NOUVOBANQ

ANNUAL REPORT 2022

Seychelles International Mercantile Banking Corporation Limited

Financial year ended 31 December 2022

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CHAIRPERSON'S STATEMENT

It was with a great sense of pride that I assumed my position as Nouvobanq's new Chairperson on 15 August 2022. As I took over that role,I was deeply humbled by the trust placed in me by the Office of the President to chair the Board of Directors of our island's leading Bank. I am equally conscious of the importance played by the Bank in our society, as well as its rich history and its incredible potential to achieve even greater heights, for the betterment of our fellow Seychellois and country, as a whole.

Over the course of the past 30 years, Nouvobanq has grown from a single office to a multi branch, multi-million-dollar business, which is today able to respond to the ever-changing banking needs of our clients, as they become more diversified and technologically savvy. The banking landscape has been changing at a rapid pace, with new opportunities to embrace, as well as new challenges to address. Nouvobanq, as any other profit-making organisation, has to respond to the expectations of its shareholders, to grow its business profitability and meet the requirements of its customers – customer service excellence being at the forefront of our priorities. But at the same time, Nouvobanq has a greater societal purpose to serve as our island's largest Bank – to be accessible to all Seychellois and serve all.

In our quest to accomplish our vision and mission and live our core values, the Board of Directors has embarked on an ambitious transformation journey. In July 2022, the Bank bid farewell to its long service CEO, Mr. Ahmad Saeed, who served dutifully for the past three decades. Our new CEO is one of equivalent stature and commands the respect of his peers in the industry and is highly regarded as one of the young business leaders of our nation. The Board of Directors is confident that in Mr. Christophe Edmond, the Bank has found the right person to drive the Bank to greater success. To support the new CEO in his tasks, the Board has made significant investments in finding the right personnel.

Reinforcement of the control environment has been one of the top priorities of the Board, and to accomplish this, we have sought the advice of our regulators, shareholders and external consultants to make Nouvobanq a more resilient and robust financial institution. In the months to come, our Bank will implement the Moody's credit risk software to reinforce our credit risk management framework, and actively work with our consultants and auditors to consolidate our different lines of defence. Today's economic environment is highly versatile, and it is the Board's priority to ensure that Nouvobanq can withstand any potential adverse impact. Our capital and liquidity positions remain strong, and we are well geared for increased profitability in the near future.

Our people remain at the centre of our strategy and the Board has been closely working with management to ensure that our people are equipped with the right skills, training and support to best serve our customers, and live to the Nouvobanq's values. Training and scholarship programmes have been put in place, and the whole HR framework has been revamped, to ensure that our people work in a conducive and healthy environment, where they feel appreciated for their work, recognised and rewarded.

I am confident that with the support of my fellow Directors, our shareholders as well as the CEO and his team, we will be able to exceed our set targets. I seize this opportunity to thank our customers for their continued loyalty and our employees for their dedication and commitment.

Together, as one, we will achieve the desired success.

Jennifer Morel
Chairperson

CEO'S STATEMENT

Dear Valued Stakeholders

It is with great pleasure and pride that I am writing to you in my new role as Chief Executive Officer of **Seychelles International Mercantile Banking Corporation Limited** ("SIMBC"/ "Nouvobanq"/ "the Bank"), a role which I took over from Mr. Ahmad Saeed, our long serving CEO who gave over 30 years of his career into shaping Nouvobanq into the reputed and key economic player it is today in Seychelles. I seize this opportunity to thank Mr. Saeed once again for his invaluable contribution and wish him best in his well-deserved retirement. I also wish to extend my appreciation to the Board of Directors and the Bank's personnel, for the seamless transition.

2022 has indeed been a remarkable year for the Bank. Leveraging on the staunch loyalty of our customers and the support of our stakeholders as well as the dedication of our staff, the Bank has delivered a strong performance, capitalising on the post Covid-19 economic recovery in the Seychelles economy. Not only has the Bank been looking at growing its balance sheet and strengthening its profitability and key performance indicators, but we have also embarked on an ambitious transformation journey, geared towards providing the best customer experience, as well as making Nouvobanq, the reference Bank both locally and regionally.

As I joined the Bank in July 2022, I clearly laid out the fundamental priorities, which make up our blueprint for sustainable growth and continued excellence:

- Presenting attractive and competitive products and services that align with the needs of our customers, with greater focus on digital and innovative banking solutions, as well as greater connectivity through a revamped branch network and adoption of new technologies;
- Maintaining a trajectory of sustainable growth and profitability for the benefits of our shareholders;
- Strengthening our control environment with the implementation of revised policies and procedures, and embracing the best practices in the banking industry, as well as recruiting high-calibre personnel and external consultants to contribute towards enhancing the Bank's risk profile and reinforcing our governance structure with greater transparency and accountability; and
- Enhancing our people's capabilities through training and making our workplace one where our people excel in their tasks and perform in a unified team spirit.

The above priorities are all aligned with the Bank's core values, mission and vision – to be the most trusted and reliable bank in Seychelles and be an active partner in nation building.

Seychelles' economy in 2022

Despite initial concerns over the potential impact of the Russia-Ukraine conflict on the tourism sector, renewed global optimism for travel following the pandemic years resulted in stronger-than-anticipated growth in visitor arrivals and earnings in 2022. At December-end, the total number of visitors to Seychelles amounted to 332,068, a growth of 82 per cent (or 149,219 tourists) relative to 2021, although it was 14 per cent (or 52,136 tourists) lower than the 2019 levels.

As published by the National Bureau of Statistics, the Consumer Price Index ("CPI") showed a 12-month average inflation rate of 2.6% in December, a reduction of 7.1 percentage points compared to end-2021. In year-on-year terms, the average prices of goods and services rose by 2.5% in December 2022, compared to 7.9% in December 2021. This outcome was attributed to a stronger domestic currency in 2022 relative to the previous year in annual average terms, which helped to partially cushion the pass-through from elevated foreign inflation and global commodity prices. Furthermore, the moderation in international prices of food and fuel in the latter half of the year contributed to a less pronounced inflation rate in 2022 compared to 2021.

The Central Bank of Seychelles ("CBS") extended its support to the domestic economy by maintaining an accommodative monetary policy stance throughout the year. Hence, the Monetary Policy Rate remained unchanged at 2.0% throughout the year.

In October, Fitch Ratings upgraded Seychelles' Long-Term Foreign-Currency Issuer Default Rating (IDR) from 'B+' to 'BB-' with a stable outlook. The main reasons for this upgrade related to the country's declining public debt to-Gross Domestic Product ("GDP") ratio and improved external position. The strong economic growth, limited impact on tourism from the conflict between Russia and Ukraine, stable fiscal performance and firm macroeconomic framework were among the key factors that were considered in upgrading the country's rating.

2023 outlook for Seychelles

In terms of outlook for 2023, an overall decline in global economic activity is expected as the tighter monetary conditions, increasing interest rates and challenges brought about by the war between Russia and Ukraine continue to weigh on already weakened economies. International commodity prices are forecasted to remain elevated, despite a decline in oil prices. Given the nature of the Seychelles economy, it is anticipated that such external developments, in particular the expected contraction in economic activity in Europe, may impact the local tourism industry. In that context, the authorities aim to intensify their effort in marketing the islands in non-traditional markets to counter any potential loss from the existing tourism source markets. Hence, it is anticipated that the continued positive performance of the tourism sector will provide sustained inflows of foreign exchange, ensuring relative stability in the exchange rate and the general price level. Given the above-mentioned developments, the initial forecast is that GDP might grow at a slower rate of 4.3 per cent in 2023 compared to 8.4 per cent in 2022. *(Source: Annual report 2022, Central Bank of Seychelles)*

The Bank's performance in 2022

13.1%	SR 344m	19.36%	0.60%
Growth in total assets	Profit before tax and impairment	Capital adequacy ratio	ECL coverage

The Bank has posted commendable results for Financial Year 2022 with 8% increase observed in its profit before tax and impairment. Total revenue grew by 8.7% on account of higher interest income and fees and commission, whilst there has been a slight increase in the cost to income from 26% to 26.5% driven by higher employee benefit expenses as a result of new recruitments at senior management positions. The Bank's net interest margin remains comfortable at 4.0%, which is a marked improvement from the previous financial year. Overall, the Bank's return on equity has improved from 26.0% to 26.6% at 31 December 2022.

In terms of credit quality, the Bank has been proactively managing its different portfolios and we are pleased to report that we did not have any impaired credits in the corporate book at 31 December 2022 and very minimal amounts of impaired credits in the retail book. With the removal of the Covid-19 overlays, the Bank has been able to reduce its overall impairment provisions under accounting norms, whilst at the same time meeting the minimum impairment requirements of the CBS through the creation of a dedicated General Loan Loss Reserve.

The Bank remains well capitalised at 19.36% which is well above the 12% minimum CAR requirements per the CBS. The Bank is also well geared to transition to Basel II and has the adequate buffers in place.

Governance

In its commitment to reinforce the Bank's governance structure, the Board has been actively appointing experienced staff members, and 2022 saw the recruitment of a new Deputy Chief Executive Officer (promoted internally), and the appointment of a new Chief Risk Officer, Senior Legal Officer and Head of Treasury Management. With these top-level appointments and various other recruitments at middle management level, the Bank is well positioned to embark on its next level of its transformation journey. At the same time, the Bank has onboarded the services of external consultants, including PricewaterhouseCoopers ("PwC"), who has been mandated to re-look into various aspects of the Bank's internal control framework and governance structure. The Bank's external auditor from this financial year has been Deloitte, who replaced BDO & Associates, who rotated out after reaching the mandatory limit for their term as external auditor. With PwC and Deloitte both engaged with the Bank, along with a reinforced management team comprising experienced bankers and specialists, we are confident that the Bank is well equipped to grow sustainably within the appropriate business model and control environment.

Risk Management

With the appointment of the new Chief Risk Officer and his team, the whole risk management framework of the Bank has been undergoing a radical uplift – numerous stakeholders within the Bank have been working together to reframe the Bank's risk policies, risk appetite statement, and procedures. On the credit risk front, an ambitious project is being spearheaded by the Deputy CEO and the Head of Loans and Advances, which involves implementing a completely new and advanced credit risk system from Moody's which will respond to the requirements of management, regulators and auditors and above all, ensure that the Bank's credit risk is mitigated and interests of our stakeholders preserved. An Assets and Liabilities Management Committee has also been instituted and meets on a regular basis to pro-actively manage the Bank's liquidity and operational risks and for decisions to be taken in a timely manner. Regular reporting is made to the Board and its sub-committees. The Compliance and Internal Audit Teams have also been strengthened with the recruitment of dedicated staff to focus on fraud and fincrime related matters with the intention of setting up a dedicated fraud/fincrime Unit.

Our People

The Bank has increased its investment in training sessions and by now, most of our staff have attended the Customer Service Excellence Training. We are committed towards improving our customer service culture, and providing our people with effective communication skills, whilst inculcating the desirable attitude and professionalism for delivering continued excellent customer service.

We are also conscious of our regulatory and statutory obligations and in this respect, we recently had a cohort of our employees who attended an Anti-Money Laundering Compliance training, with the aim of equipping our staff with the knowledge and skills to identify any potential red flags or suspicious activities and their obligations to report such activities.

We are as well very much conscious for our people to bond as one "Nouvobanq family" and in this respect, employee well-being, wellness and engagement are known to be vital pillars for our success. We have recently set up a social committee to encourage team bonding and organise staff events throughout the year.

In the months to come, a new human resource system will go live to simplify and improve the delivery of the HR function to employees.

Financial awareness campaigns

As part of its ongoing Corporate Social Responsibility ("CSR") activities, the Bank has partnered with the University of Seychelles to deliver a Financial Awareness programme targeting private and public sector employees, the physically challenged, primary and secondary students, educating them on fundamental elements of Finance and Banking. The Bank also participated in the digital symposium organised by the Central Bank of Seychelles in December 2022 and showcased its latest digital offerings. Most recently, the Bank ran a Financial Awareness campaign via newspapers, radio and TV, outdoor screens and social media on „What is a Bank Account, What is an abandoned property and What is a dormant account".

Going forward

We look ahead to a financial year marked by the renewed dynamism from all stakeholders. We are committed to deliver the best of ourselves to meet and exceed the expectations of our customers and shareholders and achieving our set goals. I would like to thank all our partners, collaborators, and the whole Nouvobanq family, for their trust in me and my team, in guiding the Bank to new shores.

Team spirit is one of the hallmarks of Nouvobanq, and it is in this same spirit, that I look towards the collaboration of all, in building another successful year for Nouvobanq.

