SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED

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CORPORATE INFORMATION - DECEMBER 31, 2017

DIRECTORS	:	Ahmad Saeed **Appointed January 1, 2018:** Abdul Gafoor Yakub Vincent Van Heyste Damien Thesee Roger Toussaint Anil Dua **Appointed March 12, 2018:** David M. J. Howes **Resigned December 31,2017:** Steve Fanny Stephen Jardine Andrew Bainbridge
SECRETARY	:	Corporate Registrars (Pty) Ltd P.O Box 18, Victoria, Mahé, Seychelles
REGISTERED OFFICE	:	Nouvobanq House, Victoria, Mahé, Seychelles
AUDITORS	:	BDO Associates Chartered Accountants Seychelles

The Directors are pleased to submit their report together with the audited financial statements of **Seychelles International Mercantile Banking Corporation Limited** (hereafter called the "Bank") for the year ended December 31, 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Bank remained unchanged during the year under review and consists of the provision of banking and financial services in Seychelles. The bank operates locally and its offshore activities are negligable; therefore no separate disclosures are presented in these Financial Statements.

RESULTS

	SR'000
Profit before tax	**246,412**
Tax expense	**(76,632)**
Profit for the year	**169,780**
Retained earnings brought forward	**256,795**
Profit available for distribution	**426,575**
Dividends	**(125,000)**
Retained earnings carried forward	**301,575**

DIVIDENDS

The Directors proposed and paid the following:

	2017	2,016
	SR'000	SR'000
Dividend for the reporting period ended December 31, 2017		
Interim dividend of SR 750 per share proposed on August 23, 2017 and paid on September 15, 2017	**75,000**	-
Dividend for the reporting period ended December 31, 2016		
Interim dividend of SR 1000 per share proposed on July 15, 2016 and paid on August 03, 2016	-	100,000
Interim dividend of SR 250 per share proposed on December 30, 2016 and paid on December 30, 2016	-	25,000
Final dividend of SR 500 per share proposed on April 28, 2017 and paid on May 24, 2017	**50,000**	-
Dividend for the reporting period ended December 31, 2015		
Final dividend of SR 1000 per share proposed on April 14, 2016 and paid on April 21, 2016	-	100,000
	125,000	225,000

PROPERTY AND EQUIPMENT

Additions to property and equipment totalled **SR 104.9m** for the year under review (2016: SR 57.6m) and comprised mainly building, office equipment, furniture, fittings, equipment and motor vehicles.

All property and equipment are stated at historical cost less accumulated depreciation. The Directors are of the opinion that the carrying amounts of the assets approximate their fair value and do not require any adjustments for impairment.

DIRECTORS AND DIRECTORS' INTEREST

The Directors of the Bank as at the date of this report are:

Abdul Gafoor Yakub
Vincent Van Heyste
Damien Thesee
Roger Toussaint
Anil Dua
Ahmad Saeed
David M. J. Howes (Appointed effective March 12, 2018)

None of the Directors had any direct or indirect interest in the shares of the Bank.

STATEMENT OF DIRECTORS' RESPONSIBILITY

The Directors are responsible for the overall management of the affairs of the Bank including its operations and the making of 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 assets, both owned by the Bank and those that are held in trust and used by the Bank.

The Directors consider they have met their aforesaid responsibilities.

AUDITORS

The auditors, Messrs, BDO Associates, offer themselves for re-appointment.

BOARD APPROVAL

Abdul Gafoor Yakub
Director

Vincent Van Heyste
Director

Damien Thesee
Director

Roger Toussaint
Director

Anil Dua
Director

Ahmad Saeed
Director

David M. J. Howes
Director

Dated: 19 APR 2018
Victoria, Seychelles

Tel : +248 461 2612
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e-mail: bdoseychelles@bdo.sc

P.O. Box 18
The Creole Spirit
Quincy Street, Mahé
Victoria, Seychelles

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS

This report is made solely to the members of **SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED** (hereafter referred to as 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 Bank's 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 Bank or the Bank's 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 financial statements of **SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED** set out on pages 4 to 46 which comprise the Statement of Financial Position as at December 31, 2017, the Statement of Profit or Loss and Other 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 on pages 4 to 46 give a true and fair view of the financial position of the Bank as at December 31, 2017 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Seychelles Companies Act, 1972 and the Financial Institutions Act, 2004 as amended.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics 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 ethical 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.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

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

Responsibilities of Directors and Those Charged with Governance for the Financial Statements (Cont'd)

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS (CONT'D)

Auditor's Responsibilities for the Audit of the Financial Statements (Cont'd)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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:

- 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.
- The explanations or information called for or given to us by management and employees of the Bank were satisfactory.
- The Bank did not carry out any fiduciary duties during the year under review.

BDO Associates

BDO ASSOCIATES
Chartered Accountants

Dated: 19 APR 2018
Victoria, Seychelles

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2017

	Notes	2017	2016
		SR'000	SR'000
ASSETS			
Cash and cash equivalents	5	**2,557,672**	2,435,311
Loans and advances	6	**1,951,357**	1,731,588
Investment in financial assets	7	**1,549,339**	1,314,813
Property and equipment	8	**242,751**	146,323
Intangible assets	9	**13,995**	3,841
Other assets	10	**25,111**	24,821
Current tax asset	15(i)	**3,794**	-
Deferred tax assets	11	**48,084**	44,688
Total assets		**6,392,103**	5,701,385
LIABILITIES AND EQUITY			
LIABILITIES			
Customers deposits	12	**5,833,597**	5,125,537
Retirement benefit obligations	13	**11,908**	2,422
Other liabilities	14	**44,901**	77,040
Current tax liabilities	15(i)	**-**	37,469
Total liabilities		**5,890,406**	5,242,468
EQUITY			
Share capital	16	**100,000**	100,000
Statutory reserve	17	**100,000**	100,000
Retained earnings	Page 6	**301,575**	256,795
Other reserves	18	**122**	2,122
TOTAL EQUITY		**501,697**	458,917
Total liabilities and equity		**6,392,103**	5,701,385
CONTINGENT LIABILITIES			
Guarantees, bills of collection, letters of credit, and other obligations on account of customers.	28	**102,894**	109,002
Loan commitments	28	**546,446**	223,181

These financial statements have been approved for issue by the Board of Directors on 19 APR 2018

Abdul Gafoor Yakub
Director

Vincent Van Heyste
Director

Damien Thesee
Director

Roger Toussaint
Director

Anil Dua
Director

Ahmad Saeed
Director

David M. J. Howes
Director

The notes on pages 8 to 46 form an integral part of these financial statements.
Auditors' report on pages 3 and 3(b).

