losses
Stage 2	- Significant increase in credit risk since initial recognition	Lifetime expected credit losses
Stage 3	- Credit - impaired assets	Lifetime expected credit losses

3. **FINANCIAL RISK MANAGEMENT** *Continued*

Significant increase in credit risk (SICR):

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

- Quantitative criteria:

  Significant increase in credit risk is measured by comparing the risk of default estimated at origination with the risk of default at reporting date.

  Thresholds have been set for each portfolio based on historical default rates. Facilities exceeding the threshold are considered for significant increase in credit risk.

- Qualitative criteria:

  The Bank also considers in its assessment of significant increase in credit risk, various qualitative factors like significant adverse changes in business, extension of term granted, actual and expected forbearance or restructuring, early sign of cash flows and liquidity problems.

- Backstop:

  A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 90 days past due on its contractual payments.

Definition of default and credit-impaired assets:

The Bank defines a financial instrument as in default, which is fully aligned with definition of credit-impaired, when it meets one or more of the following criteria:

- Quantitative criteria:

  The borrower is more than 90 days past due on its contractual payments.

- Qualitative criteria:

  The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances like long-term forbearance, borrower is insolvent, borrower is entering bankruptcy etc.

Curing:

The Bank continues to monitor such financial instruments for a minimum probationary period of 12 months to confirm if the risk of default has decreased sufficiently before upgrading such exposure from Lifetime ECL (Stage 2) to 12 months ECL (Stage 1).

The Bank observes a probationary period after the restructuring, before upgrading from Stage 3 to 2.

3. **FINANCIAL RISK MANAGEMENT** *Continued*

(iii) ***Credit risk*** *Continued*

Measuring ECL – Explanation of inputs, assumptions and estimation techniques:

The Expected Credit Loss (ECL) is measured on either a 12-month or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD).

The Lifetime PDs are determined based on maturity profile. The maturity profile looks at how defaults develop on a portfolio throughout the remaining life of the loans. The maturity profile is based on historical observed data.

Exposure at default (EAD) represents the estimate of the book value at the time of default, taking into consideration financial instruments' existing cash flow profiles, as well as expected additional drawings from credit lines up to the date of default. Exposure at default (EAD) considers the repayments/ amortization schedule and changes in utilization of an undrawn commitment within agreed credit limits in advance of default. EAD modelling also requires taking into account all the optionalities, like prepayment or credit conversion factors, and adjusting them directly to the contractual cash flows with the probability that the option will be executed.

LGDs are computed at facility level. This is dependent upon information such as exposure, collateral, business segment characteristics and macro-economic outlook.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type.

Forward-looking information incorporated in the ECL model:

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

Credit risk monitoring:

Risks of the Bank's loan portfolio and exposures are continuously assessed and monitored on the basis of exceptions, management information reports and returns generated by the business and credit units. Credit risk is also monitored on an ongoing basis with formal monthly and quarterly reporting to ensure that senior management is aware of shifts in the credit quality of the portfolio along with changing external factors.

Additionally for IFRS 9 ECL computation, credit exposures are monitored and reported as per IFRS 9 requirements. Stage migrations, any exceptions to SICR criteria, other credit and impairment related matters are reviewed and approved by IFRS 9 Governance Committee.

Collateral management & Commitments:

Collaterals and guarantees are effectively used as mitigating tools by the Bank. The quality of collateral is continuously monitored and assessed and the Bank seeks to ensure enforceability of the collateral. Major categories of collaterals include cash/ fixed deposits, inventories, guarantees (corporate, bank and personal guarantees), immovable properties, receivables, and vehicles.

3. **FINANCIAL RISK MANAGEMENT** *Continued*

(iii) ***Credit risk*** *Continued*

Collateral management & Commitments:

Collaterals are revalued regularly as per the Bank's credit policy. In addition, ad hoc valuations are also carried out depending on the nature of collateral and general economic condition. This enables the Bank to assess the fair market value of the collateral and ensure that risks are appropriately covered. Security structures and legal covenants are also subject to regular review.

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 that 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. As all facilities are covered by collateral and hence no provision is currently deemed necessary by the Management.

Credit (deferred cards) are mostly covered collateral, however ECL provision is made on potentially exposed balances not covered by collateral. There is no known history of defaults on such balances, however, provisioning is done based on the Management's best estimate of the expected credit losses and PDs.

Write offs:

Loans and debt securities in wholesale banking are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank has exhausted all legal and remedial efforts to recover from the customers. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Maximum exposure analysis

The table below shows the maximum exposure to credit risk for the components of the statement of financial position.

	Gross maximum exposure	
	2018	2017
	SR' 000	SR' 000
Cash and cash equivalents	**3,469,547**	2,557,672
Loans and advances to customers	**1,870,542**	1,951,357
Investment in financial assets	**1,028,733**	1,549,339
Other assets	**179,656**	22,333
	6,548,478	6,080,701
Contingent liabilities	**740,224**	649,340
Total credit risk exposure	**7,288,702**	6,730,041

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

3. **FINANCIAL RISK MANAGEMENT** *Continued*

(iii) ***Credit risk*** *Continued*

Risk concentrations of maximum exposure to credit risk

Concentration of risk is managed by client/counterparty and by industry sector. The table below shows the Bank's maximum credit risk exposure to any client or counterparty in respect of placements with a bank:

	Gross maximum exposure	
	2018	2017
	SR' 000	SR' 000
Maximum credit risk exposure in respect of placements	**2,752**	128,350

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

	Gross maximum exposure	
	2018	2017
	SR' 000	SR' 000
Industry:		
Agriculture	**2,354**	1,988
Construction, infrastructure and real estate	**249,404**	281,993
Financial and business services	**819,502**	914,101
Government	**152,208**	161,643
Manufacturing	**7,665**	65,101
Tourism	**448,456**	319,283
Personal	**118,174**	141,088
Traders	**72,779**	66,160
	1,870,542	1,951,357

Credit quality analysis

The following table shows the Bank's information about the credit quality of financial assets

	12-month ECL	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Total 2018**	2017
	SR' 000	**SR' 000**	**SR' 000**	**SR' 000**	SR' 000
Loans and receivables					
Corporate and Retail Sector					
Performing	1,354,861	-	-	1,354,861	1,334,362
Non performing	-	3,500	30,406	33,906	199,152
	1,354,861	3,500	30,406	1,388,767	1,533,514
Public Sector					
Performing	489,617	-	-	489,617	503,004
Non performing	-	-	-	-	61,886
	489,617	-	-	489,617	564,890
Total	**1,844,478**	**3,500**	**30,406**	**1,878,384**	**2,098,404**
Allowance for impairment	**(2,235)**	**(57)**	**(5,550)**	**(7,842)**	**(147,047)**
Carrying amount	**1,842,243**	**3,443**	**24,856**	**1,870,542**	**1,951,357**