Christophe Edmond
Chief Executive Officer

CORPORATE INFORMATION

Registered Address
Nouvobanq House
Victoria, Mahé, Seychelles

Directors	Date of first appointment	Date of reappointment	Date of resignation
David Howes	1 January 2018	1 July 2021	-
Michael Bluemner	17 February 2020	1 July 2021	-
Andrew Bainbridge	1 July 2021	-	-
Helene Maiche	1 July 2021	-	-
Odile Vidot	1 July 2021	-	-
Oliver Bastienne	1 July 2021	-	-
Christophe Edmond	1 July 2022	-	-
Jennifer Morel	15 August 2022	-	-
Philippe Pierre	1 October 2022	-	-
Michael Benstrong	1 July 2021	-	11 July 2022
Ahmad Saeed	19 August 1991	1 July 2021	30 June 2022
Abdul Gafoor Yakub	1 January 2018	1 July 2021	15 August 2022

Company Secretary

Up to 4 March 2023
ACM Consultants (Pty) Limited
PO Box 1289, The Link,
5th Floor, Ile du Port,
Mahé, Seychelles

As from 5 March 2023
Kelly Mothe
Nouvobanq House
Victoria, Mahé, Seychelles

External Auditor

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

The Directors are pleased to present their report together with the audited financial statements of the **Seychelles International Mercantile Banking Corporation Limited** (the Bank/ "Nouvobanq") for the year ended 31 December 2022.

PRINCIPAL ACTIVITIES

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

RESULTS

	SR'000
Profit for the year	**278,504**
Retained earnings brought forward	**736,574**
Dividends proposed and paid	**(345,000)**
Transfer to general loan loss reserve	**(10,604)**
Retained earnings carried forward	**659,474**

DIVIDENDS

Final dividends to the ordinary shareholder amounting to SR. 3,450 per share for a total of SR. 345 million (2021: Nil) were declared and paid during the year.

PROPERTY AND EQUIPMENT

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

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

DIRECTORS AND THEIR INTERESTS IN THE BANK

Refer to page 2 for the list of Directors of the Bank from the date of the last report and to-date.

None of the Directors held any interest in the Bank during the financial year under review (2021: Nil)

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

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

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards ("IFRS") and in compliance with the 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.

AUDITORS

BDO Associates retired as the statutory auditor of the Bank after the audit for the year ended 31 December 2021 and Deloitte, Chartered Accountants, have been appointed as the Bank's new statutory auditor for the financial year ended 31 December 2022, after all regulatory approvals.

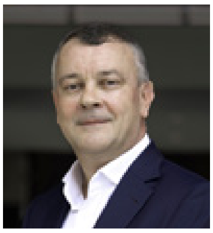
BOARD APPROVAL

This report has been approved by the Directors of the Bank on 27 April 2023 and signed as follows:

Jennifer Morel
Chairperson

Christophe Edmond
Chief Executive Officer
and Executive Director

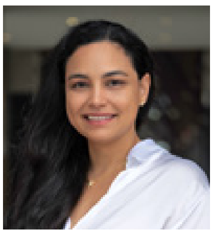
Philippe Pierre
Deputy Chief Executive Officer
and Executive Director



Andrew Bainbridge
Director

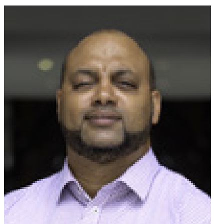
Michael Bluemner
Director

David Howes
Director



Odile Vidot
Director

Helene Maiche
Director



Oliver Bastienne
Director

Deloitte.

7th - 8th floor, Standard Chartered Tower
19-21 Bank Street
Cybercity
Ebène 72201
Mauritius

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Seychelles International Mercantile Banking Corporation Limited (the "Bank") set out on pages 8 to 77, which comprise the statement of financial position as at 31 December 2022, the statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2022, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), and comply with the requirements of the Seychelles Companies Act 1972, the Financial Institutions Act 2004 and the Regulations and Directives of the Central Bank of Seychelles.

Basis for opinion

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Provision for expected credit losses	
Management determines the allowances for Expected Credit Losses ('ECL') on financial instruments as required under IFRS 9 and has made significant judgement and estimates. The key areas where we identified greater levels of management judgements and estimates and therefore increased levels of audit focus in the implementation of IFRS 9 are: • Model estimations – Statistical modelling is used to estimate ECLs which involves determining Probabilities of Default ('PD'), Loss Given Default ('LGD'), and Exposures at Default ('EAD'). The PD and LGD models used in the loans portfolios are the key drivers of the ECL results and are therefore the most significant areas of judgements and estimates used in the ECL modelling approach. • Macro-Economic Forecasts – IFRS 9 requires to measure ECLs on a forward-looking basis using the most appropriate macro-economic forecasts. The macro-economic forecasts are estimates of future economic conditions. • Qualitative adjustments – Adjustments to the model-driven ECL results are raised by management to address known impairment model limitations or emerging trends. Such adjustments are inherently uncertain and significant management judgement is involved in estimating these amounts. Due to the significance of the judgements applied in the identification of credit-impaired facilities and the overall determination of the provision for expected credit losses across different portfolios, this item is considered as a key audit matter. The details of the policies and processes for the determination of ECL are disclosed in Notes 3 (k) and 5.3 to the financial statements.	Our procedures included the following amongst others: • Evaluating the appropriateness of the impairment methodologies applied by the Bank under the requirements of IFRS 9; • Testing the design and operating effectiveness of the key controls over the completeness and accuracy of the key inputs and assumptions into the IFRS 9 impairment models; • Using our specialist team for assessing: ◆ the appropriateness of the macro- economic forecasts used; ◆ the appropriateness of PD, LGD and EAD used in the ECL calculation; ◆ the reasonableness of the model predictions by comparing them against actual results; ◆ key data sources and assumptions including economic forecasts, PD, LGD assumptions and qualitative adjustments impacting ECL calculations; • Testing the completeness and accuracy of data used for ECL calculation through sample testing; • Inspecting the minutes of the Risk Management and Credit Risk Committee to ensure that there are governance controls in place in relation to the assessment of the allowance for credit impairment; • Obtaining audit evidence of management judgements and assumptions, especially focusing on the consistency of the approach; • Performing substantive tests of details on Stage 3 provisioning including validation of valuation of collateral securities and future cash flows. • Performing a risk-based test of loans and advances to customers to ensure timely identification of impairment and for impaired loans to ensure appropriate allowance for credit impairment; and • Assessing whether the disclosures are in accordance with the requirements of IFRS.

Deloitte.

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KEY AUDIT MATTERS (CONT'D)

Key audit matter (cont'd)	How our audit addressed the key audit matter
Key Information Technology ("IT") Systems and Controls	
The Bank has in place a complex IT infrastructure, which is critical for the smooth functioning of its day-to-day business operations, as well as for timely and accurate financial reporting. High volume of transactions is processed and recorded on single or multiple applications. Appropriate IT general controls and application controls are required to ensure that such IT systems are able to process the data, as required, completely, accurately and consistently for reliable financial reporting. We have identified 'IT systems and controls' as key audit matter because of the high-level automation and the complexity of the IT architecture and its impact on the financial reporting system.	• We involved our IT specialists to obtain an understanding of the Bank's IT related control environment. Furthermore, we conducted an assessment and identified key IT applications, databases and operating systems that are relevant to our audit. • For the core IT system, our areas of audit focus included access security (including controls over privileged access), program change controls, database management and network operations. In particular, we tested the design, implementation and operating effectiveness of the Bank's General IT controls over the key IT systems that are critical to financial reporting. This included evaluation of the Bank's controls to evaluate segregation of duties and access rights being provisioned / modified based on duly approved requests and access for exit cases being revoked in a timely manner during the period of audit, amongst others. • We also tested key automated business cycle controls and system generated reports relevant to the audit; including testing of any compensating controls or formed alternate procedures to assess whether there were any unaddressed IT risk that would materially impact the financial statements.

Other matter
The financial statements for Seychelles International Mercantile Banking Corporation Limited for the year ended 31 December 2021 were audited by another auditor who expressed an unmodified opinion on those financial statements on 28 April 2022.

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

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

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

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

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

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

Deloitte.

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AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

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

Report on other legal and regulatory requirements

Seychelles Companies Act, 1972

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

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

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

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

Use of this report

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

Deloitte

R. Srinivasa Sa

Deloitte
Chartered Accountants
27 April 2023

R. Srinivasa Sankar, FCA

SEYCHELLES INTERNATIONAL MERCANTILE BANKING CORPORATION LIMITED
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

	Notes	2022	2021
		SR' 000	SR' 000
ASSETS			
Cash and cash equivalents	8	**2,214,504**	3,801,753
Loans and advances to banks	9	**2,640,973**	528,783
Loans and advances to customers	10	**2,727,260**	2,175,148
Investment securities	11	**2,184,236**	2,191,624
Property and equipment	12	**182,698**	187,627
Intangible assets	13	**10,420**	5,913
Right-of-use assets	14(b)	**22,967**	25,369
Current tax assets	20	**5,017**	-
Deferred tax assets	16	**1,651**	18,653
Other assets	17	**1,203,655**	950,561
Retirement benefit asset	15	**-**	8,105
Total assets		**11,193,381**	9,893,536
LIABILITIES			
Deposits from customers	18	**9,971,765**	8,571,425
Lease liabilities	14(c)	**19,686**	21,625
Current tax liabilities	20	**-**	16,658
Borrowings	19	**90,657**	89,406
Other liabilities	21	**37,835**	37,118
Retirement benefit liabilities	15	**24,883**	12,191
Total liabilities		**10,144,826**	8,748,423
EQUITY			
Share capital	22	**100,000**	100,000
Statutory reserve	23	**100,000**	100,000
General loan loss reserve	24	**10,604**	-
Fair value reserve	25	**196,372**	207,325
Actuarial reserve	25	**(17,895)**	1,214
Retained earnings		**659,474**	736,574
Total equity		**1,048,555**	1,145,113
Total liabilities and equity		**11,193,381**	9,893,536

These financial statements were approved for issue by the Board of Directors on 27 April 2023.

Jennifer Morel
Chairperson

Christophe Edmond
Chief Executive Officer and Executive Director

Philippe Pierre
Deputy Chief Executive Officer and Executive Director

Andrew Bainbridge
Director

Michael Bluemner
Director

David Howes
Director

Odile Vidot
Director

Helene Maiche
Director

Oliver Bastienne
Director

The notes on pages 16 to 81 form an integral part of these financial statements.
The report from the independent auditor is on pages 9 to 11.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 SR' 000	2021 SR' 000
Interest income calculated using the effective interest method	26	**321,996**	297,391
Interest expense	27	**(34,550)**	(40,570)
Net interest income		**287,446**	256,821
Fees and commission income	28(a)	**110,252**	96,911
Fees and commission expense	28(b)	**(80,763)**	(68,059)
Net fee and commission income		**29,489**	28,852
Net trading income	29	**148,199**	142,944
Other income	30	**4,282**	3,227
Revenue		**469,416**	431,844
Other expenses	31	**(105,156)**	(90,752)
Depreciation of property and equipment	12	**(11,487)**	(12,416)
Amortisation of intangible assets	13	**(4,018)**	(4,076)
Depreciation of right-of-use assets	14(b)	**(3,942)**	(4,105)
Reversal of impairment loss on financial assets	33	**70,102**	123,586
Profit before tax		**414,915**	444,081
Income tax expense	20	**(136,411)**	(145,309)
Profit for the year		**278,504**	298,772
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of net defined benefit liability	15(c)	**(28,521)**	(7,023)
Fair value loss on investments in equity instruments designated as at fair value through other comprehensive income	11(a)(ii)	**(10,953)**	(87,895)
Income tax relating to items that will not be reclassified subsequently to profit or loss	16(b)	**9,412**	2,318
Other comprehensive income for the year net of tax		**(30,062)**	(92,600)
Total comprehensive income for the year		**248,442**	206,172

The notes on pages 16 to 81 form an integral part of these financial statements.
The report from the independent auditor is on pages 9 to 11.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

	Share capital	Statutory reserve	General loan loss reserve	Fair value reserve	Actuarial reserve	Retained earnings	Total equity
	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000
At 1 January 2022	**100,000**	**100,000**	**-**	**207,325**	**1,214**	**736,574**	**1,145,113**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**278,504**	**278,504**
Other comprehensive income for the year	**-**	**-**	**-**	**(10,953)**	**(19,109)**	**-**	**(30,062)**
Total comprehensive income for the year	**-**	**-**	**-**	**(10,953)**	**(19,109)**	**278,504**	**248,442**
Transfer to general loan loss reserve	**-**	**-**	**10,604**	**-**	**-**	**(10,604)**	**-**
Dividends	**-**	**-**	**-**	**-**	**-**	**(345,000)**	**(345,000)**
At 31 December 2022	**100,000**	**100,000**	**10,604**	**196,372**	**(17,895)**	**659,474**	**1,048,555**
At 1 January 2021	100,000	100,000	-	295,220	5,919	437,802	938,941
Profit for the year	-	-	-	-	-	298,772	298,772
Other comprehensive income for the year	-	-	-	(87,895)	(4,705)	-	(92,600)
Total comprehensive income for the year	-	-	-	(87,895)	(4,705)	298,772	206,172
At 31 December 2021	100,000	100,000	-	207,325	1,214	736,574	1,145,113