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME - YEAR ENDED DECEMBER 31, 2017

	Notes	2017	2016
		SR'000	SR'000
Interest income from investments & short term funds	19	104,294	100,606
Interest income from advances	19	133,072	154,140
Interest expense	20	(31,683)	(37,302)
Net interest income		205,683	217,444
Fees and commission income	21	66,876	53,612
Fees and commission expense		(50,300)	(37,387)
		16,576	16,225
Net interest, fee and commission income		222,259	233,669
Net trading income	22	110,700	112,720
Other operating income	23	3,914	10,722
Total operating income		336,873	357,111
Other operating expenses	24	(72,329)	(65,300)
Depreciation of property and equipment	8	(8,437)	(3,020)
Amortisation of intangible assets	9	(3,520)	(3,293)
Amortisation of upfront lease payments	10(a)	(53)	(53)
Total operating expenses		(84,339)	(71,666)
Operating profit before provision		252,534	285,445
Provision for credit impairment	6(b)	(6,122)	(4,775)
Profit before tax		246,412	280,670
Tax expense	15(ii)	(76,632)	(85,882)
Profit for the year		169,780	194,788
Items that may be reclassified subsequently to statement of profit or loss:			
Release of currency translation reserve to statement of profit or loss	18	-	(6,403)
Items that will not be reclassified subsequently to statement of profit or loss:			
Remeasurement of retirement benefit obligations	13(b)(ii) & 18	(2,985)	6,136
Deferred tax effect on remeasurement of retirement benefit obligations	11(b) & 18	985	-
		(2,000)	(267)
Total comprehensive income for the year		167,780	194,521

The notes on pages 8 to 46 form an integral part of these financial statements.
Auditors' report on pages 3 and 3(b).

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED

STATEMENT OF CHANGES IN EQUITY - YEAR ENDED DECEMBER 31, 2017

	Note	Share capital	Statutory reserve	Retained earnings	Translation reserve	Actuarial gains/(losses)	Total
		SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
Balance at January 1, 2017		**100,000**	**100,000**	**256,795**	**-**	**2,122**	**458,917**
Total comprehensive income for the year		-	-	**169,780**	**-**	**(2,000)**	**167,780**
Dividends	26	-	-	**(125,000)**	-	**-**	**(125,000)**
Balance a Balance at December 31, 2017		**100,000**	**100,000**	**301,575**	**-**	**122**	**501,697**
Balance at January 1, 2016		100,000	100,000	290,263	6,403	(7,270)	489,396
Effect of adjustment deferred tax		-	-	(3,256)	-	3,256	-
Total comprehensive income for the year		-	-	194,788	(6,403)	6,136	194,521
Dividends	26	-	-	(225,000)	-	-	(225,000)
Balance at December 31, 2016		100,000	100,000	256,795	-	2,122	458,917

The notes on pages 8 to 46 form an integral part of these financial statements.
Auditors' report on pages 3 and 3(b).

STATEMENT OF CASH FLOWS - YEAR ENDED DECEMBER 31, 2017

	Notes	2017	2016
		SR'000	SR'000
Cash generated from operations			
Profit before tax		**246,412**	280,670
Adjustments for:			
Reversal of provision for credit impairment	6(b)	**1,643**	-
Charge for provision for credit impairment	6(b)	**6,122**	4,775
Interest accrued on loans and advances	6	**(17,644)**	(17,632)
Interest accrued on investments in financial assets	7(b)	**(460)**	(335)
Interest released on investment in financial assets	7(b)	**335**	922
Profit on disposal of associate	30(a)	**-**	(5,536)
Depreciation of property and equipment	8	**8,437**	3,021
Losses on assets written off	8	**111**	-
Amortisation of intangible assets	9	**3,520**	3,293
Amortisation of upfront lease payments	10(a)	**53**	53
Movement in retirement benefit obligations	13(a & d)	**(809)**	1,134
Effect of foreign exchange differences		**3,176,350**	7,512
		3,424,070	277,877
Changes in working capital:			
- Loans and advances		**(209,890)**	186,179
- Other assets		**(343)**	(3,617)
- Bank balances		**2,764**	(9,403)
- Customer deposits		**708,060**	376,047
- Other liabilities		**(32,139)**	41,447
		3,892,522	868,530
Movement in employer's contribution and direct benefits paid	13(a)(ii)	**4,528**	(3,147)
Tax paid	15(i)	**(120,306)**	(109,225)
Net cash generated from operating activities		**3,776,744**	756,158
Cash flows from investing activities			
Additions to investment in financial assets	7(b)	**(9,008,877)**	(8,391,953)
Maturity of investment in financial assets	7(b)	**8,774,476**	8,283,269
Disposal of investment in associate	30(a)	**-**	20,687
Purchase of property and equipment	8	**(104,976)**	(57,635)
Purchase of intangible assets	9	**(13,674)**	-
Net cash used in investing activities		**(353,051)**	(145,632)
Cash flows from financing activity			
Dividends paid and net cash used in financing activity	26	**(125,000)**	(225,000)
Net increase in cash and cash equivalents		**3,298,693**	385,526
Movement in cash and cash equivalents			
At January 1,		**2,377,712**	1,999,699
Increase		**3,298,693**	385,525
Effect of foreign exchange differences		**(3,176,350)**	(7,512)
At December 31,	5(a)	**2,500,055**	2,377,712

The notes on pages 8 to 46 form an integral part of these financial statements.
Auditors' report on pages 3 and 3(b).

1. GENERAL INFORMATION

Seychelles International Mercantile Banking Corporation Limited is a limited liability company incorporated and domiciled in Seychelles. The registered address of the Bank is at Victoria House, Mahé, Seychelles.

The main activity of the Bank is as stated on page 2.

These financial statements will be submitted for consideration and approval at the forthcoming Annual General Meeting of Shareholders of the Bank.

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements of **Seychelles International Mercantile Banking Corporation Limited** have been prepared in accordance with International Financial Reporting Standards (IFRS) and comply with the Company's Act 1972, the Financial Institutions Act, 2004 and Regulations and Directives of the Central Bank of Seychelles. The financial statements of the Bank are prepared under the historical cost convention except that:

a) Held-to-maturity financial assets and relevant financial assets and financial liabilities are stated at their amortised costs as applicable; and
b) Relevant financial assets and financial liabilities are stated at their fair value.

Standards, Amendments to published Standards and Interpretations effective in the reporting

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12). The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. *The amendment has no impact on the Bank's financial statements.*

Disclosure Initiative (Amendments to IAS 7). The amendments require the entity to explain changes in its liabilities arising from financing activities. This includes changes arising from cash flows (eg drawdowns and repayments of borrowings) and non-cash changes such as acquisitions, disposals, accretion of interest and unrealised exchange differences. *The amendment has no impact on the Bank's financial statements.*

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation (Cont'd)

***Amendments to published Standards and Interpretations effective in the reporting period* (Cont'd)**

IFRS 12 Disclosure of Interests in Other Entities. The amendments clarify that entities are not exempt from all of the disclosure requirements in IFRS 12 when entities have been classified as held for sale or as discontinued operations. *The amendment has no impact on the Bank's financial statements* .