3. **FINANCIAL RISK MANAGEMENT** *Continued*

(iii) ***Credit risk*** *Continued*

Loss allowance analysis

	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total 2018	2017
	SR' 000	**SR' 000**	**SR' 000**	**SR' 000**	SR' 000
At 1 January (as per IAS 39)	18,905	-	128,142	147,047	139,282
Reversal on transition to IFRS	(14,721)	-	-	(14,721)	-
ECL recoginsed under IFRS 9	-	1,762	4,245	6,007	-
At 1 January (As per IFRS 9)	4,184	1,762	132,387	138,333	139,282
Transfers:					
Transfer from Stage 1 to 2	(18)	-	-	(18)	-
Transfer from Stage 1 to 3	-	-	-	-	-
Transfer from Stage 2 to 3	-	(12)	-	(12)	-
Transfer from Stage 3 to 2	-	-	-	-	-
Transfer from Stage 2 to 1	-	(1,742)	-	(1,742)	-
Allowances for impairment	(1,931)	49	10,362	8,480	6,122
Write back/recoveries	-	-	(137,199)	(137,199)	1,643
Amounts written off	-	-	-	-	-
Other adjustments	-	-	-	-	-
	2,235	**57**	**5,550**	**7,842**	**147,047**

(iv) ***Market Risk***

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

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

Non-trading portfolios primarily arise from the interest rate management of the Bank's retail and commercial Banking assets and liabilities.

3. **FINANCIAL RISK MANAGEMENT** *Continued*

(a) ***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 Bank is exposed with respect to foreign currency 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

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

Concentration of assets and liabilities by currency:

At December 31, 2018

	SCR	EURO	US Dollars	Others	Total
	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000
Assets:					
Cash and bank balances	478,644	689,788	2,229,653	71,462	3,469,547
Loans and advances	1,021,919	351,006	505,369	89	1,878,383
Investment in financial assets	995,095	-	33,639	-	1,028,734
Property and Equipment	207,431	-	-	-	207,431
Intangible assets	13,084	-	-	-	13,084
Other assets	173,514	9,900	388	-	183,802
Current assets	5,202	-	-	-	5,202
Deferred tax assets	1,198	-	-	-	1,198
	2,896,087	1,050,694	2,769,049	71,551	6,787,381
Less: Allowances for credit impairment					(7,842)
					6,779,539
Liabilities:					
Customer deposits	2,397,049	1,050,814	2,661,625	67,821	6,177,309
Other liabilities	25,845	832	10,587	1,664	38,928
Retirement benefit obligation	12,829	-	-	-	12,829
	2,435,723	1,051,646	2,672,212	69,485	6,229,066
Net on-balance sheet position	460,364	(952)	96,837	2,066	558,315
Less: Allowances for credit impairment					(7,842)
					550,473
Off balance sheet position	471,110	70,197	198,834	83	740,224

3. **FINANCIAL RISK MANAGEMENT** *Continued*

(a) ***Currency risk*** *Continued*

Concentration of assets and liabilities by currency:

At December 31, 2017

	SCR	EURO	US Dollars	Others	Total
	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000
Assets					
Cash and bank balances	325,770	551,286	1,548,818	131,798	2,557,672
Loans and advances	951,981	457,788	688,393	242	2,098,404
Investment in financial assets	1,523,383	-	25,956	-	1,549,339
Property and Equipment	242,751	-	-	-	242,751
Intangible assets	13,995	-	-	-	13,995
Other assets	19,353	5,008	750	-	25,111
Current assets	3,794	-	-	-	3,794
Deferred tax assets	48,084	-	-	-	48,084
	3,129,111	1,014,082	2,263,917	132,040	6,539,150
Less: Allowances for credit impairment					(147,047)
					6,392,103
Liabilities					
Customer deposits	2,637,182	1,039,878	2,028,293	128,244	5,833,597
Other liabilities	26,124	859	16,168	1,750	44,901
Retirement benefit obligation	11,908	-	-	-	11,908
	2,675,214	1,040,737	2,044,461	129,994	5,890,406
Net on-balance sheet position	453,897	(26,655)	219,456	2,046	648,744
Less: Allowances for credit impairment					(147,047)
					501,697
Off balance sheet position	530,668	24,590	93,396	686	649,340

At December 31, 2018 and December 31, 2017, if the exchange rates (mainly USD and EUR) had been 5% higher/lower with all other variables held constant, results for the year would have been as shown below, mainly as a result of higher/lower exchange rates:

	2018	2017
	SR' 000	SR' 000
Impact on results	**9,191**	7,974

3. **FINANCIAL RISK MANAGEMENT** *Continued*

(b) ***Interest rate risk***

Interest rate risk refers to the potential variability in the Bank's financial condition owing to changes in the level of interest rates. The Bank's assets and liabilities are included at carrying amount and categorised by the earlier of contractual re-pricing or maturity dates.

The table below analyses the Bank's interest rate risk exposure on financial assets and liabilities. It is the Bank's policy to apply variable interest rates to lending and deposit taking.

Interest sensitivity of assets and liabilities - repricing analysis

At December 31, 2018	< 1 year	1 - 3 years	> 3 years	Non-interest bearing	Total
	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000
Assets					
Cash and bank balances	2,479,162	-	-	990,385	3,469,547
Loans and advances	414,763	337,687	1,125,934	-	1,878,384
Investment in financial assets	943,732	50,345	-	34,656	1,028,733
Property and Equipment	-	-	-	207,431	207,431
Intangible assets	-	-	-	13,084	13,084
Other assets	-	-	-	183,802	183,802
Current assets	-	-	-	5,202	5,202
Deferred tax assets	-	-	-	1,198	1,198
	3,837,657	388,032	1,125,934	1,435,758	6,787,381
Less: Allowances for credit impairment					(7,842)
					6,779,539
Liabilities					
Customer deposits	1,616,991	17,353	-	4,542,965	6,177,309
Other liabilities	-	-	-	38,928	38,928
Retirement benefit obligation	-	-	-	12,829	12,829
	1,616,991	17,353	-	4,594,722	6,229,066
Interest sensitivity gap	2,220,666	370,679	1,125,934	(3,158,964)	558,315
Less: Allowances for credit impairment					(7,842)
					550,473