The notes on pages 16 to 81 form an integral part of these financial statements.
The report from the independent auditor is on pages 9 to 11.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022	2021
		SR' 000	SR' 000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		**414,915**	444,081
Adjustments for:			
Depreciation of property and equipment	12	**11,487**	12,416
Amortisation of intangible assets	13	**4,018**	4,076
Depreciation of right-of-use assets	14(b)	**3,942**	4 ,105
Reversal of impairment loss on financial assets	33	**(70,102)**	(123,586)
Dividend income from investments	30	**(2,441)**	(2,166)
Write off of property and equipment	12	**530**	-
Gain on disposal of property and equipment	30	**(610)**	(35)
Net interest income	26, 27	**(287,446)**	(256,821)
Retirement benefit charge	15(b)	**3,196**	812
Exchange differences		**(801)**	(35,338)
Operating profit before working capital changes		**76,688**	47,544
Changes in working capital			
Other assets		**(260,969)**	212,970
Other liabilities		**234**	(24,445)
Loans and advances to banks		**(2,086,343)**	-
Loans and advances to customers		**(488,125)**	421,632
Deposits from customers		**1,398,886**	(1,173,322)
Interest paid		**(33,096)**	(30,707)
Interest received		**266,984**	259,155
		(1,125,741)	(287,173)
Employer contribution and direct benefits paid		**(10,920)**	(1,315)
Tax paid	20	**(131,672)**	(105,495)
Net cash outflow from operating activities		**(1,268,333)**	(393,983)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investment securities		**(776,547)**	(5,715,090)
Proceeds from sale of investment securities		**808,745**	5,166,806
Proceeds from disposal of property and equipment		**610**	35
Placement above three months net of short term investments		**-**	946,987
Purchase of property and equipment	12	**(3,116)**	(5,081)
Purchase of intangible assets	13	**(4,622)**	-
Dividends received on investments	30	**2,441**	2,166
Net cash inflow from investing activities		**27,511**	395,823
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	19	**8,500**	64,768
Repayments from borrowings	19	**(7,249)**	(3,384)
Principal element of lease payments		**(2,678)**	(2,787)
Dividend paid	37	**(345,000)**	-
NET CASH USED IN FINANCING ACTIVITIES		**(346,427)**	58,597
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(1,587,249)**	60,437
Effect of foreign exchange differences		-	35,338
CASH AND CASH EQUIVALENTS AT START OF YEAR	8	**3,801,753**	3,705,978
CASH AND CASH EQUIVALENTS AT END OF YEAR	8	**2,214,504**	3,801,753

The notes on pages 16 to 81 form an integral part of these financial statements.
The report from the independent auditor is on pages 9 to 11.

1. GENERAL INFORMATION

Seychelles International Mercantile Banking Corporation Limited (“the Bank”) is a limited liability company incorporated and domiciled in Seychelles. The Bank holds a banking licence issued by the Central Bank of Seychelles under the Financial Institutions Act, 2004, as amended. The principal place of business is situated at the Nouvobanq House, Victoria, Mahé, Seychelles. The principal activity of the Bank is the provision of banking and financial services to both retail and corporate clients in Seychelles.

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

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

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

In the current year, the Bank has applied a number of amendments to IFRS Accounting Standards issued by the IASB that are mandatorily effective for an accounting period that begins on or after 1 January 2022. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IAS 16 Property, Plant and Equipment— Proceeds before Intended Use

The Bank has adopted the amendments to IAS 16 Property, Plant and Equipment for the first time in the current year. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognises such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 Inventories.

The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

If not presented separately in the statement of profit or loss and other comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity’s ordinary activities, and which line item(s) in the statement of profit or loss and other comprehensive income include(s) such proceeds and cost.

Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts -Cost of Fulfilling a Contract

The Bank has adopted the amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets for the first time in the current year. The amendments specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

Annual Improvements to IFRS Accounting Standards 2018-2020 Cycle

The Bank has adopted the amendments included in the Annual Improvements to IFRS Accounting Standards 2018-2020 Cycle for the first time in the current year. The Annual improvements include amendments to the below standards which are applicable to the Bank:

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

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

Annual Improvements to IFRS Accounting Standards 2018-2020 Cycle (continued)

- IFRS 9 *Financial Instruments*
  The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.
- IFRS 16 *Leases*
  The amendment removes the illustration of the reimbursement of leasehold improvements.

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

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

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

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

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

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

The IASB is currently considering further amendments to the requirements in IAS 1 on classification of liabilities as current or non-current, including deferring the application of the January 2020 amendments.
The directors of the Bank anticipate that the application of these amendments may have an impact on the Bank's financial statements in future periods.

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

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

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

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

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

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

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

The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted and are applied prospectively. The amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements.

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

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

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

The definition of a change in accounting estimates was deleted. However, the IASB retained the concept of changes in accounting estimates in the Standard with the following clarifications:

- A change in accounting estimate that results from new information or new developments is not the correction of an error.
- The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.

The IASB added two examples (Examples 4-5) to the Guidance on implementing IAS 8, which accompanies the Standard. The IASB has deleted one example (Example 3) as it could cause confusion in light of the amendments.

The amendments are effective for annual periods beginning on or after 1 January 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier application permitted.

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

The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

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

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

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

Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying IFRS 16 at the commencement date of a lease.

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

The IASB also adds an illustrative example to IAS 12 that explains how the amendments are applied.

The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period an entity recognises:

- A deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with:
    - Right-of-use assets and lease liabilities; and
    - Decommissioning, restoration and similar liabilities and the corresponding amounts recognised as part of the cost of the related asset.
- The cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted.

The directors of the Bank anticipate that the application of these amendments may have an impact on the Bank's financial statements in future periods should such transactions arise.

3. 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.

(a) Basis of preparation

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

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

(b) Going concern

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

(c) Foreign Currencies

Functional and presentation currency

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

Transactions and balances

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

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

(d) Financial instruments

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial assets

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

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

Specifically:

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

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

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

(f) Debt instruments at amortised cost or FVTOCI

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Business model assessment

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

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

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

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

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

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

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

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

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

Amortised cost and effective interest rate

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Amortised cost and effective interest rate (continued)

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

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

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

(g) Financial assets at FVTPL

Financial assets at FVTPL are:

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

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

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

(h) Equity instruments designated as at FVTOCI

On initial recognition, the Bank may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the fair value reserve. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

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

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

A financial asset is held for trading if either:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Reclassifications

If the business model under which the Bank holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Bank's financial assets. During the current financial year and previous accounting periods there was no change in the business model under which the Bank holds financial assets and therefore no reclassifications were made.

Changes in contractual cash flows are considered under the accounting policy on modification and derecognition of financial assets described in Note 3(l).

(j) Foreign exchange gains and losses

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

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

(k) Impairment

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

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

No impairment loss is recognised on equity investments.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment (continued)

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

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

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

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

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

(ii) Measurement of ECL

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

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

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

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

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

(iii) Significant increase in credit risk

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment (continued)

(iii) Significant increase in credit risk (continued)

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

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

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

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

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

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

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

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

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

(iv) Credit-impaired financial assets

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment (continued)

(iv) Credit-impaired financial assets (continued)

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

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

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

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

(v) Definition of default

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

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

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

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

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

(vi) Purchased or originated credit-impaired ("POCI") financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Bank recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment (continued)

(vii) Write-offs

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

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

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

(l) Modification and derecognition of financial assets

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

(m) Financial liabilities and equity

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

(n) Equity instruments and reserves

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

- The cumulative net change in the fair value of equity instruments classified at FVTOCI is recorded in the fair value reserve;
- The general loan loss reserve which caters for the shortfall between the IFRS 9 provisions and the regulatory provisions as required under Section 8(1) of Financial Institutions (Credit Classification and Provisioning) Regulation, 2010 (as amended in 2011 and 2019);
- The statutory reserve is maintained in accordance with section 24(1) of the Financial Institutions Act 2004 as amended;
- Cumulative actuarial gains/losses emanating from defined benefit obligations;
- The share capital which meets the minimum unimpaired paid-up capital as prescribed under Section 23(1) of Part III of the Financial Institutions Act, 2004.
- The statutory reserve which complies with the requirement of Section 24(1) of Part III of the Financial Institutions Act 2004 which requires that every financial institution shall maintain a reserve fund and shall, out of the net profits of each year, before any dividend is declared or any profits are transferred to the head office or elsewhere, transfer to that reserve fund a sum equivalent to not less than 20 percent of those profits until the amount of the reserve fund is equal to the paid-up or assigned capital, as the case may be.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Financial liabilities

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

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

(p) Modification and derecognition of financial liabilities

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

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

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

(q) Offsetting

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

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

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

The Bank issues financial guarantees, letters of credit and loan commitments. Financial guarantees are initially recognised at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in profit or loss and an allowance for ECL.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

(s) Fair value

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

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

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

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

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

(t) Cash and cash equivalents

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

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

(u) Property and equipment

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Property and equipment (continued)

	Years
Buildings	Leasehold period
Leasehold improvements	Leasehold period
Furniture, fixtures and 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, with the effect of any changes in estimate accounted for on a prospective basis.

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

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

(v) Intangibles

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Intangibles (Continued)

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

(w) Impairment of property and equipment and intangible assets

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

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

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

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

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

(x) Leases – The Bank as a lessee

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Bank uses its incremental borrowing rate.

The incremental borrowing rate depends on the term, currency and start date of the lease and is determined based on a series of inputs including: the risk-free rate based on government bond rates; a country-specific risk adjustment; a credit risk adjustment based on bond yields; and an entity-specific adjustment when the risk profile of the entity that enters into the lease is different to that of the Bank and the lease does not benefit from a guarantee from the Bank.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Intangibles (Continued)

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

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

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

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

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

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

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

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

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

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

(y) Inventories

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) Retirement benefit costs

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

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

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

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

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

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

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

(ii) Defined contribution plans

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

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

(iii) Length of service compensation

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

(iv) Defined benefit plans

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) Retirement benefit costs (continued)

(iv) Defined benefit plans (continued)

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

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

(v) Risks associated with the defined benefit plan

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

Investment risk:
The plan liability is calculated using a discount rate determined by reference to government bond yields; if the return on plan assets is below this rate, it will create a plan deficit and if it is higher, it will create a plan surplus.
Interest risk:
A decrease in the bond interest rate will increase the plan liability; however, this may be partially offset by an increase in the return on the plan's debt investments and a decrease in inflationary pressures on salary and pension increases.

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

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

(aa) Provisions

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

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

(ab) Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's Shareholders and the Central Bank of Seychelles. Interim dividends are deducted from equity when they are declared and are no longer at the discretion of the Bank. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ac) Taxation

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

(i) Current tax

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

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

(ii) Deferred tax

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

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

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

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

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

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

(iii) Current tax and deferred tax for the year

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

(ad) Interest income and expense

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ad) Interest income and expense (continued)

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

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

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

(ae) Fees and commission

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 on completion of the underlying transaction.

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

Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when it transfers control over a service to a customer.

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(af) Net trading income

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

(ag) Comparatives

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

4.1 Critical judgements in applying the Bank's accounting policies

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

4.1.1 Business model assessment

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

The Bank monitors financial assets measured at amortised cost prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

No such changes were required during the periods presented.

4.1.2 Significant increase of credit risk

As explained in notes 3 and 5.3.2, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward-looking information.

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

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

4.1.3 Establishing groups of assets with similar credit risk characteristics

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

4.1.4 Models and assumptions used

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

4.2 Key sources of uncertainty

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

4.2.1 Calculation of expected credit losses

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

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

- Establishing the number and relative weightings of forward-looking scenarios for each type of product and determining the forward-looking information relevant to each scenario: When measuring ECL the Bank uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

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

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

4.2 Key sources of uncertainty (continued)

4.2.1 Calculation of expected credit losses (continued)

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

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

Management overlay in view of COVID-19 (applicable only for financial years 2020 and 2021)

The Bank faced significant set of challenges to adapt IFRS 9 Expected Credit Loss (ECL) frameworks for the new normal. Formulating a response to these challenges in measuring ECL during the Covid-19 pandemic required the Bank to increase the use and reliance on Management overlays given the environment of increased uncertainty and a limited view on risks in the portfolio.

While complying with international practices advocating post-model overlays/adjustments in instances where effects of COVID-19 cannot be accurately reflected in models and given relative lack of data, the Bank has used multipliers to overlay on its IFRS 9 Expected Credit Loss model for the financial years 2020 and 2021.

The post model adjustments were segmentation based and the portfolios of the Bank were segmented by sectors of exposure and multipliers were used to overlay the modelled Expected Credit Loss. The multiplier value was estimated based on the Bank's perception to risk of a particular sector based on the sectors resilience to COVID-19.