Standards, Amendments to published Standards and Interpretations issued but not yet effective.

Certain standards, amendments to published standards and interpretations have been issued that are mandatory for accounting periods beginning on or after 1 January 2018 or later periods, but which the Company has not early adopted.

At the reporting date of these financial statements, the following were in issue but not yet effective:

IFRS 9 Financial Instruments

IFRS 15 Revenue from Contracts with Customers

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

IFRS 16 Leases

Clarifications to IFRS 15 Revenue from Contracts with Customers

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

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)

Annual Improvements to IFRSs 2014–2016 Cycle

IFRIC 22 Foreign Currency Transactions and Advance Consideration

Transfers of Investment Property (Amendments to IAS 40)

IFRS 17 Insurance Contracts

IFRIC 23 Uncertainty over Income Tax Treatments

Prepayment Features with negative compensation (Amendments to IFRS 9)

Long- term Interests in Associates and Joint Ventures (Amendments to IAS 28)

Annual Improvements to IFRSs 2015–2017 Cycle

Where relevant, the Bank is still evaluating the effect of these Standards, amendments to published Standards and Interpretations issued but not yet effective, on the presentation of its financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation (Cont'd)

Amendments to published Standards and Interpretations effective in the reporting period (Cont'd)

The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

(b) Investment in associate

An associate is an entity over which the Bank has significant influence but not control, or joint control, generally accompanying a shareholding between 20% to 50% voting rights.

Investments in associates are accounted for by the equity method except when classified as held-for-sale. Investments in associates are initially recognised at cost as adjusted by post acquisition changes in the Bank's share of the net assets of the associate less any impairment in the value of individual investments.

Any excess of the cost of acquisition and the Bank's share of the net fair value of the associate's identifiable assets and liabilities recognised at the date of acquisition is recognised as goodwill, which is included in the carrying amount of the investment. Any excess of the Bank's share of the net fair value of identifiable assets and liabilities over the cost of acquisition, after assessment, is included as income in the determination of the Bank's share of the associate's profit or loss.

When the Bank's share of losses exceeds its interest in an associate, it discontinues recognising further losses, unless it has incurred legal or constructive obligation or made payments on behalf of the associate.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Financial assets

Categories of financial assets

The Bank classifies its financial assets in the following categories: loans and advances, held-to-maturity investments and available-for-sale financial assets. Management determines the classification of its financial assets at initial recognition and this classification depends on the purpose of the investment.

(i) Loans and provisions for credit impairment

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.

Loans and receivable are subsequently carried at amortised cosut using the effective interest method.

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.

The Bank also follows the Financial Institutions (Credit Classification and Provisioning) Regulations 2010, as amended in 2011 issued by the Central Bank of Seychelles.

(ii) 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. Held-to-maturity investments are recognised initially at fair value plus directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) **Financial assets (Cont'd)**

(iii) **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.

(iv) **Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand, balances with the Central Bank of Seychelles and amounts due from other banks. A further breakdown of cash and cash equivalents is given in note 5 to the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) **Financial assets (Cont'd)**

(v) **Impairment of financial assets**

(a) *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.

(b) *Financial assets carried at amortised cost*

For loans and advances category, the amount of the impairment of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future 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 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.

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 on the borrower's credit rating), the previously recognised impairment loss is reversed through profit or loss to the extend that the carrying amount of the investment at the date of the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(vi) **Derecognition**

The Bank derecognises a financial asset where the contractual rights to cash flows from the asset expire or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) 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.

(e) 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.

(f) Property and equipment

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

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

Properties in the course of construction for production, or administrative purposed or for purposes not yet determined are carried at cost less any recognised impairment loss. Cost includes professional fees and for qualifying assets, borrowing costs capitalised. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals of equipment are determined by comparing the proceeds with their carrying amount and are included in the Statement of Profit or Loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) Intangible assets

Computer software

Acquired computer software licenses are capitalised on the basis of costs incurred to acquire and bring to use the specific software. They are amortised over a useful life of five years.

(h) Retirement benefit obligations

(i) *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.

(ii) *Defined benefit plans*

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.

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.

Service costs comprising current service cost, past service cost, as well as gains and losses on curtailments and settlements are recognised immediately in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) Taxation

Current tax

Tax in the statement of profit or loss relates to current year's tax which is the expected amount of tax payable in respect of taxable profit for the year and is measured using the tax rates that have been enacted at the end of the reporting period.

Deferred tax

Deferred tax is provided for using the liability method, on all taxable temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates that have been enacted or subsequently enacted at the reporting date and are expected to apply in the period when the related deferred tax asset is realised or liability settled. The principal temporary differences arise from depreciation of equipment, provision for credit impairment on loans and advances and provision for retirement benefit obligation.

Deferred Tax assets are recognised to the extent that it is possible that future taxable profit will be available against which the temporary differences can be utilised.

(j) 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.

(k) Foreign currencies

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in 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 rates at the date the fair value was determined.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Operating leases

Lease rentals paid under operating leases are included in the statement of profit or loss. Deposits paid on such leases are included in "Other Assets" under the statement of financial position and are amortised over the period of the lease.

(m) Interest income and expense

Interest income and expense are recognised in the statement of profit or loss for all interest bearing instruments on an accrual basis using the effective yield method based on actual purchase price except in the respect of loans on fixed interest rates where the interest income is recognised on receipt basis.

Interest income includes coupons earned on fixed income investment and accrued discount and premium on treasury bills and other discounted instruments. Interest income is suspended when loans are classified doubtful of collection, such as when overdue by more than six months, or, when the borrower or securities issuer defaults, if earlier than six months. Such income is excluded from interest income until received.

(n) Fees and commission income

Fees and commissions are recognised on an accrual basis when the service has been provided. Commission and fees arising from negotiating, or participating in the negotiations of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised upon completion of the underlying transaction.

(o) Provisions

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

3. FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks. It's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effect of the Bank's financial performance.

A description of the significant risks is given below together with the risk management policies applicable.

It is the Bank's policy to take deposits from customers at variable rates mostly by investing these funds in a wide range of assets.

3. FINANCIAL RISK MANAGEMENT (CONT'D)

The Bank also seeks to raise its interest margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances but also to guarantees and other financial commitments.