3. **FINANCIAL RISK MANAGEMENT** *Continued*

(b) ***Interest rate risk*** *Continued*

At December 31, 2017	< 1 year	1 - 3 years	> 3 years	Non-interest bearing	Total
	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000
Assets					
Cash and bank balances	1,741,575	-	-	816,097	2,557,672
Loans and advances	559,404	302,244	1,236,756	-	2,098,404
Investment in financial assets	1,472,538	50,345	-	26,456	1,549,339
Property and Equipment	-	-	-	242,751	242,751
Intangible assets	-	-	-	13,995	13,995
Other assets	-	-	-	25,111	25,111
Current assets	-	-	-	3,794	3,794
Deferred tax assets	-	-	-	48,084	48,084
	3,773,517	352,589	1,236,756	1,176,288	6,539,150
Less: Allowances for credit impairment					(147,047)
					6,392,103
Liabilities					
Customer deposits	1,265,092	2,360	-	4,566,145	5,833,597
Other liabilities	-	-	-	44,901	44,901
Retirement benefit obligation	-	-	-	11,908	11,908
	1,265,092	2,360	-	4,622,954	5,890,406
Interest sensitivity gap	2,508,425	350,229	1,236,756	(3,446,666)	648,744
Less: Allowances for credit impairment					(147,047)
					501,697

The following table demonstrates the sensitivity to a reasonably possible change in interest rates by 5 points, with all other variables held constant, the Bank's results would have been increased/decreased as follows:

	2018	2017
	SR' 000	SR' 000
Impact on results	**± 22,647**	± 20,462

3. **FINANCIAL RISK MANAGEMENT** *Continued*

(c) ***Price Risk***

The Bank is exposed to price risk because of the investments held and classified as available-for-sale financial assets are susceptible to market price risk arising from uncertainties about future values of the instruments. If the fair value had increased/decreased by 5%, the impact in the Bank's equity would have been as follows:

	2018	2017
	SR' 000	SR' 000
Impact on statement of other comprehensive income	**± 1,733**	± 1,323

(d) ***Liquidity Risk***

The Bank is exposed to daily calls on its available cash resources from deposits, current accounts, maturing deposits, and from margin and other calls. The Bank maintains cash resources to meet all of these needs based on experience. The Board of Directors sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter Bank and other borrowing that should be in place to cover withdrawals at unexpected levels of demand. The Bank ascertains that it has met the liquidity requirements set out by the Central Bank of Seychelles. The table below summarises the maturity profile of the Bank's financial liabilities and financial assets at December 31, 2018 based on contractual undiscounted repayment obligations for financial liabilities and contracted discounted cash flows for financial assets. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay. The Bank ascertains that it is in compliance with the liquidity requirements as per the guidelines of the Financial Institutions (Liquidity Risk Management) Regulations 2009 as amended in 2012.

3. **FINANCIAL RISK MANAGEMENT** *Continued*

(d) ***Liquidity risk*** *Continued*

At December 31, 2018	Up to 3 month	3 to 12 months	1 to 5 years	> 5 years	Non- maturity items	Total
	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000
Assets						
Cash and bank balances	3,356,107	113,440	-	-	-	3,469,547
Loans and advances	215,320	161,343	977,351	486,270	38,100	1,878,384
Investment in financial assets	320,142	623,590	50,345	-	34,656	1,028,733
Property and Equipment	-	-	-	-	207,431	207,431
Intangible assets	-	-	-	-	13,084	13,084
Other assets	-	-	-	-	183,802	183,802
Current assets	-	-	-	-	5,202	5,202
Deferred tax assets	-	-	-	-	1,198	1,198
	3,891,569	898,373	1,027,696	486,270	483,473	6,787,381
Less: Allowances for credit impairment						(7,842)
						6,779,539
Liabilities						
Customer deposits	5,739,308	420,648	17,353	-	-	6,177,309
Other liabilities	-	-	-	-	38,928	38,928
Retirement benefit obligation	-	-	-	-	12,829	12,829
	5,739,308	420,648	17,353	-	51,757	6,229,066
	(1,847,738)	477,725	1,010,343	486,270	431,716	558,315
Less: Allowances for credit impairment						(7,842)
						550,473

3. **FINANCIAL RISK MANAGEMENT** *Continued*

(d) ***Liquidity risk*** *Continued*

At December 31, 2017	Up to 3 month	3 to 12 months	1 to 5 years	> 5 years	Non- maturity items	Total
	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000
Assets						
Cash and bank balances	2,541,402	16,270	-	-	-	2,557,672
Loans and advances	225,308	145,742	1,048,126	490,873	188,355	2,098,404
Investment in financial assets	1,010,576	461,962	50,345	-	26,456	1,549,339
Property and Equipment	-	-	-	-	242,751	242,751
Intangible assets	-	-	-	-	13,995	13,995
Other assets	-	-	-	-	25,111	25,111
Current assets	-	-	-	-	3,794	3,794
Deferred tax assets	-	-	-	-	48,084	48,084
	3,777,286	623,974	1,098,471	490,873	548,546	6,539,150
Less: Allowances for credit impairment						(147,047)
						6,392,103
Liabilities						
Customer deposits	5,571,148	260,089	2,360	-	-	5,833,597
Other liabilities	-	-	-	-	44,901	44,901
Retirement benefit obligation	-	-	-	-	11,908	11,908
	5,571,148	260,089	2,360	-	56,809	5,890,406
	(1,793,862)	363,885	1,096,111	490,873	491,737	648,744
Less: Allowances for credit impairment						(147,047)
						501,697

3. **FINANCIAL RISK MANAGEMENT** *Continued*

3.1 **Financial risk factors** *Continued*

(d) ***Liquidity risk*** *Continued*

As at December 31, 2018 the Bank has calculated its liquidity ratio, which is as follows:

	2018	2017
	SR' 000	SR' 000
Liquid assets (a)	**3,659,018**	3,285,058
Bank's total liabilities (b)	**6,225,168**	5,876,468
Liquidity (a/b)*100	**58.78%**	55.90%

(e) ***Fair values***

In respect of the on-balance sheet financial assets and liabilities of the Bank consisting of fixed assets, investments and current taxation except for loans and advances, the estimated fair values as at the date of the reporting period approximate their carrying amounts as shown in the Statement of Financial Position.