Table below highlights the Covid-19 multipliers that were used for the financial year ended 31 December 2021:

Sectors	Multiplier
Agriculture & Horticulture	1
Art & Entertainment	2
Building & Construction	4
Cars/Boats	1
Community, Social & Personal	1
Education	1
Financial Institutions	1
Fishing	1
Governmental Organizations	1
Telecommunication, Computer & Information	1

Sectors	Multiplier
Manufacturing	1
Non-Profit Organizations	1
Health	2
Real Estate	2
Tourism	8
Trade	4
Transport	4
Others	1
Professional, Scientific & Technical Services	1

The multiplier was expected to address the clients from the standpoint of the facility risk and not only the borrower's risk.

For the financial year ended 31 December 2022, Management removed the application of the COVID-19 multipliers and did not make any post model adjustments or overlays. This decision has been motivated by the marked improvement in the economic situation prevailing in the Seychelles, and the overall improvement in the Bank's credit quality, with customers servicing their debts as per agreed plans, at the end of the moratorium periods. Economic forecasts for the Seychelles' economy also present a better outlook.

The Bank's IFRS 9 model is also refreshed periodically with the latest data for PD, LGD and EAD determination as well as the latest forward economic information.

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

4.2 Key sources of uncertainty (continued)

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

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

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

4.2.3 Fair value measurements and valuation processes

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

4.2.4 Leases

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

4.2.5 Limitation of sensitivity analysis

Sensitivity analysis in respect of market risk demonstrates 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.

Sensitivity analysis does 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. FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors and management

The Bank's activities expose it to a variety of financial risks including market risk (including currency and interest rate risk), credit risk and liquidity risk. Its overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effect on the Bank's financial performance. Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and sustained performance.

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

Management has constituted an Assets and Liabilities Committee to manage the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for managing the funding and liquidity risks of the Bank. The Board's Risk Management and Credit Risk Committee, on the over hand, is responsible for the management of risk decisions and monitoring risk levels. The Bank has further appointed a new Chief Risk Officer during the financial year ended 31 December 2022 with overall oversight of the Bank's risk management framework.

The Bank's policy is that risk management processes throughout the Bank are audited annually by the Internal Audit Function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Audit Committee. A description of the significant risks is given in this note together with the risk management policies applicable.

5.2 Classification of financial assets and financial liabilities

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

	Classification and measurement category	**2022**	2021
		SR' 000	SR' 000
Financial asset			
Cash and cash equivalents	Amortised cost	**2,214,504**	3,801,753
Loans and advances to banks	Amortised cost	**2,640,973**	528,783
Loans and advances to customers	Amortised cost	**2,727,260**	2,175,148
Investment in debt securities	Amortised cost	**1,961,027**	1,957,462
Investment in equity securities	FVTOCI	**223,209**	234,162
Other assets	Amortised cost	**1,194,703**	943,226
Total financial assets		**10,961,676**	9,640,534
Financial liabilities			
Deposits from customers	Amortised cost	**9,971,765**	8,571,425
Borrowings	Amortised cost	**90,657**	89,406
Other liabilities	Amortised cost	**37,835**	37,118
Lease liabilities	Amortised cost	**19,686**	21,625
Total financial liabilities		**10,119,943**	8,719,574

An amount of **SR8.9m** (2021: SR7.3m) relating to prepayments and other non-financial assets, has been excluded from other assets in the above table. Refer to the breakdown in note 17.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Credit risk

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

5.3.1 Credit risk management

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

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

The internal audit function performs regular audits making sure that the established controls and procedures are adequately designed and implemented.

The Bank's approach to credit risk management is based on the foundation of independence and integrity of risk management. This is ensured through a well-defined and robust organisation structure duly supported by various risk committees, forums, systems, policies, procedures and processes providing a strong risk infrastructure and management framework.

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

5.3.1.1 Retail and Corporate banking credit risk management

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

The credit facility administration process is undertaken by an independent function to ensure proper execution of all credit approvals, maintenance of documentation and proactive controls over maturities, expiry of limits and collaterals.

Operations are managed by independent units responsible for processing transactions in line with credit approvals and standard operating guidelines.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Credit risk (continued)

5.3.1 Credit risk management (continued)

5.3.1.2 Consumer banking credit risk management

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

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

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

5.3.1.3 Credit–related commitments risks

The main purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank to pay a third party, on behalf of its customers up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers continuously adhering to specific credit standards. The Bank monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of credit risk than shorter term commitments.

5.3.2 Significant increase in credit risk

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

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

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

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

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

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Credit risk (continued)

5.3.2 Significant increase in credit risk (continued)

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

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

The Bank has controls and procedures in place to identify when the credit risk of an asset improves and the definition of significant increase in credit risk is no longer met. When this is the case the asset may moveback to stage 1 from stage 2, subject to payments being up to date and the ability of the borrower to make future payments on time and in line with prevailing regulatory requirements (payments are sustained for a minimum period of 3 months (probation period) as per Central Bank of Seychelles).

5.3.3 Incorporation of forward economic information

The Bank has built macroeconomic regression models to incorporate forward-looking information ("FLI") in the PDs. The same approach is followed for both the corporate and retail portfolios. A summary of the key steps in the Bank's macroeconomic regression exercise and FLI adjustment factor calculation is given below. There are three main processes:

1. Macroeconomic regression model build – transformed default rates are regressed against macroeconomic variables.
2. Macroeconomic scenario regression model build – transformed default rates are regressed against the 'composite index' for each of the upturn, downturn and baseline scenarios.
3. Calculate the predicted PDs – the scenario regression models are used to predict default rates.

The Bank's retail portfolio consists of consumer, mortgage, private homes and other loans. Hence, to capture the effect of the majority proportion of loans disbursed for such loans, a multivariate regression model with Seychelles specific macroeconomic factors (GDP per capita at constant prices, total investments as percent of GDP and general government net debt) was used.

The Bank's corporate portfolio consists of manufacturing, building and construction, real estate, tourism etc. Hence, to capture the effect of the majority proportion of loans disbursed to such industries, a bivariate regression model with Seychelles specific macroeconomic factors (General government gross debt and current account balance as percent of GDP) was used.

Annual Seychelles-specific macroeconomic variable time series data was sourced from the International Monetary Fund ("IMF"). The yearly macroeconomic variable data was then interpolated to quarterly data to align to the quarterly default rate data. Several transformations of the macroeconomic variables were considered (e.g., quarter-on-quarter change and lagged variables).

To arrive at forward looking estimates, a five-year macroeconomic scalar was computed for the credit portfolios. The scalar is multiplied on a rolling basis to the PD term structure to arrive at the macroeconomic adjusted PD term structure.

The Bank uses multiple scenarios to model the non-linear impact of assumptions about macroeconomic factors on ECL. The Bank applies probabilities to the forecast scenarios identified. The baseline case scenario is the single most-likely outcome. The Bank has not made changes in the estimation techniques or significant assumptions made during the reporting period. In addition to the baseline case scenario the Bank uses upturn and downturn scenarios, with associated probability weightings. The probability weighting is such that the baseline scenario has the highest weighting, since it is the most likely outcome and the weighting of the upside and downside scenarios depend on the probability of the scenario.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Credit risk (continued)

5.3.3 Incorporation of forward economic information (continued)

The Bank has performed a sensitivity analysis on how ECL on the main portfolios will change if the key assumptions used to calculate ECL change by 10%. The table below outlines the impact on ECL per portfolio as at 31 December 2022, if the assumptions used to measure ECL change by plus or minus 10%. The changes are applied in isolation for illustrative purposes, and are applied to each probability weighted scenarios used to develop the estimate of expected credit losses. In reality there will be interdependencies between the various economic inputs and the exposure to sensitivity will vary across the economic scenarios.

Retail portfolio	**Change in variable**	**Impact on ECL**
Macroeconomic variables	+10% improvement	(6.99%)
	-10% deterioration	6.97%
Corporate portfolio		
Macroeconomic variables	+10% improvement	(2.60%)
	-10% deterioration	5.34%

5.3.4 Measurement of ECL

The key inputs used for measuring ECL are:

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

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

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

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

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

The Bank measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contact extension or renewal is common business practice.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Credit risk (continued)

5.3.4 Measurement of ECL (continued)

ECL = EAD x PD x LGD

However, for financial instruments such as deferred cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Bank's contractual ability to demandrepayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. For such financial instruments the Bank measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Bank does not enforce in the normal day-to-day management the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are cancelled only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take to mitigate ECL, e.g. reduction in limits or cancellation of the loan commitment.

The Bank computes EAD for undisbursed portion of exposure by applying a credit conversion factor ("CCF") of 20% if the original maturity is less than a year and a factor of 50% if the original maturity is greater than 1 year.

This application has been aligned with the Basel guidelines.

EAD = Disbursed Exposure * 100% + Undisbursed Exposure * CCF factor

LGDs for both the retail and corporate portfolios as well as the deferred card and investment portfolios are based on the foundation – IRB approach. A workout model was first considered by the Bank but due to the amount of default data being extremely low, it was decided that the Regulatory prescribed LGD estimates would be a better option. The regulatory prescribed LGD estimates are used when a bank is unable to provide sufficient historic data. It is based on Basel which provides prescribed haircuts depending on the type of collateral used by the Bank. For the Bank, the foundation IRB (F-IRB) approach which is a regulatory prescribed LGD approach is employed. It defines the LGD values based on the haircuts that can be applied on the collaterals. The methodology for the Corporate, Retail and Deferred cards portfolios are all F-IRB approaches and the Basel prescribed haircuts are all based on the collateral types as follows:

Collateral Type	C*	C**	Exposure	Collateral value	Collateral Coverage	Exposure (Secured)	LGD (Secured Part)	Exposure (Unsecured)	LGD (Un Secured Part)
Residential Real Estate (RRE)	30%	140%	100	140	140%	100.00	35%	0.00	45%
Eligible Commercial Real Estate (CRE)	30%	140%	100	140	140%	100.00	35%	0.00	45%
Eligible Financial receivables	0%	125%	100	50	50%	40.00	35%	60.00	45%
Other collateral	30%	140%	100	50	50%	35.71	40%	64.29	45%
Eligible Financial collateral			100	50	50%	50	0%	50.00	45%
Senior unsecured claim									45%
Subordinate claim									45%

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Credit risk (continued)

5.3.4 Measurement of ECL (continued)

The ECL computations for the different stages is described below:

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

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

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

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

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

The measurement of ECL is based on probability weighted average credit loss. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis (although measurement on a collective basis is more practical for large portfolios of items). In relation to the assessment of whether there has been a significant increase in credit risk it can be necessary to perform the assessment on a collective basis as noted below.

5.3.5 Groupings based on shared risks characteristics

When ECL are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics, such as instrument type, industry, amongst others.

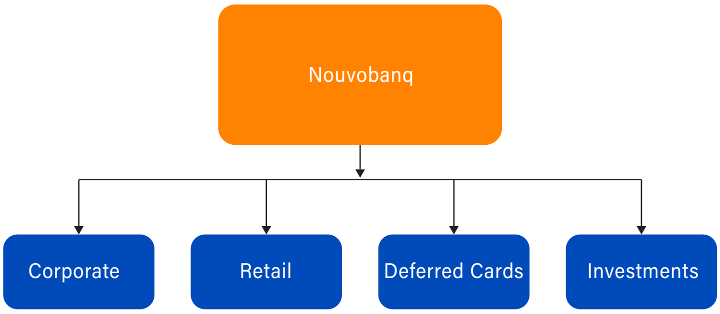
The groupings are reviewed on a regular basis to ensure that each group comprises homogenous exposures.

The Bank extends credit facilities to individual customers and to corporate entities. Its portfolio is broadly categorised as detailed below:

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Credit risk (continued)

5.3.5 Groupings based on shared risks characteristics (continued)



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

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

The ECL for the Deferred credit cards portfolio has been separated from above categories. The application of each risk component has also been done separately as mentioned in the coming sections as this portfolio has not historically experienced default.

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

5.3.5.1 Corporate Portfolio PD Computation

The PD computation for the corporate portfolio is based on vintage analysis. The corporate portfolio is segmented within the Bank based on the industries in which it has an exposure.

For the PD model, the segmentation done for the corporate portfolio was based on the number of accounts present in the following industries: (a) Real Estate, (b) Tourism, (c) Trade and (d) Others.

Based on this analysis, 4 segments were created to compute the through-the-cycle (TTC) PD's for the Bank. A separate vintage analysis was performed to track the accounts for each of the four segments.

The vintage analysis is an analysis performed on the loans to see how loans with different maturity progress over the years. The cumulative default rates for the origination vintages were assessed and the performance of the loan accounts was observed.

All accounts that originated in a financial year were considered and segregated based on their delinquency buckets at the end of the origination year. Each pool was then observed year over year for slippages to default and the default rate was calculated.

Separate vintages and corresponding PD term structures were created for each segment in the corporateportfolio. The Bank then use a survival analysis to arrive at the PD term structure for each of the segments created in the corporate portfolio.