(i) Capital adequacy

Capital adequacy ratio is closely monitored in line with the requirements of the Financial Institutions (Capital Adequacy) Regulations 2010. The Bank's ratio was **17.78%** as at December 31, 2017 (2016: 20.98%) which was above the minimum requirement of 12%. The Bank has adhere to the capital requirements of CBS for the year under review.

(ii) Credit risk

The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk are approved by the Board of Directors with discretionary limits set for the Bank's management.

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 corporate and personal guarantees.

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

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

	Gross maximum expense	
	2017	2016
	SR'000	SR'000
Cash and cash equivalents	**2,557,672**	2,435,311
Loans and advances to customers	**1,951,357**	1,731,588
Investment in financial assets	**1,549,339**	1,314,813
Other assets	**22,333**	21,528
	6,083,478	5,503,240
Contingent liabilities	**649,340**	332,183
Total credit risk exposure	**6,732,818**	5,835,423

3. FINANCIAL RISK MANAGEMENT (CONT'D)

(ii) Credit risk (Cont'd)

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

Risk concentrations of maximum exposure to credit risk

Concentration of risk is managed by client/counterparty and by industry sector. The maximum credit exposure to any client or counterparty as at December 31, 2017 was **SR 128.35m** (2016: SR 124.34m) in respect of placements with a bank.

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

	Gross maximum exposure	
	2017	2016
Industry	**SR'000**	SR'000
Agriculture	**1,988**	1,435
Construction, infrastructure and real estate	**281,993**	693,082
Financial and business services	**914,101**	237,988
Government	**161,643**	193,578
Manufacturing	**65,101**	1,197
Tourism	**319,283**	225,153
Personal	**141,088**	284,698
Traders	**66,160**	94,457
	1,951,357	1,731,588

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral obtained are as follows:

- Floating charges for commercial lending;
- Fixed charges for retail lending and for commercial lending;
- Cash deposits held under lien; and
- Pledge of quoted shares.

The Bank also requests for personal guarantees from promoters, directors, shareholders and also corporate and cross guarantees from parent and related companies.

3. FINANCIAL RISK MANAGEMENT (CONT'D)

(ii) Credit risk (Cont'd)

Credit quality per class of financial assets

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

	2017		2016	
	Loans and advances	**Impairment provision**	Loans and advances	Impairment provision
	%	**%**	%	%
Pass	**87.40**	**12.71**	86.32	10.76
Special mention	**1.10**	**-**	0.33	-
Substandard	**3.00**	**-**	1.27	-
Doubtful	**0.50**	**-**	3.90	-
Loss	**8.00**	**87.29**	8.18	89.24
	100.00	**100.00**	100.00	100.00

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

Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support, the realisable value of collateral and the timing of the expected cash flows. the impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention. As a result thereof, the Bank has made specific provision amounting to **SR 128.35m** (2016: SR 124.34m) as at December 31, 2017 (note 6(b)).

3. FINANCIAL RISK MANAGEMENT (CONT'D)

(ii) Credit risk (Cont'd)

Collectively assessed allowances

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

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

(iii) Currency risk

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

The Bank managed its foreign currency exposure during the year under review to remain within limits set by the 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.

Sensitivity analysis

At December 31, 2017 if the Seychelles Rupee had weakened/strengthened by 5% against foreign currencies (mainly US dollar and Euro) with all other variables held constant, profit for the year would have been **SR'000 7,974** (2015: SR'000 9,255) higher/lower, mainly as a result of foreign exchange gains/losses on translation of foreign currency denominated assets and liabilities balances.

	2017	2016
	SR'000	SR'000
Impact on results	**± 7,974**	± 9,255

3. FINANCIAL RISK MANAGEMENT (CONT'D)

Currency risk (Cont'd)

Concentration of assets and liabilities by currency

At December 31, 2017

	SR	Euro	US Dollars	Others	Total
	SR'000	SR'000	SR'000	SR'000	SR'000
Assets					
Assets					
Cash and cash equivalents	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 tax asset	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 impairement					(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 assets	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 impairement					(147,047)
					501,697
Off balance sheet position	530,668	24,590	93,396	686	649,340

3. FINANCIAL RISK MANAGEMENT (CONT'D)

(iii) Currency risk (Cont'd)

At December 31, 2016

	SR	Euro	US Dollars	Others	Total
	SR'000	SR'000	SR'000	SR'000	SR'000
Assets					
Cash and cash equivalents	415,427	345,054	1,622,662	52,168	2,435,311
Loans and advances	1,015,445	365,714	489,495	216	1,870,870
Investment in financial assets	1,288,857	-	25,956	-	1,314,813
Property and equipment	146,323	-	-	-	146,323
Intangible assets	3,841	-	-	-	3,841
Other assets	21,790	2,832	199	-	24,821
Deferred tax assets	44,688	-	-	-	44,688
	2,936,371	713,600	2,138,312	52,384	5,840,667
Less allowances for credit impairement					(139,282)
					5,701,385
Liabilities					
Customers deposit	2,430,670	708,559	1,937,090	49,218	5,125,537
Other liabilities	52,709	1,460	21,316	1,555	77,040
Retirement benefit obligations	2,422	-	-	-	2,422
Current tax liabilities	37,469	-	-	-	37,469
	2,523,270	710,019	1,958,406	50,773	5,242,468
Net on-balance sheet position	413,101	3,581	179,906	1,611	598,199
Less allowances for credit impairment					(139,282)
					458,917
Off balance sheet position	213,511	24,590	93,396	686	332,183

(iv) Liquidity risk

The Bank is exposed to daily calls on its available cash resources from deposits, current accounts, maturing deposits, loan drawdowns, guarantees 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 interbank and other borrowing that should be in place to cover withdrawals at unexpected levels of demand.

On the other hand, the Bank also complies with The Central Bank of Seychelles' requirement for all commercial banks to maintain 20% of total liabilities in liquid assets under the Financial Institutions (Liquidity Risk Management) Regulations, 2009 as ammended in 2012.