4. **SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of the financial statements of the Bank requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and judgements are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4.1 ***Financial instruments (applicable from 1 January 2018)***

Judgements made in applying accounting policies that have most significant effects on the amounts recognized in the financial statements of the year ended 31 December 2018 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments which impact:

(i) Classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and interest of the principal amount outstanding.

4. **SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS** *Continued*

4.1 ***Financial instruments (applicable from 1 January 2018)*** *Continued*

(ii) Calculation of expected credit loss (ECL): changes to the assumptions and estimation uncertainties that have a significant impact on ECL for the year ended 31 December 2018 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

Inputs, assumptions and techniques used for ECL calculation – IFRS 9 Methodology

Key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Bank while determining the impact assessment, are:

Assessment of Significant Increase in Credit Risk:

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Bank compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Bank's existing risk management processes.

The Bank assessment of significant increases in credit risk is being performed at least quarterly for each individual exposure based on three factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

(i) The Bank has established thresholds for significant increases in credit risk based on movement in Probability of Default relative to initial recognition.
(ii) Additional qualitative reviews have been performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.
(iii) IFRS 9 contains a rebuttable presumption that instruments which are 90 days past due have experienced a significant increase in credit risk.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of credit-impairment under IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39.

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios:

The measurement of ECL for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) such as occupancy rates, housing price index and GDP (where applicable), that are closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in the Bank's ECL calculation will have forecasts of the relevant macroeconomic variables.

The Bank estimation of ECL in Stage 1 and Stage 2 is a discounted probability-weighted estimate that considers future macroeconomic scenarios.

4. **SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS** *Continued*

4.1 ***Financial instruments (applicable from 1 January 2018)*** *Continued*

Scenarios are probability-weighted according to the Bank best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights are updated on a quarterly basis (if required). All scenarios considered are applied to all portfolios subject to ECL with the same probabilities.

Sensitivity assessment due to movement in each macroeconomic variable and the respective weights under the three scenarios is periodically assessed by the Bank.

In some instances the inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Such cases are subjected to the Bank's Governance process for oversight.

Definition of default:

The definition of default used in the measurement of ECL and the assessment to determine movement between stages is consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.

Expected Life:

When measuring ECL, the Bank considers the maximum contractual period over which the Bank is exposed to credit risk. All applicable contractual terms are considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Bank is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Governance:

In addition to the existing risk management framework, the Bank has established an internal Committee to provide oversight to the IFRS 9 impairment process. The Committee is comprised of senior representatives from Finance, Risk Management team and is responsible for reviewing and approving key inputs and assumptions used in the Bank ECL estimates. It also assesses the appropriateness of the overall allowance results to be included in the financial statements.

4.2 **Allowances for impairment of loans and receivables (applicable after 1 January 2018)**

In addition to specific allowances against individually significant loans and receivables, the Bank also makes a collective impairment allowance to recognise that at any reporting date, there will be an amount of loans and receivables which are impaired even though a specific trigger point for recognition of the loss has not yet been evidenced (known as the "emergence period').

4. **SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS** *Continued*

4.2 **Allowances for impairment of loans and receivables (applicable after 1 January 2018)** *Continued*

The Bank reviews its loans and advances portfolio on a regular basis to assess whether any allowance for credit impairment losses for loans and advances should be recognised in the profit and loss. In particular, judgement is made about the amount and timing of future cash flows when determining the level of allowance required. The allowance for credit impairment losses is based on the Financial Institutions (Credit Classifications and Provisioning) Regulations 2010, amended 2011 issued provided by the Central Bank of Seychelles. However, actual bad debt written off may differ from the amount provided as an allowance for credit impairment which will result in a higher or lower charge to profit and loss.

4.3 ***Held-to-maturity investments***

The Bank follows the guidance of International Financial Reporting Standard 9 (IFRS 9) (2017: International Accounting Standards (IAS) 39) - "Recognition and Measurement" classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity.

4.4 ***Available-for-sale investments***

The Bank follows the guidance of International Financial Reporting Standard 9 (IFRS 9) (2017: International Accounting Standards (IAS) 39) - "Recognition and Measurement" on determining when an investment is other than temporarily impaired. This determination requires significant judgement. In making this judgement, the Bank evaluates amongst other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cashflow.

4.5 ***Fair value of financial instruments***

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from quoted prices, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable market data where possible, but where this is not possible, a degree of judgment is required in establishing fair values. Fair values are subject to a control framework designed to ensure that they are either determined or validated, by a function independent of the risk taker.

4.6 ***Impairment of other assets***

At each financial reporting year end, the Bank's management reviews and assesses the carrying amounts of other assets and where relevant, write them down to their recoverable amounts based on best estimates. Therefore, the financial statements continue to be prepared on the going concern basis.

4.7 ***Property and equipment -*** *Useful lives and residual values*

Determining the carrying amounts of property and equipment requires the estimation of the useful lives and residual values of these assets which carry a degree of uncertainty. The Directors have used historical information relating to the Bank and the relevant industry in which it operates in order to best determine the useful lives and residual values of property and equipment.

4. **SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS** *Continued*

4.8 ***Pension benefits***

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (Income) for pension include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The value of the pension obligations is based on the report submitted by an independent actuarial firm on an annual basis.

4.9 ***Functional Currency***

The choice of the functional currency of the Company has been based on factors such as the primary economic environment in which the entity operates, the currency that mainly influences sales prices for goods and services, cost of providing goods and services and labour costs. The functional currency has been assumed by the Directors to be the Seychelles Rupee.

4.10 ***Limitation of sensitivity analysis***

The sensitivity analysis demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Bank's assets and liabilities are actively managed. Other limitations include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's views of possible near-term market changes that cannot be predicted with any certainty.