5.3.5.2 Retail Portfolio PD Computation

The Bank combines the entire retail portfolio and compute a single TTC PD using Vintage analysis as explained above. This was due to few defaults noted in the Bank's historic performance as well as the materiality of the portfolio.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Credit risk (continued)

5.3.5 Groupings based on shared risks characteristics (continued)

5.3.5.2 Retail Portfolio PD Computation (continued)

TTC PD is computed using data that covers an economic cycle, at least 5 – 7 years. For the Bank, 5 years of default data was considered. The PD computation is used to create a term structure for the portfolio using survival analysis.

5.3.5.3 Deferred Cards Portfolio PD Computation

The deferred cards portfolio has not seen any historical defaults within the Bank. This portfolio is secured and backed by eligible financial collaterals. Each month any outstanding balance is recovered from the cash margin held by the Bank. The Bank therefore adopted Basel III's prescribed minimum floor on the PD component of 0.03%, which has not resulted in a material ECL for both the current and prior years.

5.3.5.4 Investments Portfolio PD Computation

The investments portfolio has been treated individually. Since the investments have no historical defaults within the Bank, no model has been built to arrive at the PD estimates. The Bank adopted Basel prescribed minimum floor on the PD component of 0.03%. This floor was applied to all the investments. Going forward, under Basel IV, the Bank will consider adopting the minimum PD of 0.05%.

5.3.6 Credit quality

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

		2022	2021
	Notes	**SR' 000**	SR' 000
Loss allowance by class			
Loans and advances to banks	9	**548**	380
Loans and advances to customers	10	**16,268**	86,966
Investment in debt securities	11	**265**	321
Off balance sheet exposures including undrawn commitment	21	**2,446**	1,962
		19,527	89,629

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

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

5.3.7 Write offs

The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity is SR6.0m at 31 December 2022. (31 December 2021: Nil).

5.3.8 Modified financial assets

As a result of the Bank's forbearance activities financial assets might be modified. The following table refers to modified financial assets where modification does not result in derecognition.

	2022
	SR'000
Gross carrying amount after modification	**80,264**
Loss allowance after modification	**1,360**

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Credit risk (continued)

5.3.9 Collaterals held as security and other credit enhancements

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

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

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

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

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

At 31 December 2022, there were no credit-impaired loans in the corporate book (2021: SR5.4m). The net carrying amount of loans and advances to impaired retail customers was **SR22,000** at 31 December 2022(2021: SR63,000) which were sufficiently collaterised to cover for the outstanding amount.

The Bank holds investment in debt securities measured at amortised cost with a carrying amount of **SR2.0bn** at 31 December 2022. (2021: SR2.4bn). The investment securities held by the Bank are sovereign bonds, which are not collaterised.

The Bank has not taken possession of any collaterals held as security against loans and advances for boththe financial years ended 31 December 2022 and 31 December 2021.

5.3.10 Concentration risk and exposure to credit risk

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

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

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

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

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Credit risk (continued)

5.3.10 Concentration risk and exposure to credit risk (continued)

The following table shows the maximum exposure to credit risk for the components of the statement of financial position before the effect of mitigation through use collateral agreements. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

	2022			2021		
Class of asset	**Gross exposure SR'000**	**E C L SR'000**	**Net exposure SR'000**	Gross exposure SR'000	E C L SR'000	Net exposure SR'000
Cash and cash equivalents	**2,214,504**	**-**	**2,214,504**	3,801,753	-	3,801,753
Loans and advances to banks	**2,641,521**	**(548)**	**2,640,973**	529,163	(380)	528,783
Loans and advances to customers	**2,743,528**	**(16,268)**	**2,727,260**	2,262,114	(86,966)	2,175,148
Investment in debt securities	**1,961,292**	**(265)**	**1,961,027**	1,957,783	(321)	1,957,462
Other assets	**1,194,703**	**-**	**1,194,703**	943,226	-	943,226
Total on balance sheet exposures	**10,755,548**	**(17,081)**	**10,738,467**	9,494,039	(87,667)	9,406,372
Off balance sheet items including undrawn commitments	**1,033,235**	**(2,446)**	**1,030,789**	1,007,989	(1,962)	1,006,027

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5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Credit risk (continued)

5.3.10 Concentration risk and exposure to credit risk (continued)

Analysis of concentration risk

Gross balances	**Financial services**	**Government of Seychelles**	**Real estate**	**Tourism**	**Trade**	**Personal**	**Others***	**Total**
	SR'000	**SR'000**	**SR'000**	**SR'000**	**SR'000**	**SR'000**	**SR'000**	**SR'000**
31 December 2022								
Cash and cash equivalents	**2,214,504**	**-**	**-**	**-**	**-**	**-**	**-**	**2,214,504**
Loans and advances to banks	**2,641,521**	**-**	**-**	**-**	**-**	**-**	**-**	**2,641,521**
Loans and advances to customers	**114,816**	**185,324**	**435,721**	**494,466**	**155,161**	**236,795**	**1,121,245**	**2,743,528**
Investment in debt securities	**77,314**	**1,883,978**	**-**	**-**	**-**	**-**	**-**	**1,961,292**
Other assets	**1,189,041**	**-**	**-**	**-**	**-**	**-**	**5,662**	**1,194,703**
Total concentration of risk	**6,237,196**	**2,069,302**	**435,721**	**494,466**	**155,161**	**236,795**	**1,126,907**	**10,755,748**
31 December 2021								
Cash and cash equivalents	3,801,753	-	-	-	-	-	-	3,801,753
Loans and advances to banks	529,163	-	-	-	-	-	-	529,163
Loans and advances to customers	120,116	370,701	344,526	593,735	81,496	207,784	543,756	2,262,114
Investment in debt securities	-	1,957,783	-	-	-	-	-	1,957,783
Other assets	926,883	-	-	-	-	-	16,343	943,226
Total concentration of risk	5,377,915	2,328,484	344,526	593,735	81,496	207,784	560,099	9,494,039

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

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5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.4 Currency risk

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

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

At 31 December 2022, 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 **SR17.7m** (2021: SR 16.9m) higher/lower, mainly as a result of foreign exchange gains/(losses) on translation of foreign currency denominated assets and liabilities balances.

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

	EURO	**USD**	**SCR**	**Others**	**Total**
31 December 2022	**SR'000**	**SR'000**	**SR'000**	**SR'000**	**SR'000**
Assets					
Cash and cash equivalents	**788,387**	**796,861**	**563,409**	**65,847**	**2,214,504**
Loans and advances to banks	**309,753**	**2,288,020**	**-**	**43,748**	**2,641,521**
Loans and advances to customers	**372,290**	**771,510**	**1,599,728**	**-**	**2,743,528**
Investment securities	**674**	**221,898**	**1,961,929**	**-**	**2,184,501**
Other assets	**219,789**	**428,988**	**545,926**	**-**	**1,194,703**
Total monetary financial assets	**1,690,893**	**4,507,277**	**4,670,922**	**109,595**	**10,978,757**
Liabilities					
Deposits from customers	**1,683,064**	**4,166,313**	**4,017,863**	**104,525**	**9,971,765**
Borrowings	**-**	**-**	**90,657**	**-**	**90,657**
Lease liabilities	**565**	**-**	**19,121**	**-**	**19,686**
Other liabilities	**2**	**-**	**37,677**	**156**	**37,835**
Total monetary financial liabilities	**1,683,631**	**4,166,313**	**4,165,318**	**104,681**	**10,119,943**
Net currency position	**7,262**	**340,964**	**505,674**	**4,914**	**858,814**

	EURO	USD	SCR	Others	Total
31 December 2021	SR'000	SR'000	SR'000	SR'000	SR'000
Assets					
Loans and advances to customers	481,182	512,235	1,268,697	-	2,262,114
Investment securities	605	232,921	1,724,257	-	1,957,783
Other financial assets	1,186,670	2,841,973	1,155,905	89,594	5,274,142
Total monetary financial assets	1,668,457	3,587,129	4,148,859	89,594	9,494,039
Liabilities					
Deposits from customers	1,660,733	3,251,377	3,579,330	79,985	8,571,425
Borrowings	-	-	89,406	-	89,406
Lease liabilities	854	-	20,771	-	21,625
Other liabilities	-	11,290	24,412	1,416	37,118
Total monetary financial liabilities	1,661,587	3,262,667	3,713,919	81,401	8,719,574
Net currency position	6,870	324,462	434,940	8,193	774,465

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.5 Liquidity Risk

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

Liquidity risk management

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

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

The Bank met the guidelines of the Central Bank of Seychelles in terms of its liquidity ratio during the years 2022 and 2021.

The maturity profile of assets and liabilities is as follows:

At 31 December 2022	Up to 3 months SR'000	3 – 12 months SR'000	1 – 5 years SR'000	Over 5 years SR'000	SR'000
Financial assets					
Cash and cash equivalents	2,214,504	-	-	-	2,214,504
Loans and advances to banks	365,690	2,275,831	-	-	2,641,521
Loans and advances to customers	391,812	154,539	873,659	1,323,518	2,743,528
Investment in debt securities	118,212	227,973	1,299,706	315,401	1,961,292
Other assets	1,194,703	-	-	-	1,194,703
	4,284,921	2,658,343	2,173,365	1,638,919	10,755,548
Financial liabilities					
Deposits from customers	9,311,039	646,903	13,823	-	9,971,765
Borrowings	43,624	4,551	42,482	-	90,657
Other liabilities	34,524	-	2,262	1,049	37,835
Lease liabilities	-	486	2,698	16,502	19,686
	9,389,187	651,940	61,265	17,551	10,119,943
Maturity gap	(5,104,266)	2,006,403	2,112,100	1,621,368	635,605
Undrawn loan commitments					(475,488)
Maturity gap					160,117

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.5 Liquidity Risk (continued)

At 31 December 2022	Up to 3 months SR'000	3 – 12 months SR'000	1 – 5 years SR'000	Over 5 years SR'000	SR'000
Financial assets					
Cash and cash equivalents	3,801,753	-	-	-	3,801,753
Loans and advances to banks	-	529,163	-	-	529,163
Loans and advances to customers	175,146	76,340	1,086,123	924,505	2,262,114
Investment in debt securities	-	768,324	928,043	261,416	1,957,783
Other assets	912,289	-	-	30,937	943,226
	4,889,188	1,373,827	2,014,166	1,216,858	9,494,039
Financial liabilities					
Deposits from customers	8,206,816	358,835	5,774	-	8,571,425
Borrowings	-	-	89,406	-	89,406
Other liabilities	15,532	129	3,394	18,063	37,118
Lease liabilities	-	5,143	4,548	11,934	21,625
	8,222,348	364,107	103,122	29,997	8,719,574
	(3,333,160)	1,009,720	1,911,044	1,186,861	774,465
Undrawn loan commitments					(521,102)
Maturity gap					253,363

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

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

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5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.6 Interest rate risk

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

	Up to 3 months	1 to 3 years	Over 3 years	Non-interest items	Total
At 31 December 2022	**SR'000**	**SR'000**	**SR'000**	**SR'000**	**SR'000**
Financial assets					
Cash and cash equivalents	**2,147,879**	**-**	**-**	**66,625**	**2,214,504**
Loans and advances to banks	**1,572,497**	**1,069,024**	**-**	**-**	**2,641,521**
Loans and advances to customers	**546,351**	**508,897**	**1,688,280**	**-**	**2,743,528**
Investment in debt securities	**346,185**	**600,309**	**1,014,798**	**223,209**	**2,184,501**
Other assets	**-**	**-**	**-**	**1,194,703**	**1,194,703**
	4,612,912	**2,178,230**	**2,703,078**	**1,484,537**	**10,978,757**
Financial liabilities					
Deposits from customers	**2,678,510**	**13,823**	**-**	**7,279,432**	**9,971,765**
Borrowings	**-**	**-**	**-**	**90,657**	**90,657**
Other liabilities	**-**	**-**	**-**	**37,835**	**37,835**
Lease liabilities	**486**	**2,698**	**16,502**	**-**	**19,686**
	2,678,996	**16,521**	**16,502**	**7,407,924**	**10,119,943**
Interest sensitivity gap	**1,933,916**	**2,161,709**	**2,686,576**	**(5,923,387)**	**858,814**

	Up to 3 months	1 to 3 years	Over 3 years	Non-interest items	Total
At 31 December 2021	**SR'000**	**SR'000**	**SR'000**	**SR'000**	**SR'000**
Financial assets					
Cash and cash equivalents	3,722,684	-	-	79,069	3,801,753
Loans and advances to banks	529,163	-	-	-	529,163
Loans and advances to customers	256,156	565,832	1,440,126	-	2,262,114
Investment in debt securities	508,583	446,026	769,012	234,162	1,957,783
Other assets	-	-	-	943,226	943,226
	5,016,586	1,011,858	2,209,138	1,256,457	9,494,039
Financial liabilities					
Deposits from customers	1,969,839	5,774	-	6,595,812	8,571,425
Borrowings	-	-	-	89,406	89,406
Other liabilities inclusive of lease liabilities	168	915	20,542	37,118	58,743
	1,970,007	6,689	20,542	6,722,336	8,719,574
Interest sensitivity gap	3,046,579	1,005,169	2,188,596	(5,465,879)	774,465

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.6 Interest rate risk (continued)

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

	2022	2021
	SR' 000	SR' 000
Increase/Decrease	**3,391**	3,120

5.7 Equity price risk

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

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

	2022	2021
	SR' 000	SR' 000
Increase/Decrease in OCI	**11,160**	11,708

6. CAPITAL RISK MANAGEMENT

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

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

- Tier 1 capital which is the sum of unimpaired paid-up share capital and retained earnings;
- Tier 2 capital which general provisions/ and or general loan loss reserve which should not exceed 1.25% of the total amount of risk-adjusted assets.
- The capital base is made up of the sum of Tier 1 capital and eligible Tier 2 capital.