3. FINANCIAL RISK MANAGEMENT (CONT'D)

(vi) Liquidity risk (Cont'd)

Maturities period of assets and liabilities are follows:

At December 31, 2017	Up to 3 months SR'000	3-12 months SR'000	1-5 years SR'000	Over 5 years SR'000	Non-maturity items SR'000	Total SR'000
Assets						
Cash and cash equivalents	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 tax asset	-	-	-	-	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 allowance 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 obligations	-	-	-	-	11,908	11,908
	5,571,148	260,089	2,360	-	56,809	5,890,406
Maturity gap	(1,793,862)	363,885	1,096,111	490,873	491,737	648,744
Less allowance for credit impairment						(147,047)
						501,697

3. FINANCIAL RISK MANAGEMENT (CONT'D)

(iv) Liquidity risk (Cont'd)

Maturities period of assets and liabilities are follows:

At December 31, 2016	Up to 3 months SR'000	3-12 months SR'000	1-5 years SR'000	Over 5 years SR'000	Non-maturity items SR'000	Total SR'000
Assets						
Cash and cash equivalents	2,429,252	6,059	-	-	-	2,435,311
Loans and advances	162,717	159,606	723,237	656,598	168,712	1,870,870
Investment in financial assets	602,219	686,137	-	-	26,457	1,314,813
Property and equipment	-	-	-	-	146,323	146,323
Intangible assets	-	-	-	-	3,841	3,841
Other assets	-	-	-	-	24,821	24,821
Deferred tax assets	-	-	-	-	44,688	44,688
	3,194,188	851,802	723,237	656,598	414,842	5,840,667
Less allowances for credit impairment						(139,282)
						5,701,385
Liabilities						
Customers deposit	4,770,990	339,880	14,667	-	-	5,125,537
Retirement benefit obligations	-	-	-	-	77,040	77,040
Other liabilities	-	-	-	-	2,422	2,422
Current tax liabilities	-	-	-	-	37,469	37,469
	4,770,990	339,880	14,667	-	116,931	5,242,468
Maturity gap	(1,576,802)	511,922	708,570	656,598	297,911	598,199
Less allowances for credit impairment						(139,282)
						458,917

3. FINANCIAL RISK MANAGEMENT (CONT'D)

(v) Interest risk

Interest rate risk refers to the potential variability in the Bank's financial condition owing to changes in the level of interest rates. 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, 2017

	< 1 year	1 - 3 years	> 3 years	Non-interest bearing	Total
	SR'000	SR'000	SR'000	SR'000	SR'000
At December 31, 2017					
Assets					
Cash and cash equivalents	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
Intangible assets	-	-	-	13,995	13,995
Property and equipment	-	-	-	242,751	242,751
Other assets	-	-	-	25,111	25,111
Current tax asset	-	-	-	3,794	3,794
Deferred tax asset	-	-	-	48,084	48,084
	3,773,517	352,589	1,236,756	1,176,288	6,539,150
Less allowances for credit impairement					(147,047)
					6,392,103

	< 1 year	1 - 3 years	> 3 years	Non-interest bearing	Total
	SR'000	SR'000	SR'000	SR'000	SR'000
Liabilities					
Deposits from customers	1,265,092	2,360	-	4,566,145	5,833,597
Other liabilities	-	-	-	44,901	44,901
Retirement benefit asset	-	-	-	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 impairement					(147,047)
					501,697

3. FINANCIAL RISK MANAGEMENT (CONT'D)

(v) Interest risk (Cont'd)

At December 31, 2016

	< 1 year	1 - 3 years	> 3 years	Non-interest bearing	Total
	SR'000	SR'000	SR'000	SR'000	SR'000
Assets					
Cash and cash equivalents	1,348,764	-	-	1,086,547	2,435,311
Loans and advances	491,035	345,478	1,034,357	-	1,870,870
Investment in financial assets	1,288,356	-	-	26,457	1,314,813
Property and equipment	-	-	-	3,841	3,841
Intangible assets	-	-	-	146,323	146,323
Other assets	-	-	-	24,821	24,821
Deferred tax assets	-	-	-	44,688	44,688
	3,128,155	345,478	1,034,357	1,332,677	5,840,667
Less allowances for credit impairment					(139,282)
					5,701,385
Liabilities					
Customers deposit	1,245,581	14,667	-	3,865,289	5,125,537
Other liabilities	-	-	-	2,422	2,422
Retirement benefit obligation	-	-	-	77,040	77,040
Current tax liabilities	-	-	-	37,469	37,469
	1,245,581	14,667	-	3,982,220	5,242,468
Interest sensitivity gap	1,882,574	330,811	1,034,357	(2,649,543)	598,199
Less allowances for credit impairment					(139,282)
					458,917

Sensitivity analysis

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

	2017	2016
	SR'000	SR'000
Impact on results	**± 20,462**	± 16,239

(vii) Price Risk

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

	2017	2016
	SR'000	SR'000
Impact on statement of other comprehensive income	**± 1,323**	± 1,323

3. FINANCIAL RISK MANAGEMENT (CONT'D)

(viii) **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. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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.

(a) *Impairment of loans and advances*

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 statement of profit or 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 best estimates available. However, the actual amount of impairment may differ from amount provided resulting in higher or lower charges to the Statement of Profit or Loss income.

The Bank follows the guidelines of the Central Bank of Seychelles for provision for credit impairment. The Directors have estimated that these provisions do not materially differ from those required as per International Financial Reporting Standards (IFRS).

(b) *Held-to-maturity investments*

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

If the Bank fails to keep these investments to maturity other than for specific circumstances explained in IAS 39, it will be required to reclassify the whole class as available-for-sale. The investments would therefore be measured at fair value and not at amortised cost.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)

(c) Available-for-sale financial assets

The Bank follows the guidance of IAS 39 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.

(d) *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.

(e) *Property and equipment*

<u>Useful lives and residual values</u>
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.

(f) *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 om an annual basis.

(g) *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.

(h) 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

	2017	2016
	SR'000	SR'000
Cash in hand	65,627	65,415
Balances with Central Bank of Seychelles (CBS)	698,484	712,202
Balances with banks abroad (note 5(b))	1,752,214	1,606,154
Balances with local banks	41,347	51,540
	2,557,672	2,435,311

(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:

	2017	2016
	SR'000	SR'000
Cash in hand	65,627	65,415
Short-term deposit	1,735,944	1,600,095
Current account with Central Bank of Seychelles (CBS)	698,484	712,202
	2,500,055	2,377,712

(b) Maturity of deposits are as follows:

	2017	2016
	SR'000	SR'000
Less than 3 months	1,735,944	1,600,095
3- 12 months	16,270	6,059
	1,752,214	1,606,154

6. LOANS AND ADVANCES

	2017	2016
	SR'000	SR'000
Gross loans and advances (note 6(a))	2,021,382	1,811,492
Interest accrued	77,022	59,378
	2,098,404	1,870,870
Less: Provision for credit impairment (note 6(b))	(147,047)	(139,282)
	1,951,357	1,731,588

(a) The currency and maturity terms of loans and advances are detailed under notes 3(iii) & (iv) respectively.