5. **CASH AND CASH EQUIVALENTS**

	2018	2017
	SR' 000	SR' 000
Cash in hand	**58,541**	65,627
Balances with Central Bank of Seychelles (CBS)	**879,192**	698,484
Balances with banks abroad (note 5(b))	**2,483,396**	1,752,214
Balances with local banks	**50,393**	41,347
Less: Allowances for impairment (ECL)	**(1,975)**	-
	3,469,547	2,557,672

(a) For the purpose of the statement of cash flows, cash and cash equivalents comprise of the following as at the end of the reporting period:

	2018	2017
	SR' 000	SR' 000
Cash in hand	**58,541**	65,627
Short-term deposit	**2,369,956**	1,735,944
Current account with Central Bank of Seychelles (CBS)	**879,192**	698,484
Less: Allowances for impairment (ECL)	**(1,975)**	-
	3,305,714	2,500,055

5. **CASH AND CASH EQUIVALENTS** *Continued*

(b) Maturity of deposits are as follows:

	2018	2017
	SR' 000	SR' 000
Less than 3 months	**2,369,956**	1,735,944
3 - 12 months	**113,440**	16,270
	2,483,396	1,752,214

6. LOANS AND ADVANCES

	2018	2017
	SR' 000	SR' 000
Loans and advances to customers	**1,845,295**	2,021,382
Interest accrued	**33,089**	77,022
	1,878,384	2,098,404
Less: Allowance for credit impairment (note 6 (a))	**(7,842)**	(147,047)
	1,870,542	1,951,357

(a) **Impairment allowances for loans and advances to customers**

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

	2018	2017
	SR' 000	SR' 000
At January 1,	**147,047**	139,282
Movement of credit impairment provision in loans and advances	**(137,199)**	1,643
(Charge to)/Release to the statement of profit or loss	**(2,006)**	6,122
At December 31,	**7,842**	147,047
Made up as follows		
General provision	**5,090**	18,697
Specific provision	**2,752**	128,350
	7,842	147,047

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

	Business		Personal	
	2018	2017	2018	2017
	SR' 000	SR' 000	SR' 000	SR' 000
Ageing of past due but not impaired				
- Less than 30 days	**5,112**	4,690	**845**	143
- Between 31 & 90 days	**-**	19,062	**26,040**	3,313
- Greater than 90 days	**29**	-	**216**	-
	5,141	23,752	**27,101**	3,456

6. **LOANS AND ADVANCES** *Continued*

(c) Below is an analysis of concentration of credit risk by industry sectors.

	2018	2017
	SR' 000	SR' 000
Civil engineering	**249,404**	281,993
Commerce	**72,779**	66,160
Tourism	**448,456**	319,283
Agriculture	**2,354**	1,988
Fishing	**20,941**	17,582
Manufacturing	**7,665**	65,101
Transport	**155,390**	119,265
Government	**152,208**	161,643
Others	**761,345**	918,342
	1,870,542	1,951,357

7. **INVESTMENTS IN FINANCIAL ASSETS**

	2018	2017
	SR' 000	SR' 000
Available-for-sale financial asset	**34,655**	26,456
Held-to-maturity financial assets	**994,078**	1,522,883
Total	**1,028,733**	1,549,339

(a) **Available-for-sale financial assets**

	Unquoted Investment	**Investment in SWIFT SCRL**	**Investment in share-Afrexim**	**Total**
	SR' 000	**SR' 000**	**SR' 000**	**SR' 000**
As at January 1, 2018	**500**	-	**25,956**	**26,456**
Additions during the year	-	**380**	-	**380**
Increase in Fair value	**136**	-	**7,683**	**7,819**
As at December 31, 2018	**636**	**380**	**33,639**	**34,655**
As at January 1, 2017	500	-	25,956	26,456
Additions during the year	-	-	-	-
Increase in Fair value	-	-	-	-
As at December 31, 2017	500	-	25,956	26,456

The Available-for-sale financial assets have been kept at cost since their fair value cannot be reliably estimated. There is no market for these investments and the Bank intends to hold it for the long-term.

The Directors have estimated that no impairment is required as at December 31, 2018 (2017: Nil).

The available-for-sale financial asset held by the Bank are classified within level 3 of the fair value hierarchy.

7. **INVESTMENTS IN FINANCIAL ASSETS** *Continued*

(b) **Held-to-maturity financial assets**

	Treasury Bills	Bonds	DAA	Total
	SR' 000	SR' 000	SR' 000	SR' 000
As at January 1, 2018	**1,102,730**	**50,345**	**369,808**	**1,522,883**
Additions during the year	**2,237,835**	**-**	**7,427,438**	**9,665,273**
Matured during the year	**(2,411,910)**	**-**	**(7,782,131)**	**(10,194,041)**
Interest released	**-**	**(345)**	**(115)**	**(460)**
Interest accrued	**-**	**345**	**78**	**423**
As at December 31, 2018	**928,655**	**50,345**	**15,078**	**994,078**
As at January 1, 2017	1,215,522	7,797	65,038	1,288,357
Additions during the year	2,088,035	50,000	6,870,842	9,008,877
Matured during the year	(2,200,827)	(7,500)	(6,566,149)	(8,774,476)
Interest released	-	(297)	(38)	(335)
Interest accrued	-	345	115	460
As at December 31, 2017	1,102,730	50,345	369,808	1,522,883

The carrying amount of held-to-maturity financial assets approximate their amortised cost.

Currency profile and maturity terms of held-to maturity financial assets are detailed in note 3.

8. **PROPERTY AND EQUIPMENT**

	Improvement leasehold land	Furniture, fixtures & Equipment	Motor Vehicles	Building	Construction in progress	Total
	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000
COST						
At January 1, 2017	5,213	19,698	3,054	-	138,926	166,891
Additions	20	4,310	393	-	100,253	104,976
Reclassification	-	51,222	-	185,658	(236,880)	-
Disposals	-	(1,199)	-	-	-	(1,199)
Write offs	(3,324)	(1,268)	-	-	-	(4,592)
At December 31, 2017	**1,909**	**72,763**	**3,447**	**185,658**	**2,299**	**266,076**
Additions	**-**	**3,101**	**799**	**5,532**	**-**	**9,432**
Reclassification	**-**	**1,388**	**-**	**911**	**(2,299)**	**-**
Disposals	**-**	**-**	**-**	**(34,000)**	**-**	**(34,000)**
Write offs	**-**	**(517)**	**-**	**-**	**-**	**(517)**
At December 31, 2018	**1,909**	**76,735**	**4,246**	**158,101**	**-**	**240,991**
ACCUMULATED DEPRECIATION:						
At January 1, 2017	4,942	13,657	1,969	-	-	20,568
Charge for the year	205	6,512	503	1,217	-	8,437
Disposals	-	(1,199)	-	-	-	(1,199)
Write-Off adjustments	(3,324)	(1,157)	-	-	-	(4,481)
At December 31, 2017	**1,823**	**17,813**	**2,472**	**1,217**	**-**	**23,325**
Charge for the year	**69**	**8,537**	**402**	**1,968**	**-**	**10,976**
Disposals	**-**	**-**	**-**	**(223)**	**-**	**(223)**
Write-Off adjustments	**-**	**(518)**	**-**	**-**	**-**	**(518)**
At December 31, 2018	**1,892**	**25,832**	**2,874**	**2,962**	**-**	**33,560**
NET BOOK VALUE						
At December 31, 2018	**17**	**50,903**	**1,372**	**155,139**	**-**	**207,431**
At December 31, 2017	86	54,950	975	184,441	2,299	242,751