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

The capital adequacy ratio is given below:

	2022	2021
	SR' 000	SR' 000
Tier I Capital	**841,579**	936,571
Tier II Capital	**26,858**	41,768
Total Capital Base	**868,437**	978,339
Total Risk Weighted Assets for credit risk	**3,842,792**	3,175,753
Operational Risk Capital Requirement	**642,305**	610,878
Total Risk-adjusted Assets	**4,485,097**	3,786,631
Capital adequacy	**19.36%**	25.84%

6. CAPITAL RISK MANAGEMENT (CONTINUED)

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

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

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

7. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

Level 1: Quoted (unadjusted) in an active market for an identical instrument.

Level 2 Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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

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

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

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

	Level 1	Level 2	Level 3	Total
Investment in equity securities at FVOCI	SR'000	SR'000	SR'000	SR'000
At 31 December 2022	**173,389**	**49,184**	**636**	**223,209**
At 31 December 2021	187,450	46,076	636	234,162

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

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

7.2 Financial instruments not measured at fair value.

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

	Carrying amount SR'000	Level 1 SR'000	Level 2 SR'000	Level 3 SR'000	Total SR'000
At 31 December 2022					
Financial assets					
Loans and advances to banks	**2,640,973**	**-**	**2,640,973**	**-**	**2,640,973**
Loans and advances to customers	**2,727,260**	**-**	**2,727,260**	**-**	**2,727,260**
Investment securities at amortised cost	**1,961,027**	**-**	**1,961,027**	**-**	**1,961,027**
Financial liabilities					
Deposits from customers	**9,971,765**	**-**	**9,971,765**	**-**	**9,971,765**
Borrowings	**90,567**	**-**	**90,567**	**-**	**90,567**
At 31 December 2021					
Financial assets					
Loans and advances to banks	528,783	-	528,783	-	528,783
Loans and advances to customers	2,175,148	-	2,175,148	-	2,175,148
Investment securities at amortised cost	1,957,462	-	1,957,462	-	1,957,462
Financial liabilities					
Deposits from customers	8,571,425	-	8,571,425	-	8,571,425
Borrowings	89,406	-	89,406	-	89,406

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

- Cash and cash equivalents
- Other assets
- Other liabilities

7.3 Basis of valuation

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

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

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

8. CASH AND CASH EQUIVALENTS

	Notes	2022	2021
		SR'000	**SR'000**
Cash in hand		**66,625**	79,069
Balances with Central Bank of Seychelles (CBS)		**1,691,924**	1,190,674
Money market placements with foreign banks		**4,057,849**	2,823,931
Nostro balances with banks abroad		**206,763**	691,690
Nostro balances with local banks		**5,255**	35,761
Reclassification of mandatory balance with CBS to "Other assets"	17	**(1,172,391)**	(912,290)
Reclassification of placements with banks with original maturity of more than 3 months to "Loans and advances to banks "	9	**(2,641,521)**	(529,163)
Reclassification of debt securities with original maturity of less than three months from "Investment securities".	11	**-**	422,081
		2,214,504	3,801,753

For both the financial years ended 31 December 2022 and 31 December 2021, the Bank has adopted the Basel prescribed minimum floor of 0.03% as PD and LGD of 45% per the IRB (F-IRB) approach which resulted in an immaterial ECL which was not booked against cash and cash equivalents.

9. LOANS AND ADVANCES TO BANKS

	Notes	2022	2021
		SR' 000	SR' 000
Placements with banks with original maturity of more than 3 months, inclusive of interest receivable	8	**2,641,521**	529,163
Less allowance for expected credit loss (Stage 1)		**(548)**	(380)
		2,640,973	528,783

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

		2022	2021
		SR' 000	SR' 000
As at 1 January		**380**	517
ECL charge/(credit) for the year	33	**168**	(137)
As at 31 December		**548**	380

(b) There were no transfers between stages during the year (2021: nil). A reconciliation of changes in gross carrying amount and corresponding
ECL allowances in stage 1 is as follows:

	2022		2021	
	Gross amount	**ECL**	Gross amount	ECL
	SR' 000	**SR' 000**	SR' 000	SR' 000
At 1 January	**529,163**	**380**	1,493,464	517
New assets originated or purchased	**2,641,521**	**548**	529,163	380
Payments and assets derecognised	**(529,163)**	**(380)**	(1,493,464)	(517)
At 31 December	**2,641,521**	**548**	529,163	380

9. LOANS AND ADVANCES TO BANKS

	2022	2021
	SR' 000	SR' 000
Loans and advances to customers	2,736,614	2,248,490
Interest accrued	6,914	13,624
Gross carrying amount	2,743,528	2,262,114
Less allowance for expected credit loss	(16,268)	(86,966)
	2,727,260	2,175,148

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

	Notes	2022	2021
		SR'000	SR'000
As at 1 January		86,966	203,072
Reversal of allowance for expected credit loss for the year	33	(67,528)	(116,106)
Loans written off	33	(3,170)	-
As at 31 December		16,268	86,966

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

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

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

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

(i) Corporate lending (Cont'd)

	2021			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
	SR' 000	SR' 000	SR' 000	SR' 000
Performing				
High to Standard	1,033,698	1,008,570	5,778	2,048,046
Sub-Standard grade	427	24	-	451
Non-performing				
Individually impaired	-	-	5,820	5,820
Gross carrying amount	1,034,125	1 ,008,594	11,598	2,054,317
Less allowance for expected credit loss	(17,425)	(63,153)	(6,158)	(86,736)
Net carrying amount	1,016,700	945,441	5,440	1,967,581

(ii) Retail lending

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

	2021			
Internal rating grade	Stage 1	Stage 2	Stage 3	Total
	SR' 000	SR' 000	SR' 000	SR' 000
Performing				
High to Standard	207,465	-	-	207,465
Sub-standard grade	217	-	-	217
Non-performing				
Individually impaired	-	-	115	115
Gross carrying amount	207,682	-	115	207,797
Less allowance for expected credit loss	(178)	-	(52)	(230)
Net carrying amount	207,504	-	63	207,567

(c) Credit concentration of risk by industry sectors: The credit concentration risk of loans and advances by industry sectors is shown under note 5.3.10.

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

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

(e) Reconciliation of gross carrying amount and ECL

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

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

	Stage 1		**Stage 2**		**Stage 3**		**Total**	
Gross amount	Gross amount carrying	ECL	Gross amount carrying	ECL	Gross amount carrying	ECL	carrying	ECL
	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000
At 1 January 2021	888,031	19,725	1,768,443	176,458	14,021	6,889	2,670,495	203,072
New assets originated or purchased	347,317	9,953	240,274	26,696	737	158	588,328	36,807
Payments and assets derecognised	(177,675)	(36,381)	(85,659)	(28,668)	(1,054)	(1,015)	(264,388)	(66,064)
Transfers to Stage 1	560,201	77,113	(559,581)	(76,853)	(620)	(260)	-	-
Transfers to Stage 2	(214,663)	(1,024)	214,663	1,024	-	-	-	-
Transfers to Stage 3	(140)	(273)	(205)	(111)	345	384	-	-
Write offs -	-	-	-	-	-	-	-	
Other movements	(161,263)	(51,510)	(569,341)	(35,393)	(1,717)	54	(732,321)	(86,849)
At 31 December 2021	1,241,808	17,603	1,008,594	63,153	11,712	6,210	2,262,114	86,966

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11. INVESTMENT SECURITIES

	Notes	2022	2021
		SR'000	**SR'000**
Investment in debt securities at amortised cost		**1,925,585**	2,355,252
Interest accrued		**35,707**	24,612
		1,961,292	2,379,864
Reclassification of debt securities with original maturity of less than three months to "Cash and cash equivalents "	8	**-**	(422,081)
	11(a) (i)	**1,961,292**	1,957,783
Less allowance for expected credit loss (Stage 1)		**(265)**	(321)
		1,961,027	1,957,462
Investment in equity securities designated at FVTOCI	11(a) (ii)	**223,209**	234,162
Net carrying amount		**2,184,236**	2,191,624

(a) The breakdown of investment securities is as follows:
(i) Investment in debt securities at amortised cost

	Treasury bill	Treasury bond	DBS bond	Total
	SR' 000	**SR' 000**	**SR' 000**	**SR' 000**
As at 31 December 2021	742,745	1,215,038	-	1,957,783
As at 31 December 2022	**167,315**	**1,716,663**	**77,314**	**1,961,292**

(ii) Investment in equity securities designated at FVTOCI

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

	Visa shares	Mastercard shares	Afrexim shares	SWIFT SCRL	Unquoted investment	Total
	SR' 000	**SR' 000**	**SR' 000**	**SR' 000**	**SR' 000**	**SR' 000**
As at 1 January 2021	186,131	77,879	56,804	607	636	322,057
Fair value movement	(55,023)	(22,142)	(10,728)	(2)	-	(87,895)
As at 31 December 2021	**131,108**	**55,737**	**46,076**	**605**	**636**	**234,162**
Fair value movement	**(10,256)**	**(3,875)**	**3 ,108**	**70**	**-**	**(10,953)**
As at 31 December 2022	**120,852**	**51,862**	**49,184**	**675**	**636**	**223,209**

In 2022, the Bank received dividends of **SR 2.4m** (2021: SR 2.2m) from its FVTOCI equity instruments which were recorded in profit or loss under "Other income" in Note 30.

11. INVESTMENT SECURITIES (CONT'D)

(b) Fair value measurement

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

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

	Valuation method	Level 1	Level 2	Level 3	Total
	SR' 000	**SR' 000**	**SR' 000**	**SR' 000**	**SR' 000**
Equity instruments at fair value though OCI					
Class C Visa shares	**Market**	**120,852**	**-**	**-**	**1 20,852**
Mastercard shares	**Market**	**51,862**	**-**	**-**	**51,862**
Afrexim shares	**NAV**	**-**	**49,184**	**-**	**49,184**
SWIFT SCRL	**Market**	**675**	**-**	**-**	**675**
Unquoted investment	**Cost**	**-**	**-**	**636**	**636**
Total financial assets measured at fair value		**173,389**	**49,184**	**636**	**223,209**

At 31 December 2021

	Valuation method	Level 1	Level 2	Level 3	Total
	SR' 000	**SR' 000**	**SR' 000**	**SR' 000**	**SR' 000**
Equity instruments at fair value though OCI					
- Class C Visa shares	Market	131,108	-	-	131,108
- Mastercard shares	Market	55,737	-	-	55,737
- Afrexim shares	NAV	-	46,076	-	46,076
- SWIFT SCRL	Market	605	-	-	605
- Unquoted investment	Cost	-	-	636	636
Total financial assets measured at fair value		187,450	46,076	636	234,162

Management does not consider the unquoted investment made in the Development Bank of Seychelles to be material to mandate further disclosures under IFRS 13 *Fair Value Measurement* and IFRS 7 *Financial Instruments: Disclosures.*

(c) Allowance for expected credit loss (ECL)

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

	Notes	2022	2021
		SR' 000	SR' 000
As at 1 January		**321**	244
ECL (credit)/charge during the year (Stage 1)	33	**(56)**	77
As at 31 December		**265**	321

(ii) Reconciliation of gross carrying amount and computation of ECL

The Bank's investment in debt securities at amortised cost are held with the Cental Bank of Seychelles, Government of Seychelles and the Development Bank of Seychelles (DBS). Per internal rating grades, all local debt instruments are standard graded. There was no transfer between stages during the year (2021: none).