(b) Movement in provision for credit impairment is given below:

	2017	2016
	SR'000	SR'000
At January 1,	139,282	134,507
Amount reversed	1,643	-
Charge to Statement of Profit or Loss (page 5)	6,122	4,775
At December 31,	147,047	139,282
Made up as follows		
General provision	18,697	14,942
Specific provision	128,350	124,340
	147,047	139,282

6. LOANS AND ADVANCES (CONT'D)

(d) Loans and advances to customers past due but not impaired

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

	Business		Personal	
	2017	2016	**2017**	2016
Ageing of past due but not impaired	**SR'000**	SR'000	**SR'000**	SR'000
- Less than 30 days	**4,690**	-	**143**	-
- Between 31 & 90 days	**19,062**	32	**3,313**	2,418
	23,752	32	**3,456**	2,418

(e) Credit concentration of risk by industry sectors

	2017	2016
	SR'000	SR'000
Civil engineering	**281,993**	693,082
Commerce	**66,160**	94,457
Tourism	**319,283**	225,153
Agriculture	**1,988**	1,435
Fishing	**17,582**	26,475
Manufacturing	**65,101**	1,197
Transport	**119,265**	47,561
Government	**161,643**	193,578
Others	**918,342**	448,650
	1,951,357	1,731,588

7. INVESTMENT IN FINANCIAL ASSETS

	2017	2016
	SR'000	SR'000
Available-for-sale financial asset		
- Unquoted investment (note 7(a))	**500**	500
- Investment in share- Afrexim	**25,956**	25,956
	26,456	26,456
Held-to-maturity financial assets		
- Treasury bills	**1,102,730**	1,215,522
- DBS bond	**50,345**	-
- Government bonds	**-**	7,797
- Deposit auction arrangements (DAA)	**369,808**	65,038
	1,522,883	1,288,357
Total	**1,549,339**	1,314,813

7. INVESTMENT IN FINANCIAL ASSETS (CONT'D)

(a) Available-for-sale financial asset

(i) 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.

(ii) The Directors have estimated that no impairment is required as at December 31,2017 (2016: Nil)

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

(iv) Fair value estimation

The Bank uses the following hierarchy in determining and disclosing the fair value of its available-for-sale financial assets by valuation techniques:

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

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

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

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

(b) The movements on the financial assets during the year were as follows:

	2017					2016
	Available-for-sale	**Treasury bills**	**Bonds**	**DAA**	**Total**	Total
	SR'000	**SR'000**	**SR'000**	**SR'000**	**SR'000**	SR'000
At January 1,	**26,456**	**1,215,522**	**7,797**	**65,038**	**1,314,813**	1,206,716
Additions during the year	**-**	**2,088,035**	**50,000**	**6,870,842**	**9,008,877**	8,391,953
Matured during the year	**-**	**(2,200,827)**	**(7,500)**	**(6,566,149)**	**(8,774,476)**	(8,283,269)
Interest released	**-**	**-**	**(297)**	**(38)**	**(335)**	(922)
Interest accrued	**-**	**-**	**345**	**115**	**460**	335
At December 31,	**26,456**	**1,102,730**	**50,345**	**369,808**	**1,549,339**	1,314,813

(vi) Currency profile and maturity terms of held-to maturity financial assets are detailed under notes 3(iii) & (iv) respectively.

8. PROPERTY AND EQUIPMENT

	Improvement to leasehold land	Furniture, fittings & equipment	Motor Vehicles	Building	Construction in progress	Total
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
COST						
At January 1, 2016	5,167	17,157	2,739	-	85,351	110,414
Additions	46	3,059	955	-	53,575	57,635
Disposal	-	-	(640)	-	-	(640)
Write offs	-	(518)	-	-	-	(518)
At January 1, 2017	**5,213**	**19,698**	**3,054**	**-**	**138,926**	**166,891**
Additions	**20**	**4,310**	**393**	**-**	**100,253**	**104,976**
Reclassified	**-**	**51,222**	**-**	**185,658**	**(236,880)**	**-**
Disposal	**-**	**(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**
ACCUMULATED DEPRECIATION						
At January 1, 2016	4,732	11,841	2,133	-	-	18,706
Charge for the year	210	2,334	476	-	-	3,020
Disposal adjustments	-	-	(640)	-	-	(640)
Write offs adjustments	-	(518)	-	-	-	(518)
At January 1, 2017	**4,942**	**13,657**	**1,969**	**-**	**-**	**20,568**
Charge for the year	**205**	**6,512**	**503**	**1,217**	**-**	**8,437**
Disposal adjustments	**-**	**(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**
NET BOOK VALUE						
At December 31, 2017	**86**	**54,950**	**975**	**184,441**	**2,299**	**242,751**
	271	6,041	1,085	-	138,926	146,323

9. INTANGIBLE ASSETS

	Computer software	
	2017	**2016**
	SR'000	**SR'000**
COST		
At January 1,	**26,723**	26,723
Additions	**13,674**	-
Write-Off	**(11,603)**	-
At December 31,	**28,794**	26,723
AMORTISATION		
At January 1	**22,882**	19,589
Charge for the year	**3,520**	3,293
Write-Off adjustments	**(11,603)**	-
At December 31,	**14,799**	22,882
NET BOOK VALUE		
At December 31,	**13,995**	3,841

10. OTHER ASSETS

	2017	2016
	SR'000	SR'000
Upfront lease payments (note 10(a))	**4,667**	4,720
Prepayments	**2,778**	3,292
Refundable deposits	**134**	201
Stock of stationeries	**1,071**	538
Other receivables (note 10(b))	**16,461**	16,070
	25,111	24,821

(a) Upfront lease payments

	2017	2016
	SR'000	SR'000
COST		
At January 1, & December 31,	**5,250**	5,250
AMORTISATION		
At January 1,	**530**	477
Charge for the year (page 5)	**53**	53
	583	583
NET BOOK VALUE		
At December 31,	**4,667**	4,720

(b) 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, 2017 (2016: Nil)

(c) Currency profile and maturity terms of other assets are detailed under notes 3(iii) & (iv) respectively.

11. DEFERRED TAX ASSETS

(a) 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 on the same entity. The following net amounts are shown in the statement of financial position:

	2017	2016
	SR'000	SR'000
Deferred tax liability	**(5,356)**	(1,274)
Deferred tax asset	**53,440**	45,962
Net deferred tax asset	**48,084**	44,688

(b) The movement on the deferred tax account is as follows :

	2017	2016
	SR'000	SR'000
At January 1,	**44,688**	39,850
Credit to Statement of Profit or Loss (note 15(ii))	**2,411**	4,838
Credit to Statement of Other Comprehensive Income (note 18)	**985**	-
At December 31,	**48,084**	44,688

(c) The movement in the deferred tax assets and liabilities during the year is as follows:

(ii) **Deferred tax/(liability)**

	Actuarial Gains	Accelerated tax depreciation	Retirement benefit obligations	Allowance for credit losses	Total
	SR'000	SR'000	SR'000	SR'000	SR'000
At January 1, 2016	-	(1,049)	(3,488)	44,387	44,387
Charged to Statement of Profit or Loss	-	574	2,689	1,575	1,575
At December 31, 2016	-	**(475)**	**(799)**	**45,962**	**44,688**
Credit to Statement of Profit or Loss	**-**	**(4,881)**	**4,729**	**2,563**	**2,411**
Credit to Statement of Other Comprehensive Income	**985**	**-**	**-**	**-**	**985**
At December 31, 2017	**985**	**(5,356)**	**3,930**	**48,525**	**48,084**

12. CUSTOMER DEPOSITS

	2017	2016
	SR'000	SR'000
Current accounts	5,247,760	4,474,304
Term deposits	585,837	651,233
	5,833,597	5,125,537

(a) Maturity terms and currency profile of customer deposits are detailed under notes 3(ii) & (iii) respectively.

