SEYCHELLES COMMERCIAL BANK LIMITED

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2018

SEYCHELLES COMMERCIAL BANK LIMITED

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CORPORATE INFORMATION

DIRECTORS	: Mr. Patrick Payet Mrs. Annie Vidot Ms. Esther Boniface Mr. Robert Morgan Mr. Sandy Mothee Mrs. Jenna Thelermont
	: **Appointed effective August 10, 2018** Mr. Jamshed Pardiwalla
SECRETARY	: Mrs. Jenna Thelermont
REGISTERED OFFICE	: P.O Box 531 Orion Mall Victoria Mahé, Seychelles
PRINCIPAL PLACE OF BUSINESS	: P.O Box 531 Orion Mall Victoria Mahé, Seychelles
AUDITORS	: BDO Associates Chartered Accountants Seychelles
BANKERS	Central Bank of Seychelles Bank of Baroda The Mauritius Commercial Bank (Seychelles) Limited Barclays Bank (Seychelles) Ltd Societe Generale ABSA ICBC (Asia Limited)

The Directors are pleased to submit their report together with the audited financial statements of **Seychelles Commercial Bank Limited** (hereafter called the "Bank") for the year ended December 31, 2018.

PRINCIPAL ACTIVITY

The principal activity of the Bank remained unchanged during the year under review and consists of the provision of banking services in Seychelles.

CURRENT YEAR EVENT

Adoption of International Financial Reporting Standard 9 (IFRS 9) - " Financial Instruments"

The Company has adopted the new International Financial Reporting Standard (IFRS) 9- Financial Instruments effective January 1, 2018. This IFRS replaces the previous IAS 39-Financial Instruments: Recognition and measurement. The changes introduced the following measurement categories: amortised cost, fair value through profit or loss and fair value through other comprehensive income depending on the business model for managing the financial assets and the contractual cash flow charateristics.

Contrary to IAS 39 which was an incurred loss model, IFRS 9 introduces a new expected credit loss (ECL)model which involves a three stage approach whereby financial assets move through the three stages as their credit quality changes. The changes dictates how an entity measures impairment losses and applies the effective interest rate method.

In accordance with the transition exemption of IFRS 9, differences in carrying amounts of financial instruments resulting from adoption of IFRS 9 in respect of 2017 have been recognised in Retained Earnings as at January 1, 2018. Accordingly, the comparatives for 2017 do not reflect the requirements of IFRS 9 but rather those of IAS 39.

RESULTS FOR THE YEAR

	SCR
Profit before tax	**20,291,896**
Tax expense	**(7,293,950)**
Profit for the year	**12,997,946**
Transfer to statutory reserve	**(2,599,589)**
Retained earnings brought forward-restated	**34,251,352**
Profit available for distribution	**44,649,709**
Dividends	**(6,000,000)**
Retained earnings carried forward	**38,649,709**

DIVIDENDS

The Directors has proposed a final dividend amounting to SCR **6m** for the year under review (2017: Dividends proposed and paid amounted to SCR 6m).

PROPERTY AND EQUIPMENT

The Bank acquired property and equipment amounting to SCR 5.0m during the year (2017: SCR 7.2m) comprising mainly computer equipment, work in progress and furniture and fittings.

Leasehold land and buildings are carried at revalued amounts and all other equipment is stated at historical cost less accumulated depreciation. The Directors are of the opinion that the carrying amounts of the assets approximate their fair value and do not require any adjustments for impairment.

DIRECTORS AND DIRECTORS' INTEREST

The Directors of the Bank from the date of the last report and to-date are:

	Number of ordinary shares
Mr. Patrick Payet	-
Mrs. Annie Vidot	-
Ms. Esther Boniface	-
Mr. Robert Morgan	5,875
Mr. Sandy Mothee	-
Mr. Jamshed Pardiwalla	3,387
Mrs. Jenna Thelermont	750

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

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

The Directors consider they have met their aforesaid responsibilities.

AUDITORS

The auditors, Messrs. BDO Associates, being eligible offer themselves for reappointment.