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

12. PROPERTY AND EQUIPMENT

	Building	Improvement on leasehold assets	Furniture, fixtures & equipment	Motor vehicles	Work-in-Progress	Total
	SR' 000	**SR' 000**	**SR' 000**	**SR' 000**	**SR' 000**	**SR' 000**
COST						
At 1 January 2021	158,101	1,909	84,069	3,860	-	247,939
Additions	-	-	5,081	-	-	5,081
Disposals	-	-	-	(425)	-	(425)
Write offs	-	-	(851)	-	-	(851)
At 31 December 2022	**158,101**	**1,909**	**88,299**	**3,435**	**-**	**251,744**
Additions	**-**	**-**	**2,166**	**950**	**3,972**	**7,088**
Disposals	**-**	**-**	**-**	**(1,300)**	**-**	**(1,300)**
Write offs	**-**	**-**	**(3,560)**	**-**	**-**	**(3,560)**
At 31 December 2022	**158,101**	**1,909**	**86,905**	**3,085**	**3,972**	**253,972**
ACCUMULATED DEPRECIATION						
At 1 January 2021	6,516	1,896	41,380	2,795	-	52,587
Charge for the year	1,777	2	10,270	367	-	12,416
Disposals adjustments	-	-	-	(35)	-	(35)
Write-off adjustments	-	-	(851)	-	-	(851)
At 31 December 2021	**8,293**	**1,898**	**50,799**	**3,127**	**-**	**64,117**
Charge for the year	**1,777**	**2**	**9,413**	**295**	**-**	**11,487**
Disposals adjustments	**-**	**-**	**-**	**(1,300)**	**-**	**(1,300)**
Write-off adjustments	**-**	**-**	**(3,030)**	**-**	**-**	**(3,030)**
At 31 December 2022	**10,070**	**1,900**	**57,182**	**2,122**	**-**	**71,274**
NET BOOK VALUE						
At 31 December 2022	**148,031**	**9**	**29,723**	**963**	**3,972**	**182,698**
At 31 December 2021	149,808	11	37,500	308	-	187,627

The Work-in-Progress relates to the ongoing costs associated with the extension project at a particular branch.

The directors have reviewed the carrying value of the property and equipment and are of the opinion that at the reporting date, the property and equipment has not suffered any impairment (2021: NIL).

13. INTANGIBLE ASSETS

	2022	2021
COST	**SR' 000**	SR' 000
At 1 January	**35,506**	35,506
Additions	**4,622**	-
Work-in-Progress	**3,903**	-
At 31 December	**44,031**	35,506
AMORTISATION CHARGE		
At 1 January	**29,593**	25,517
Charge for the year	**4,018**	4,076
At 31 December	**33,611**	29,593
NET CARRYING VALUE		
At 31 December	**10,420**	5,913

The Work-in-Progress relates to the ongoing costs associated with the system enhancements related to the Cards Project.

The directors have reviewed the carrying value of the intangible assets and are of the opinion that at the reporting date, the intangible assets have not suffered any impairment (2021: NIL).

14. LEASES

(a) Lease contracts

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

The Bank applied the short-term leases exemption for leases amounting to SR 1.4m (2021: SR 1.1m) which have been shown as rental expenses under "Other expenses" in note 31.

(b) Right-of-use assets

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

	Land	**Buildings**	**Total**
	SR' 000	**SR' 000**	**SR' 000**
As at 1 January 2021	4,508	25,597	30,105
Additions	-	(726)	(726)
Effect of modification to lease terms	-	95	95
Depreciation charge for the year	(53)	(4,052)	(4,105)
As at 31 December 2021	**4,455**	**20,914**	**25,369**
Additions	**-**	**1,540**	**1,540**
Depreciation charge for the year	**(53)**	**(3,889)**	**(3,942)**
As at 31 December 2022	**4,402**	**18,565**	**22,967**

(c) Lease liabilities

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

	SR' 000
As at 1 January 2021	25,806
Additions	(726)
Interest expense (Note 27)	1,409
Exchange movement	(668)
Payments (inclusive of interest paid)	(4,196)
As at 31 December 2021	**21,625**
Additions	**1,540**
Interest expense (Note 27)	**1,273**
Exchange movement	**(801)**
Payments (inclusive of interest paid)	**(3,951)**
As at 31 December 2022	**19,686**

Maturity profile based on undiscounted cashflows:	**2022**	2021
	SR' 000	SR' 000
Year 1	**4,960**	5,143
Year 2	**3,242**	4,548
Year 3	**2,987**	3,242
Year 4	**2,603**	3,002
Year 5	**2,603**	2,603
Above 5 years	**7,804**	10,407
	24,199	28,945

14. LEASES (CONT'D)

(c) Lease liabilities (Cont'd)

The Bank had total cash outflows for leases of SR 4.0m (2021: SR 4.2m). The Bank does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Bank's treasury function.

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

	Notes	2022	2021
		SR'000	SR'000
Depreciation on right-of-use assets	14(b)	3,942	4,105
Interest expense on lease liabilities	27	1,273	1,409
Expense relating to short-term leases included in:		1,477	1,915
- Other expenses	31	970	1,114
- Employment benefit expenses (rental for residence of expatriate staff)	32	507	801
Total amount recognised in profit or loss		**6,692**	7,429

(e) The Bank entered into a 99 years lease agreement with Government of Seychelles on 20 June 2007. Lease premium and relevant taxes totalling SR 5.25m were paid in advance and were classified and amortised in other assets. Upon adoption of IFRS 16 Leases on 1 January 2019, the Bank transferred the net of SR 4.61m made of SR 5.25m upfront lease payments and SR 0.64m accumulated amortisation to right-of-use assets.

15. RETIREMENT BENEFIT LIABILITIES/(ASSETS)

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

	Notes	2022	2021
		SR'000	SR'000
Defined pension benefits	15(d)(ii)	16,698	(8,105)
Other post retirement benefits	15(e)(i)	8,185	12,191
		24,883	4,086

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

	Notes	2022	2021
		SR'000	SR'000
Defined pension benefits	15(d)(vi)	1,677	(132)
Other post retirement benefits	15(e)(i)	1,519	944
		3,196	812

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

	Notes	2022	2021
		SR'000	SR'000
Defined pension benefits	15(d)(vii)	(28,521)	(7,023)

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

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

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

(d) Defined pension benefits (cont'd)

(i) The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligations were carried out at 31 December 2022 by Aon Solutions Ltd and signed off by Bernard Yen, Fellow of the Institute of Actuaries. The present value of the defined benefit liability and the related service cost and past service cost were measured using the projected unit credit method.

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

	2022	2021
	SR'000	SR'000
At 1 January	(8,105)	(14,996)
Amount recognised in profit or loss	1,677	(132)
Amount recognised in other comprehensive income	28,521	7,023
Less employer contributions	(5,395)	-
At 31 December	**16,698**	(8,105)

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

	2022	2021
	SR'000	SR'000
Present value of defined benefit obligations	74,098	46,913
Fair value of plan assets	(57,400)	(55,018)
Net liability/(asset) from defined benefit obligation	**16,698**	(8,105)

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

	2022	2021
	SR'000	SR'000
At 1 January	46,913	38,222
Current service cost	2,590	1,368
Interest cost	3,737	3,677
Remeasurement gains:		
Actuarial losses/(gains) arising from experience adjustments	1,828	(469)
Actuarial losses arising from changes in financial assumptions	25,049	7,095
Benefits paid	(6,019)	(2,980)
At 31 December	**74,098**	46,913

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

	2022	2021
	SR'000	SR'000
At 1 January	55,018	53,218
Interest income	4,650	5,324
Employer contributions	5,395	-
Benefits paid	(6,019)	(2,980)
Return on plan assets excluding interest income	(1,644)	(2,018)
Effect of asset ceiling	-	1,474
At 31 December	**57,400**	55,018

Fair value percentages of plan assets by category:	2022	2021
	%	%
Equity in Seychelles	15	15
Property in Seychelles	58	62
Cash and others	10	5
Unquoted debts in Seychelles	17	18
	100	**100**

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

(d) Defined pension benefits (cont'd)

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

	2022	2021
	SR'000	SR'000
Current service cost	**2,590**	1,368
Net interest on defined benefit plan	**(913)**	(1,500)
	1,677	(132)

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

Actuarial gains/(losses) arising from experience adjustments	**1,828**	(469)
Actuarial gains arising from changes in financial assumptions	**25,049**	7,095
Change in effect of asset ceiling in other comprehensive income	**-**	(1,474)
Change in effect of asset ceiling in profit or loss	**-**	(147)
Return on plan assets exclusing interest income	**1,644**	2,018
	28,521	7,023

The liability experience loss of SR1.8m is mainly due to actual average salary increases being higher than expected over the past year. This loss was partly offset by a gain due to:

- Some employees who have left the Bank during the year, resulting in a release in liabilities.
- Some employees who have retired, whose pensioners liabilities were lower than previously expected.

The liability loss due to financial assumptions of SR25.0m is mainly due to the decrease in the discount rate from 8.5% p.a. in 2021 to 6.2% p.a. in 2022 and also due to the increase in the assumed salary increase rate from 3.0% p.a. in 2021 to 4% and the expected impact of a salary realignment exercise.

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

	2022	2021
Discount rate	**6.2%**	8.5%
Rate of salary increases	**4.0%**	3.0%
Rate of pension increases	**0.0%**	0.0%
Average retirement age (ARA) & Average life expectancy for:		
- Male	**63 years**	63 years
- Female	**60 years**	60 years
- Male at ARA	**17.5 years**	17.5 years
- Female at ARA	**24.3 years**	24.3 years

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

	2022	2021
	SR'000	SR'000
Increase in discount rate	**13,350**	5,219
Decrease in discount rate	**10,340**	4,276
Increase in salary rate	**7,094**	N/a
Decrease in salary rate	**5,469**	N/a

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

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

(d) Defined pension benefits (cont'd)

(xi)The expected employer contribution for the next year amounts to **SR 5.0m**. The weighted average duration of the defined benefit obligation is 16 years at the end of the reporting period.

(e) **Other post retirement benefits**

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

	2022	2021
	SR'000	SR'000
At 1 January 1	**12,191**	12,562
Charge to profit or loss	**1,519**	944
Paid during the year	**(5,525)**	(1,315)
At 31 December	**8,185**	12,191

(ii) The principal assumptions for the length of service compensation are the same as under the defined benefit obligations which have been disclosed under Note 15(d)(viii).

(iii) Sensitivity analysis on length of service compensation obligation at end of period:

	2021
	SR'000
Increase in discount rate	1,433
Decrease in discount rate	1,157
Increase in salary rate	1,446
Decrease in salary rate	1,114

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

16. DEFERRED TAX

(a) Deferred taxes are calculated on all temporary differences under the liability method at an effective tax rate of 33%. (2021: 33%).

(b) There is a legally enforceable right to offset deferred tax assets and deferred tax liabilities when the deferred taxes relate to the same fiscal authority for the same entity.

	2022	2021
	SR'000	SR'000
Net deferred tax assets	**1,651**	18,653

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

At 1 January	**18,653**	58,053
Charge to profit or loss	**(26,414)**	(41,718)
Credit to other comprehensive income	**9,412**	2,318
At 31 December	**1,651**	18,653
Analysed as follows:		
Deferred tax assets	**15,691**	34,564
Deferred tax liabilities	**(14,040)**	(15,911)
	1,651	18,653

16. DEFERRED TAX (CONT'D)

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

(i) DEFERRED TAX ASSETS

	Excess of obligation to right-of-use	Payroll provisions*	Provision for credit impairment	Retirement benefit obligations	Total
	SR' 000	**SR' 000**	**SR' 000**	**SR' 000**	**SR' 000**
At 1 January 2021	69	5,158	70,362	(8,290)	67,299
Credit/(charge) to profit or loss	165	(406)	(40,784)	2,274	(38,751)
Credit to other comprehensive income	-	-	-	2,318	2,318
At 31 December 2021	**234**	**4,752**	**29,578**	**(3,698)**	**30,866**
Credit/(charge) to profit or loss	**135**	**(1,384)**	**(23,134)**	**(204)**	**(24,587)**
Credit to other comprehensive income	**-**	**-**	**-**	**9,412**	**9,412**
At 31 December 2022	**369**	**3,368**	**6,444**	**5,510**	**15,691**

* Payroll provisions include gratuity and compensation of **SR 8.2m** (2021: SR 12.2m) (note 15 (e)(i) and leave pay provision amounting to **SR 2.0m** (2021: SR 2.2m) included in other liabilities (note 21).

(ii) DEFERRED TAX LIABILITIES

	Accelerated tax depreciation
	SR'000
At 1 January 2021	(9,246)
Charge to profit or loss	(2,967)
At 31 December 2021	**(12,213)**
Charge to profit or loss	**(1,827)**
At 31 December 2022	**(14,040)**

17. OTHER ASSETS

	Notes	2022	2021
Non-financial		**SR'000**	SR'000
Stock for stationeries and inventories for spare parts (e.g. ATMs)	17(b)	**5,653**	3,343
Prepayments		**3,299**	3,991
		8,952	7,335
Financial assets			
Mandatory balance with the Central Bank of Seychelles 8, 17(a)		**1,172,391**	912,290
Refundable deposits		**249**	272
Balances due in clearing		**16,650**	14,594
Other receivables	17(c)	**5,413**	16,071
		1,194,703	943,226
		1,203,655	950,561

(a) The mandatory balance with the Central Bank of Seychelles refers to the minimum reserve requirement set out by the Central Bank of Seychelles. This balance is non-interest bearing and cannot be used for daily cash and treasury management of the Bank.