(b) The range of interest on customer deposits varied from 0.2% to 9.5% (2016: 0.25% to 7%).

13. RETIREMENT BENEFIT OBLIGATIONS

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

	2017	2016
	SR'000	SR'000
Defined pension benefits (notes 13(c)(ii) & (iii))	1,876	(7,028)
Other post retirement benefits 13(note (d))	10,032	9,450
	11,908	2,422

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

	2017	2016
	SR'000	SR'000
Defined pension benefits (notes 13(c)(ii) & (iii) & 25)	(1,391)	1,534
Other post retirement benefits (note 13(d))	582	(400)
	(809)	1,134

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

	2017	2016
	SR'000	SR'000
Movement in retirement benefit obligations (note 13(c)(vi) and 18)	(2,985)	6,136

(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, 2017 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.

13. **RETIREMENT BENEFIT OBLIGATIONS (CONT'D)**

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

	2017	2016
	SR'000	SR'000
At January 1,	**(7,028)**	721
Credit to Statement of Profit or Loss	**1,391**	1,534
Charge/(Credit) to Statement of Other Comprehensive Income (notes 13(vi) & 18)	**2,985**	(6,136)
Less: Employer contributions (note 13(v))	**4,528**	(3,147)
At December 31,	**1,876**	(7,028)

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

	2017	2016
	SR'000	SR'000
Defined benefit obligation (note 13(iv))	**40,465**	36,163
Fair value of plan assets (note 13(v))	**(38,589)**	(43,191)
Asset in the Statement of Financial Position	**1,876**	(7,028)

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

	2017	2016
	SR'000	SR'000
At January 1,	**36,163**	33,724
Current service cost	**1,751**	1,596
Interest cost	**2,671**	2,499
Actuarial gain/(loss) (note 13(vi))	**(396)**	(837)
Benefits paid (note 13(v))	**(1,131)**	(819)
Gain due to change in financial assumption (note 13(vi))	**1,407**	-
At December 31,	**40,465**	36,163

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

	2017	2016
	SR'000	SR'000
At January 1,	**43,191**	33,003
Expected return on plan assets	**3,031**	2,561
Employer contributions (note 13(ii))	**(4,528)**	3,147
Benefits paid (note 13(iv))	**(1,131)**	(819)
Actuarial gain/(loss)	**(1,974)**	5,299
At December 31, (note 13(vi))	**38,589**	43,191

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

	2017	2016
	%	%
Equities	**18**	15
Deposits	**82**	85
	100	100

13. **RETIREMENT BENEFIT OBLIGATIONS (CONT'D)**

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

	2017	2016
	SR'000	SR'000
Return on plan assets below/(above) interest income (note 13(v))	**1,974**	(5,299)
Liability experience gain (note 13(iv))	**(396)**	(837)
Liability gain due to change in financial assumptions (note 13(v))	**1,407**	-
	2,985	(6,136)

(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.

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

	2017	2016
	%	%
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:

	2017	2016
	SR'000	SR'000
Increase in discount rate	**5,332**	4,648
Decrease in discount rate	**4,291**	3,758

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.

(ix) 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 2.8 million** in contributions to its post-employment benefit plans for the year ending December 31, 2018.

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

13. RETIREMENT BENEFIT OBLIGATIONS (CONT'D)

(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:

	2017	2016
	SR'000	SR'000
At January 1,	9,450	9,850
Charge/(Credit) to Statement of Profit or Loss (note 13(a))	582	(400)
At December 31,	10,032	9,450

14. OTHER LIABILITIES

	2017	2016
	SR'000	SR'000
Foreign drafts and local cheques payable	16,379	16,739
Other payables	28,169	59,918
Accruals	354	383
	44,901	77,040

(a) Currency profile & maturity terms of other liabilities are detailed under notes 3(ii) & (iii) respectively.

15. CURRENT TAX LIABILITIES

(i) Statement of Financial Position

	2017	2016
	SR'000	SR'000
At January 1,	37,469	55,974
Charge for the year (notes 15(ii) & 15(iii))	79,043	90,720
Payments during the year	(120,306)	(109,225)
At December 31,	(3,794)	37,469

(ii) Statement of Profit or Loss

	2017	2016
	SR'000	SR'000
Current tax on adjusted profit for the year at applicable tax rates (notes 15(iii) & 15(iv))	79,043	90,720
Deferred taxes (note 11(b))	(2,411)	(4,838)
	76,632	85,882

15. CURRENT TAX LIABILITIES (CONT'D)

(iii) 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:

	2017	2016
	SR'000	SR'000
Profit before tax	**246,412**	280,670
Tax calculated at applicable tax rates (note 15(iv))	**81,236**	92,541
Income not subject to tax	**(313)**	(2,306)
Expenses not deductible for tax purposes	**3,347**	(203)
Accelerated capital allowances	**(5,227)**	689
	79,043	90,720

(iv) Applicable tax rates

Taxable income threshold	2017 & 2016 Tax rates - %
≤ SR 1,000,000	25%
> SR 1,000,000	33%

16. SHARE CAPITAL

	2017 & 2016
	SR'000
Authorised, issued and fully paid-up	
- 100,000 ordinary shares of SR 1,000 each	**100,000**

17. STATUTORY RESERVE

	2017 & 2016
	SR'000
At December 31,	**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/(DEFICIT)

	Actuarial losses	Foreign currency exchange	Total
	SR'000	SR'000	SR'000
At January 1, 2016	(4,014)	6,403	2,389
Other comprehensive income (note 13(b))	6,136	-	6,136
Release to Statement of Profit or Loss (note 30(a))	-	(6,403)	(6,403)
At December 31, 2016	**2,122**	**-**	**2,122**
Other comprehensive income (note 13(b))	**(2,985)**	**-**	**(2,985)**
Deferred tax credit (note 11)	**985**	**-**	**985**
At December 31, 2017	**122**	**-**	**122**

(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

	2017	2016
	SR'000	SR'000
Investments in financial assets	**77,523**	80,148
Cash and short term funds	**26,771**	20,458
	104,294	100,606
Loans and advances	**133,072**	154,140
	237,366	254,746