9. INTANGIBLE ASSETS

	2018	2017
	SR' 000	SR' 000
COST		
At January 1,	28,795	26,723
Additions	2,598	13,674
Write-Off	-	(11,602)
At December 31, 2018	**31,393**	28,795
AMORTISATION		
At January 1,	14,800	22,882
Charge for the year	3,509	3,520
Write-Off adjustments	-	(11,602)
At December 31, 2018	**18,309**	14,800
NET CARRYING VALUE		
At December 31,	**13,084**	13,995

10. OTHER ASSETS

	2018	2017
	SR' 000	SR' 000
Upfront lease payments (note 10 (a)	**4,614**	4,667
Other assets held for sale (note 10 (b))	**152,984**	**-**
Prepayments	**4,146**	2,778
Refundable deposits	**154**	134
Stocks of stationeries	**959**	1,071
Other receivables (c)	**20,945**	16,461
	183,802	25,111

(a) Upfront lease payments

	2018	2017
	SR' 000	SR' 000
COST		
At January 1 & December 31,	**5,250**	5,250
AMORTISATION		
At January 1,	**583**	530
Charge for the year	**53**	53
	636	583
NET CARRYING VALUE		
At December 31,	**4,614**	4,667

10. **OTHER ASSETS** *Continued*

(b) During the year ended December 31, 2018, the Company re-classed a loan, net of the associated provision, to "other assets" reflecting the fact that the Company had acquired legal title to the property which was the subject of a collateral arrangement and which was legally enforced through the Courts upon default of the customer.

(c) The carrying amounts of 'other receivables ' approximate their fair value and the Directors are of the opinion that no impairment is required at December 31, 2018 (2017: Nil)

11. CURRENT TAX

		2018	2017
		SR' 000	SR' 000
(a)	**Statement of financial position**		
	At January 1,	**(3,794)**	37,469
	Charge to Statement of Profit or Loss (note (b & c))	**85,894**	79,043
	Tax refund received	**6,786**	-
	Payments during the year	**(94,088)**	(120,306)
	Payable at December 31,	**(5,202)**	(3,794)
(b)	**Statement of comprehensive income**		
	Current tax based on the profit for the year (note (c))	**87,950**	79,043
	Reversal of over provision in prior year	**(2,056)**	-
	Corporate social responsibility tax & Tourism Marketing tax	**3,424**	3,141
	Deferred tax charge	**47,049**	(2,411)
	Charged to Statement of Comprehensive income	**136,367**	79,773

(c) **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:

	2018	2017
	SR' 000	SR' 000
Profit before taxation		
As previously stated	**275,049**	246,412
Reclassification of CSR & TMT Tax from Administrative expenses	**-**	3,141
As restated	**275,049**	249,553
Tax calculated at applicable tax rates (note 11 (d))	**90,686**	82,273
Income not subject to tax	**(332)**	(314)
Expenses not deductible for tax purposes	**(31)**	2,311
Accelerated capital allowances	**(2,373)**	(5,227)
Current tax based on the profit for the year	**87,950**	79,043

(d) **Applicable tax rates are as follows:**

	2018	2017
Taxable income threshold		
< SR 1,000,000	**25%**	25%
> SR 1,000,000	**33%**	33%

12. DEFERRED TAX

(a) Deferred taxes are calculated on all temporary differences under the liability method at applicable rates as mentioned in note 16 (d).

(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.

	2018	2017
	SR' 000	SR' 000
Net deferred tax assets (see note (c))	1,198	48,084

The movement in deferred tax account and amounts shown in the Statement of Financial Position are as follows:

	2018	2017
	SR' 000	SR' 000
At January 1,	48,084	44,688
Charged /(Credit) to Statement of Profit or Loss (c)	(47,049)	2,411
Credit to Statement of Other Comprehensive income (note 18)	163	985
At December 31,	1,198	48,084
Analysed as follows:		
Deferred tax liabilities	(7,423)	(5,356)
Deferred tax assets	8,621	53,440
	1,198	48,084

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

	Actuarial Gains	Accelerated capital allowances	benefit obligations	Allowance for credit impairment	Total
	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000
At January 1, 2017	-	(475)	(799)	45,962	44,688
Movement during the year	985	(4,881)	4,729	2,563	3,396
At December 31, 2017	985	(5,356)	3,930	48,525	48,084
Movement during the year	163	(2,067)	304	(45,286)	(46,886)
At December 31, 2018	**1,148**	**(7,424)**	**4,234**	**3,240**	**1,198**

13. CUSTOMER DEPOSITS

	2018	2017
	SR' 000	SR' 000
Current accounts	5,319,056	5,247,760
Term deposits	858,252	585,837
	6,177,308	5,833,597

(a) The range of interest on customer deposits varied from 0.2% to 6.0% (2017: 0.2% to 9.5%).

14. RETIREMENT BENEFIT OBLIGATIONS

Amounts recognised in the Statement of Financial Position as at December 31,

	2018	2017
	SR' 000	SR' 000
Defined pension benefits (notes 13(c)(ii) & (iii))	2,255	1,876
Other post retirement benefits 13(note (d))	10,574	10,032
	12,829	11,908

(a) **Amounts (Credited)/Charged to Statement Profit or loss:**

	2018	2017
	SR' 000	SR' 000
Defined pension benefits (notes 13(c)(ii) & (iii) & 25)	379	(1,391)
Other post retirement benefits 13(note (d))	542	582
	921	(809)

(b) **Amount charged to Statement of Other Comprehensive Income:**

	2018	2017
	SR' 000	SR' 000
Movement in retirement benefit obligations (note 13(c)(vi) and 18)	(3,478)	(2,985)

(c) **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 most recent actuarial valuation of the plan assets and the present value of the defined benefit obligations were carried out at December 31, 2018 by Aon Hewitt Ltd (Actuarial Valuer). The present value of the defined benefit obligations and the related current service cost and past service cost were measured using the Projected Unit Credit Method.