(b) Management has performed an impairment assesment of the inventories held at year end and has not identified any impairment losses. (2021: Nil)

(c) Other receivables include internal suspense and transitory accounts which are subsequently cleared.

(d) Management has assessed the recoverability of the receivables and has not identified any material provisions for impairment at 31 December 2022 and 31 December 2021.

(e) The currency profile and maturity terms are detailed under notes 5.4 and 5.5 respectively.

18. DEPOSITS FROM CUSTOMERS

	2022	2021
	SR'000	SR'000
Current accounts	**8,704,905**	7,789,602
Term deposits	**1,255,542**	771,959
Interest accrued	**11,318**	9,864
	9,971,765	8,571,425

(a) The currencies and maturity profiles of deposits from customers are shown under notes 5.4 and 5.5 respectively.
(b) The range of interest on deposits from customers varied from 0.01% to 3.75% (2021: 0.05% to 6.00%).021: Nil)

19. BORROWINGS

	2022	2021
	SR'000	SR'000
At 1 January	**89,406**	28,022
Additions during the year	**8,500**	64,768
Repayments during the year	**(7,249)**	(3,384)
At 31 December	**90,657**	89,406

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

As at 31 December 2022 the Bank had drawn an amount of SR 90.7m (2021: SR 89.4m). Out of this, SR 23.3m (2021: SR 28.5m) had been lent to MSME and SR 67.4m (2021: SR 60.9m) to Large Corporates.

(b) All funds received from the borrowers in repayment of any principal amount of a loan are to be remitted to CBS every quarter, commencing 31 December 2021 and shall be made within 15 days after the end of the relevant quarter. Refer to note 5.5 for the maturity profile.

20. CURRENT TAX

(a) Applicable tax rates are as follows:

	2022 & 2021
Taxable income threshold	
< SR 1,000,000	25%
> SR 1,000,000	33%

(b) Statement of financial position

	2022	2021
Current tax (assets)/ liabilities	**SR'000**	SR'000
At 1 January	**16,658**	18,562
Charge to profit or loss	**109,997**	103,591
Payments during the year	**(131,672)**	(105,495)
At 31 December	**(5,017)**	16,658

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

	2022	2021
	SR'000	SR'000
Current tax based on the profit for the year	**109,997**	103,591
Deferred tax charge	**26,414**	41,718
Income tax expense	**136,411**	145,309

20. CURRENT TAX (CONT'D)

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

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

	2022	2021
	SR'000	SR'000
Profit before taxation	**414,915**	444,081
Tax calculated at applicable tax rates	**136,922**	146,466
- Income not subject to tax	**(28,810)**	(715)
- Expenses not deductible for tax purposes	**8,693**	(39,196)
- Excess of capital allowance over depreciation	**(6,808)**	(2,964)
	109,997	103,591

21. OTHER LIABILITIES

	2022	2021
	SR'000	SR'000
Foreign drafts and local cheques payable	**2,189**	15,013
Other payables	**31,178**	17,935
Allowance for ECLs on off balance sheet items	**2,446**	1,962
Provision for leave liability	**2,022**	2,208
	37,835	37,118

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

	2022	2021
	SR'000	SR'000
As at 1 January	**1,962**	9,382
ECL charge/(credit) during the year	**484**	(7,420)
As at 31 December	**2,446**	1,962

22. SHARE CAPITAL

	2022 & 2021
	SR' 000
Authorised, issued and fully paid-up:	
100,000 ordinary shares of SR 1,000 each	**100,000**

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

23. STATUTORY RESERVE

	2022 & 2021
	SR' 000
At 31 December	**100,000**

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

24. GENERAL LOAN LOSS RESERVE

	2022 & 2021
	SR' 000
At 31 December	**10,604**

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

25. OTHER RESERVES

	Actuarial reserve	Fair value reserve	Total
	SR' 000	SR' 000	SR' 000
At 1 January 2021	5,919	295,220	301,139
Remeasurement of net defined benefit liability	(7,023)	-	(7,023)
Deferred tax on remeasurement of net defined benefit liability	2,318	-	2,318
Fair value movement on equity securities designated at FVTOCI	-	(87,895)	(87,895)
At 31 December 2021	**1,214**	**207,325**	**208,539**
Remeasurement of net defined benefit liability	**(28,521)**	**-**	**(28,521)**
Deferred tax on remeasurement of net defined benefit liability	**9,412**	**-**	**9,412**
Fair value movement on equity securities designated at FVTOCI	**-**	**(10,953)**	**(10,953)**
At 31 December 2022	**(17,895)**	**196,372**	**178,477**

26. INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST METHOD

	2022	2021
	SR'000	SR'000
Interest income on financial assets at amortised cost		
Loans and advances to banks and customers	**153,443**	147,218
Other financial assets including cash and placements	**54,319**	18,994
Investments in debt securities	**114,234**	131,179
	321,996	297,391

27. INTEREST EXPENSE

	Notes	2022	2021
		SR'000	SR'000
Interest expense on financial liabilities at amortised cost			
Deposits from customers		**33,277**	39,161
Interest expense on other financial liabilities			
Lease liabilities	14 (c)	**1,273**	1,409
		34,550	40,570

28. FEES AND COMMISSION

	2022	2021
	SR'000	SR'000
(a) Fees and commissions income arising on:		
- Card fees	**70,454**	55,103
- Commission on sale of forex	**8,281**	9,482
- Recovery of charges	**9,743**	8,787
- Letter of credit fees	**1,511**	1,155
- Loan commitment fees	**8,290**	8,450
- Portfolio and other management fees	**6,592**	5,487
- Other fees	**5,381**	8,447
	110,252	96,911
(b) Fees and commission expense arising on:		
- Card expenses	**(80,763)**	(68,059)
Net fee and commission income	**29,489**	28,852

29. NET TRADING INCOME

	2022	2021
	SR'000	SR'000
Net foreign exchange gains including gains made on FX deals	**148,199**	142,944

30. OTHER INCOME

	Notes	2022	2021
		SR’000	SR’000
Dividend income	11(a)(ii)	**2,441**	2,166
Cashiers' surplus		**36**	28
Gain on disposal of property and equipment		**610**	35
Miscellaneous income		**1,195**	998
		4,282	3,227

31. OTHER EXPENSES

	Notes	2022	2021
		SR’000	SR’000
Employee benefit expenses	32	**58,660**	44,479
Auditors' remuneration		**1,653**	412
Administrative expenses		**25,255**	25,151
Computer costs		**6,092**	8,582
Rental expenses on short term	14(d)	**970**	1,114
Maintenance and other related costs		**12,526**	1 1,014
		105,156	90,752

32. EMPLOYEE BENEFIT EXPENSES

	Notes	2022	2021
		SR’000	SR’000
Salaries and wages		**45,627**	38,336
Directors' emoluments	32(a)	**5,716**	3,618
Defined benefit obligations	15(b)	**1,677**	(132)
Other retirement benefit obligations	15(b)	**1,519**	944
Other staff costs		**4,121**	1,713
		58,660	44,479

(a) Directors' emoluments:

	2022				2021		
	Directors' fees	**Other emoluments**	**Other associated costs**	**Total**	Directors' fees	Other emoluments	Total
	SR' 000	**SR' 000**	**SR' 000**	**SR' 000**	SR' 000	SR' 000	SR' 000
Christophe Edmond	**-**	**1,860**	**-**	**1,860**	-	-	-
Ahmad Saeed*	**-**	**1,568**	**-**	**1,568**	-	2,609	2,609
Jennifer Morel	**112**	**-**	**-**	**112**	-	-	-
Abdul Gafoor Yakub	**74**	**-**	**-**	**74**	89	-	89
David Howes**	**95**	**-**	**36**	**131**	62	-	62
Michael Bluemner	**95**	**-**	**-**	**95**	62	-	62
Andrew Bainbridge**	**95**	**-**	**138**	**233**	33	-	33
Helene Maiche	**95**	**-**	**-**	**95**	33	-	33
Phillipe Pierre	**-**	**549**	**-**	**549**	-	-	-
Michael Benstrong***	**-**	**809**	**-**	**809**	-	580	580
Odile Vidot	**95**	**-**	**-**	**95**	33	-	33
Oliver Bastienne	**95**	**-**	**-**	**95**	33	-	33
Vincent Van Heyste	**-**	**-**	**-**	**-**	28	-	28
Damien Thesee	**-**	**-**	**-**	**-**	28	-	28
Anil Dua	**-**	**-**	**-**	**-**	28	-	28
	756	**4,786**	**174**	**5,716**	429	3,189	3,618

* The other emoluments of the Director include rental of his residence borne by the Bank amounting to SR507k for the current year and SR801k for the prior year.

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

*** These include the payment of leaves as well the cooling off period for the Director.

33. REVERSAL OF IMPAIRMENT LOSS ON FINANCIAL ASSETS

		2022			
	Notes	Stage 1	Stage 2	Stage 3	Total
		SR' 000	SR' 000	SR' 000	SR' 000
Loans and advances to banks	9(a)	168	-	-	168
Loans and advances to customers	10(e)(i)	(3,062)	(61,441)	(6,195)	(70,698)
Investment in debt securities	11(c)(i)	(56)	-	-	(56)
Undrawn loan commitments	21	487	-	-	487
Other off balance sheet items	21	(3)	-	-	(3)
		(2,466)	(61,441)	(6,195)	(70,102)

		2021			
		Stage 1	Stage 2	Stage 3	Total
		SR' 000	SR' 000	SR' 000	SR' 000
Loans and advances to banks	9(a)	(137)	-	-	(137)
Loans and advances to customers	10(e)(i)	(2,122)	(113,305)	(679)	(116,106)
Investment in debt securities	11(c)(i)	77	-	-	77
Undrawn loan commitments	21	(7,401)	-	-	(7,401)
Other off balance sheet items	21	(19)	-	-	(19)
		(9,602)	(113,305)	(679)	(123,586)

34. COMMITMENTS AND CONTINGENCIES

	2022	2021
	SR' 000	SR' 000
(a) Loan and other commitments		
Loans and other facilities approved but not yet disbursed	475,488	521,102
Guarantees, bills of collection, letters of credit, and other obligations on account of customers	557,747	486,887
	1,033,235	1,007,989

(b) Capital commitments

	2022	2021
	SR' 000	SR' 000
Approved and contracted for	4,228	8,200

Legal claim contingency
Litigation being a common occurrence in the banking industry due to the nature of the business undertaken, the Bank has established formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing.

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

35. RELATED PARTY TRANSACTIONS

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

	Interest from related to parties	**Interest related parties**	**Loans granted to related parties**	**Deposits from related parties**
	SR' 000	**SR' 000**	**SR' 000**	**SR' 000**
31 December 2022				
Government of Seychelles	**119**	**-**	**60,357**	**1,262**
State owned or controlled enterprises	**1,242**	**-**	**819,699**	**1,683,713**
Non-controlling interest shareholder of the Bank	**-**	**-**	**-**	**496**
Directors	**1**	**7**	**2,982**	**5,050**

	Interest from related parties	Interest to related parties	Loans granted to related parties	Deposits from related parties
	SR' 000	SR' 000	SR' 000	SR' 000
31 December 2021				
Government of Seychelles	167	-	87,804	1,264
State owned or controlled enterprises	1,614	3,763	547,972	1,487,925
Non-controlling interest shareholder of the Bank	-	-	-	496
Directors	2	27	4,599	2,943

(a) Transactions with related parties are made at normal market prices and are subject to the Bank's governance procedures for approval.

(b) Outstanding balances of **SR189m**, other than those relating to the directors, at the end of the reporting period are guaranteed by the Government of Seychelles. Remaining balances are adequately collaterised and all exposures to state owned or controlled enterprises require the approval of the Ministry of Finance, National Planning and Trade. ECL amounts relating to related parties have been estimated based on the Bank's ECL methodologies and assessed as not material for both the current and prior years.

(c) Key management personnel

	2022	2021
	SR'000	SR'000
(i) **Salaries and related costs**		
Salaries and other benefits	**4,786**	3,189
Directors' remuneration	**756**	429
Termination benefits including gratuity and length of service compensation	**2,165**	-
	7,707	3,618
(i) **Transactions during the year**		
Net repayment of loans and advances	**(257)**	-
Net payments from/(to) customers	**966**	611
	709	611

36. ULTIMATE HOLDING COMPANY

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

37. DIVIDENDS

Early February 2022, the Central Bank of Seychelles announced fpr the removal of restriction on dividend declaration effective for the financial year 2021 as part of the unwinding strategy of COVID-19 remedial measures.

Further to the above, the Directors declared a dividend of **SR 345m** representing **SR 3,450** per share during the board meeting held on 24 March 2022. The dividend were approved by the Central Bank of Seychelles on 25 February 2022.

38. SUBSEQUENT EVENTS

The Directors are not aware of any matter or circumstance arising since the end of the financial year to the date of this report which could significantly affect the financial position of the Bank at 31 December 2022.

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