20. INTEREST EXPENSE

	2017	2016
	SR'000	SR'000
Customer deposits	**31,673**	37,300
Deposits and borrowing from other banks	**10**	2
	31,683	37,302

21. FEE INCOME AND COMMISSIONS

	2017	2016
	SR'000	SR'000
Fees and commissions arising on:		
- Card commission fees	**54,033**	42,992
- Portfolio and other management fees	**5,236**	4,725
- Other fees received	**7,607**	5,895
	66,876	53,612

22. NET TRADING INCOME

	2017	2016
	SR'000	SR'000
Net foreign exchange gains	102,784	105,642
Recovery of charges	7,916	7,078
	110,700	112,720

23. Other operating income

	2017	2016
	SR'000	SR'000
Dividend received from Afrexim	950	865
Decrease in general provision	1,601	2,678
Cashier's surplus	69	71
Miscellaneous income	1,294	804
Release upon sale of associate(note 30)	-	6,304
	3,914	10,722

24. OTHER OPERATING EXPENSES

	2017	2016
	SR'000	SR'000
Employee benefit expenses (note 25)	34,498	33,625
Auditor's remuneration	287	303
Administrative expenses	18,876	16,650
Computer costs	3,061	2,611
Rental expenses	6,126	7,927
Maintenance and other related costs	9,481	4,184
	72,329	65,300

25. EMPLOYEE BENEFIT EXPENSES

	2017	2016
	SR'000	SR'000
Wages and salaries	27,004	24,547
Directors' emoluments (note 25(a))	2,622	2,593
Movement in retirement benefit obligations (note 13(a))	(1,391)	1,534
Movement in other retirement benefit obligation (note 13(a))	582	(400)
Other staff costs	5,681	5,351
	34,498	33,625

(a) Directors' emoluments

	2017			2016
	Directors' fees	Other emoluments	Total	Total
	SR'000	SR'000	SR'000	SR'000
Ahmad Saeed	-	2,413	2,413	2,384
Andrew Bainbridge	42	-	42	63
Steve Fanny	62	63	125	62
Lise Bastienne	-	-	-	42
Stephen Jardine	42	-	42	42
	146	2,476	2,622	2,593

26. DIVIDENDS

The Directors proposed and paid the following:

	2017	2016
	SR'000	SR'000
Dividend for the reporting period ended December 31, 2017		
Interim dividend of SR 750 per share proposed on August 23, 2017 and paid on September 15, 2017	**75,000**	-
Dividend for the reporting period ended December 31, 2016		
Interim dividend of SR 1000 per share proposed on July 15, 2016 and paid on August 03, 2016	-	100,000
Interim dividend of SR 250 per share proposed on December 30, 2016 and paid on December 30, 2016	-	25,000
Final dividend of SR 500 per share proposed on April 28, 2017 and paid on May 24, 2017	**50,000**	-
Dividend for the reporting period ended December 31, 2015		
Final dividend of SR 1000 per share proposed on April 14, 2016 and paid on April 21, 2016	-	100,000
	125,000	225,000

27. COMMITMENTS

(a) Capital commitments

Capital commitments approved and contracted for were as follows:

	2017	2016
	SR'000	SR'000
Property and equipment	**2,500**	48,038

(a) Operating lease commitments - where the Bank is the lessee

The Bank leases land under non-cancellable operating lease agreements. The leases have varying terms,

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2017	2016
	SR'000	SR'000
Within 1 year	**1,380**	1,283
After one year but not more than 5 years	**2,180**	7,097
	3,560	8,380

28 CONTIGENT LIABILITIES

	2017	2016
	SR'000	SR'000
(a) Instruments		
Guarantees/Acceptances	**102,894**	109,002
(b) Commitments		
Loans and other facilities approved and not yet disbursed	**546,446**	223,181

29. RELATED PARTY TRANSACTIONS

	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**
December 31, 2016				
- Government of Seychelles	16,035	-	193,578	81
- State owned or controlled enterprises	25,428	3,812	456,641	828,889
- Minority shareholder of the Bank	-	24	-	4,883
- Directors	331	27	5,268	3,585
- Associate	-	-	-	-

(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, 2017, 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 (2016: 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)

29. **RELATED PARTY TRANSACTIONS (CONT'D)**

(d) Key management personnel

(i) Salaries and related costs

	2017	2016
	SR'000	SR'000
Salaries and other benefits	2,413	2,384
Pension costs	276	276
	2,689	2,660

(ii) Amounts receivable/(payable)

	2017	2016
	SR'000	SR'000
Loans and advances	94	236
Due from customers	46	98
	140	334

(iii) Transactions during the year

	2017	2016
`	SR'000	SR'000
Net repayment of loans and advances	(142)	(137)
Net payments from/(to) customers	(52)	215

30. **INVESTMENT IN ASSOCIATE**

The Board decided to dispose of its associated company on August 10, 2015 and requested management to actively search for a buyer. The agreement with a potential buyer was however only reached in April 2016 when the significant influence held by the Bank was passed on to the Aquirer. The investment was sold for a consideration of USD 1,575,000 (SR 20,686,916) to Seychelles Pension Fund.

(a) **The diposal is disclosed as follows:**

	2016
	SR'000
Proceeds of disposal	20,686
Less carrying amount of investment	(21,553)
Add: Release from foreign currency exchange reserve (note 18)	6,403
	5,536

31. **EVENTS AFTER THE REPORTING PERIOD**

(a) The Directors of the Bank recommended a final dividend of SR 750 per share amounting to SR 75m payable on April 20, 2018 for the reporting period ended December 31, 2017. The approval of this dividend is subject to ratification by the shareholders of the Bank at its next Annual General Meeting.

32. FIVE YEAR FINANCIAL SUMMARY

	2017	2016	2015	2014	2013
	SR'000	SR'000	SR'000	SR'000	SR'000
Profit before taxation	**246,412**	280,670	291,304	191,772	140,714
Tax expense	**(76,632)**	(85,882)	(103,436)	(60,414)	(43,543)
Profit for the year	**169,780**	194,788	187,868	97,171	97,171
Retained earnings brought forward	**256,795**	290,263	212,395	181,037	183,866
Profit available for distribution	**426,575**	485,051	400,263	312,395	281,037
Dividends	**(125,000)**	(225,000)	(110,000)	(100,000)	(100,000)
Adjustments	-	(3,256)	-	-	-
Retained earnings carried forward	**301,575**	256,795	290,263	212,395	181,037
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	**301,575**	256,795	290,263	212,395	181,037
Other reserves/(deficit)	**122**	2,122	(867)	2,082	(1,833)
	501,697	458,917	489,396	414,477	379,204