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

	2018	2017
	SR' 000	SR' 000
At January 1,	1,876	(7,028)
Credited to profit or loss	1,748	1,391
Charge/ (Credit) to Statement of Other Comprehensive Income	3,478	2,985
Less: Employer contributions (note 13(v)	(4,847)	4,528
At December 31,	2,255	1,876

14. **RETIREMENT BENEFIT OBLIGATIONS** *Continued*

(iii) The amounts recognised in the Statement of Financial Position are as follows:

	2018	2017
	SR' 000	SR' 000
Defined benefit obligation (note 13 (iv))	**45,101**	40,465
Fair value of plan assets (note 13 (v))	**(42,846)**	(38,589)
Asset in the Statement of Financial Position	**2,255**	1,876

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

	2018	2017
	SR' 000	SR' 000
At January 1,	**40,465**	36,163
Current service cost	**1,784**	1,751
Interest cost	**2,797**	2,671
Actuarial gain/(loss) note 13 (vi)	**1,085**	(396)
Benefits paid (note 13 (v))	**(1,030)**	(1,131)
Gain due to change in financial assumption (note 13 (vi)	**-**	1,407
At December 31,	**45,101**	40,465

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

	2018	2017
	SR' 000	SR' 000
At January 1,	**38,589**	43,191
Expected return on plan assets	**2,833**	3,031
Employer contributions (note 13 (iii)	**4,847**	(4,528)
Benefits paid (note 13 (iv))	**(1,030)**	(1,131)
Actuarial gain/(loss	**(2,393)**	(1,974)
At December 31,	**42,846**	38,589

The major categories of plan assets as a percentage of their fair value of total plan assets are as follows:

	2018	2017
	SR' 000	SR' 000
Equities	**18**	18
Deposits	**82**	82
	100	100

(vi) The amounts recognised in Statement of Other Comprehensive Income are as follows:

	2018	2017
	SR' 000	SR' 000
Return on plan assets below/(above) interest income (note 13(v))	**2,393**	1,974
Liability experience gain (note 13(iv))	**1,085**	(396)
Liability gain due to change in financial assumptions (note 13(v))	-	1,407
	3,478	2,985

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

14. **RETIREMENT BENEFIT OBLIGATIONS** *Continued*

(viii) The principal actuarial assumptions used for the purposes of the actuarial valuations were:

	2018	2017
	%	%
Discount rate	**7.0**	7.5
Future salary growth rate	**3.0**	3.5

(ix) Sensitivity analysis on defined benefit obligations to a 1% change in each of the weighted principal assumptions in isolation is as follows:

	2018	2017
	SR' 000	SR' 000
Increase in discount rate	**5,868**	5,332
Decrease in discount rate	**4,711**	4,291

The above sensitivities have been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The present value of the defined benefit obligation has been calculated using the Projected Unit Credit Method.

The sensitivity analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

(x) The defined benefit pension plan exposes the Bank to actuarial risks, such as longevity risk, currency risk, interest rate risk and market (investment) risk.

(xi) The funding requirements are based on the pension fund's actuarial measurement framework set out in the funding policies of the plan.

(xii) The Bank expects to pay SR 2.7 million in contributions to its post-employment benefit plans for the year ending December 31, 2019.

(xi) The weighted average duration of the defined benefit obligation is 12 years at the end of the reporting period.

(d) **Other post retirement benefits**

Other post retirement benefits comprise mainly of length-of-service compensation payable under the Seychelles Employment Act, as amended.

Movement in length-of-service compensation is as follows:

	2018	2017
	SR' 000	SR' 000
At January 1,	**10,032**	9,450
Charge to Statement of Profit or Loss (note 13(a))	**542**	582
	10,574	10,032

15. **OTHER LIABILITIES**

	2018	2017
	SR' 000	SR' 000
Foreign drafts and local cheques payable	**16,868**	16,379
Other payables	**20,717**	28,169
ECL provision (a)	**1,035**	-
Accruals	**308**	353
	38,928	44,901

(a) ECL Provision includes provision on off-balance sheet items and difference as per gap analysis between IFRS 9 and the CBS Guidelines.

16. **SHARE CAPITAL**

	2018	2017
	SR' 000	SR' 000
Authorised, issued and fully paid-up:		
100,000 ordinary shares of SR 1,000 each	**100,000**	100,000

17. **STATUTORY RESERVE**

	2018	2017
	SR' 000	SR' 000
At December 31,	**100,000**	100,000

The statutory reserve is maintained in accordance with section 24(1) of the Financial Institutions Act 2004 as amended which states that every financial institution shall maintain a reserve fund and shall, out of the 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% of those profits until the amount of the reserve fund is equal to the paid-up or assigned capital as the case may be.

18. **OTHER RESERVES**

	losses	Foreign currency exchange	Total
	SR' 000	SR' 000	SR' 000
At January 1, 2017	2,122	-	2,122
Other comprehensive income (note 13 (b))	(2,985)	-	(2,985)
Release to Statement of Profit or Loss (note 30 (a))	985	-	985
At December 31, 2017	122	-	122
Other comprehensive income (note 13 (b))	(3,478)	-	(3,478)
Release to Statement of Profit or Loss (note 30 (a))	163	-	163
At December 31, 2018	**(3,193)**	**-**	**(3,193)**

(a) Deferred tax adjustment related to amount previously booked on retirement benefit obligations through other comprehensive income (OCI) reversed in 2016. It was impracticable to determine the period- specific effects of the adjustment on comparative information. The Bank in compliance with IAS 8 " Accounting Policies, Changes in Accounting Estimates and Errors'' accordingly restated the opening balances of Actuarial losses reserve within OCI and equity for the current period.

19. INTEREST INCOME

	2018	2017
	SR' 000	SR' 000
Investments in financial assets	38,441	26,771
Cash and short term funds	67,752	77,524
	106,193	104,295
Loans and advances	143,473	133,072
	249,666	237,367

20. INTEREST EXPENSE

	2018	2017
	SR' 000	SR' 000
Customer deposits	32,199	31,673
Deposits and borrowing from other banks	21	10
	32,220	31,683

21. FEE INCOME AND COMMISSIONS

	2018	2017
	SR' 000	SR' 000
Fees and commissions arising on:		
- Card commission fees	60,922	54,033
- Portfolio and other management fees	5,974	5,236
- Other fees received	9,165	7,607
	76,061	66,876

22. NET TRADING INCOME

	2018	2017
	SR' 000	SR' 000
Net foreign exchange gains	115,712	102,784
Recovery of charges	8,586	7,916
	124,298	110,700

23. OTHER OPERATING INCOME

	2018	2017
	SR' 000	SR' 000
Dividend received from Afrexim	1,008	950
Decrease in general provision	2,524	1,601
Cashiers Surplus	63	69
Miscellaneous income	1,071	1,294
	4,666	3,914

24. OTHER OPERATING EXPENSES

	2018	2017
	SR' 000	SR' 000
Employee benefit expenses (note 25)	38,907	34,498
Auditors' remuneration	306	287
Administrative expenses	17,826	18,876
Computer costs	4,626	3,061
Rental expenses	3,046	6,126
Maintenance and other related costs	10,098	9,481
	74,809	72,329

25. EMPLOYEE BENEFIT EXPENSE

	2018	2017
	SR' 000	SR' 000
Salaries and wages	31,015	27,004
Directors' emoluments (note 25(a))	2,945	2,622
Retirement benefit obligations (note 13 (a))	379	(1,391)
Other retirement benefit obligations (note 13 (a))	542	582
Other staff costs	4,026	5,681
	38,907	34,498

(a) Directors' emoluments:

	Directors' fees	Other emoluments	Total	Total
	SR' 000	SR' 000	SR' 000	SR' 000
Ahmad Saeed	-	2,428	2,428	2,413
Abdul Gafoor Yakub	83	7	90	-
Vincent Van Heyste	56	1	57	-
Damien Thesee	56	1	57	-
Roger Toussaint	56	1	57	-
Anil Dua	56	130	186	-
David Howes	46	24	70	-
Andrew Bainbridge	-	-	-	42
Steve Fanny	-	-	-	125
Stephan Jardine	-	-	-	42
	353	2,592	2,945	2,622

26. DIVIDENDS

Interim Dividend of SR. 1,500 per share amounting to SR. 150 million (2017 : SR. 750 per share amounting to SR. 75 million) was declared and paid during the year. The Directors do not recommend any final dividend for the financial year under review (2017 : SR. 75 million).

27. COMMITMENTS

(a) Capital commitments

Capital commitments approved and contracted for were as follows:

	2018	2017
	SR' 000	SR' 000
Property and equipment	-	2,500

(b) Operating lease commitments - Bank as lessee

The Bank leases land under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewable rights.

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

	2018	2017
	SR' 000	SR' 000
Within one year	1,653	1,380
After one year but not more than 5 years	2,141	2,180
	3,794	3,560

28. CONTINGENT LIABILITIES

	2018	2017
	SR' 000	SR' 000
(a) Instruments		
Guarantees/Acceptance	209,637	102,894
(b) Commitments		
Loans and other facilities approved and not yet disbursed	530,587	546,446

29. RELATED PARTY TRANSACTIONS

During the year ended 31 December 2018, there were the following transactions between the Bank and its related parties:

	Interest from related parties	Interest to related parties	Amount owed by related parties	Amount owed to related parties
	SR' 000	SR' 000	SR' 000	SR' 000
December 31, 2018:				
Government of Seychelles	9,279	-	152,208	76
State owned or controlled enterprises	16,982	1,888	215,430	968,020
Minority shareholder of the Bank	-	17	-	496
Directors	15	120	203	7,422

29. **RELATED PARTY TRANSACTIONS** *Continued*

	Interest from related parties	Interest to related parties	Amount owed by related parties	Amount owed to related parties
	SR' 000	SR' 000	SR' 000	SR' 000
December 31, 2017:				
Government of Seychelles	7,139	-	161,643	982
State owned or controlled enterprises	32,063	2,914	482,103	1,055,657
Minority shareholder of the Bank	-	-	-	579
Directors	164	6	2,377	2,867

(a) Transactions with related parties are made at normal market prices.

(b) Outstanding balances at the end of the reporting period are unsecured and interest-free. There have been no guarantees provided or received for any related party payables or receivables. For the year ended December 31, 2018, the Bank had not recorded any impairment of receivables since the fair value of the eligible security fully covers the carrying amount relating to amounts owed by related parties (2017: Nil). This assessment is undertaken at the end of each financial year through examining the financial position of the related party and the market in which the latter operates.

(c) Directors emoluments has been disclosed under note 25(a)

(d) Key management personnel

(i) **Salaries and related costs**

	2018	2017
	SR' 000	SR' 000
Salaries and other benefits	**2,428**	2,413
Pension costs	**284**	276
	2,712	2,689

(ii) **Amounts receivable/(payable)**

	2018	2017
	SR' 000	SR' 000
Loans and advances	**167**	94
Due from customers	**1,579**	46
	1,746	140

(iii) **Transactions during the year**

	2018	2017
	SR' 000	SR' 000
Net repayment of loans and advances	**73**	(142)
Net payments from/(to) customers	**1,533**	(52)
	1,606	(194)

30. EVENTS AFTER THE REPORTING PERIOD

There is no event subsequent to the date of statement of financial position which may have a material effect on the financial statement as at 31 December 2018.

31. FIVE YEAR FINANCIAL SUMMARY

	2018	2017	2016	2015	2014
	SR'000	SR'000	SR'000	SR'000	SR'000
Profit before tax	**275,049**	249,553	280,670	291,304	191,772
Tax expense	**(136,367)**	(79,773)	(85,882)	(103,436)	(60,414)
Profit for the year	**138,682**	169,780	194,788	187,868	131,358
Retained earnings brought forward	**301,575**	256,795	290,263	212,395	181,037
Effect of transition to IFRS	**5,990**	-	-	-	-
Profit available for distribution	**446,247**	426,575	485,051	400,263	312,395
Dividends	**(225,000)**	(125,000)	(225,000)	(110,000)	(100,000)
Adjustments	-	-	(3,256)	-	-
Retained earnings carried forward	**221,247**	301,575	256,795	290,263	212,395

EQUITY					
Share capital	**100,000**	100,000	100,000	100,000	100,000
Statutory reserve	**100,000**	100,000	100,000	100,000	100,000
Retained earnings	**221,247**	301,575	256,795	290,263	212,395
Reserve on Property Foreclosed	**124,600**	-	-	-	-
Fair value reserve	**7,819**	-	-	-	-
Other reserves/(deficit)	**(3,193)**	122	2,122	(867)	2,082
	550,473	501,697	458,917	489,396	414,477