BOARD APPROVAL

Mr. Patrick Payet
Chairman

Mrs. Annie Vidot
Managing Director

Ms. Esther Boniface
Director

Mr. Robert Morgan
Director

Mr. Sandy Mothee
Director

Mrs. Jenna Thelermont
Director

Mr. Jamshed Pardiwalla
Director

Dated: 25 APR 2019
Victoria, Seychelles

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS

This report is made solely to the members of **SEYCHELLES COMMERCIAL BANK LIMITED** (hereafter referred to as the "Bank"), as a body, in terms of our engagement to conduct the audit on their behalf. Our audit work has been undertaken so that we might state to the Bank's members those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank or the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on the audit of the Financial Statements

Opinion

We have audited the financial statements of **SEYCHELLES COMMERCIAL BANK LIMITED** set out on pages 4 **to 58** which comprise the Statement of Financial Position as at December 31, 2018, the Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and the Statement of Cash Flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at December 31, 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Seychelles Companies Act, 1972.

Emphasis of Matter

Compliance with the Financial Institutions-Credit Classification and Provisioning Regulations 2010, as amended 2011

Following the adoption of IFRS 9 -"Financial Instruments", the Bank was unable to comply with the provisions of the Financial Institutions-Credit Classification and Provisioning Regulations 2010 as amended in 2011, which is still based on the requirements of IAS 39 and to date not updated for those of IFRS 9. Any impact following this update is as such unknown.

Our opinion is not qualified in respect of the above matter.

Basis for Opinion

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, 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

The Bank adopted the accounting standard IFRS 9 'Financial instruments' during the financial year. The standard introduces new requirements around two main aspects of how financial instruments are treated - measurement and classification and impairment.
IFRS 9 introduces a new classification and measurement approach for financial assets that reflects the business model in which the financial assets are managed and the underlying cashflow characteristics.
This standard also introduces new impairment rules which prescribe a new, forward looking, expected credit loss ('ECL') impairment model which takes into account reasonable and supportable forward looking information,which will generally result in the earlier recognition of impairment provisions.
There are a number of significant management determined judgements including: • the reclassification of financial assets in accordance with the Bank's business model; • determining the criteria for a significant increase in credit risk; • techniques used to determine probability of default (PDs) and loss given default (LGD); and factoring forward looking assumptions.
Implementation of IFRS 9 required some technical modelling which necessitated considerable input of data and assumptions. Consequently the risk that the data and assumptions carry higher credit risks.
The implementation had the effect of an adjustment of SR 1,577,730 to the retained earnings of the Bank at January 1, 2018.

How the key audit matter was addressed in the audit

• We gained understanding of the Bank's key credit processes comprising granting, booking, monitoring and provisioning and tested the operating effectiveness of key controls over these processes;
• For provision against exposures classified as Stage 1 and Stage 2 upon initial adoption of IFRS 9, we obtained an understanding of the Bank's provisioning methodology, assessed the reasonableness of the underlying assumptions and the sufficiency of the data used by the Management.

Key Audit Matters (Cont'd)

How the key audit matter was addressed in the audit (Cont'd)

• With respect to classification and measurement of financial assets and financial liabilities, ***our audit procedures comprised the following*** ; We reviewed the Bank's IFRS 9 based classification and measurement of financial assets and financial liabilities policies and compared them with the requirements of IFRS 9; • We obtained an understanding and checked the Bank's business model assessment and the test on the contractual cash flows, which give rises to cash flows that are 'solely payments of principal and interest [SPPI test] performed by the Bank's Consultant; and • We checked the appropriateness of the opening balance adjustments.
With respect to impairment methodology , ***our audit procedures comprised the following*** ; • We obtained an understanding of the Bank's internal rating models for loans and advances and reviewed the rating validation report prepared by the Bank's Consultant to gain comfort that the discrimination and calibration of the rating model is appropriate. Further, we performed procedures to ensure the competence, objectivity and independence of the Bank's Consultant; • We checked the appropriateness of the Bank's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages;
• For a sample of exposures, we checked the appropriateness of the Bank's staging;
• We checked and understood the key data sources and assumptions for data used in the Expected Credit Loss (ECL) models (the Models) used by the Bank's to determine impairment provisions;
• For forward looking assumptions used by the Bank's management in its LGD calculations, we held discussions with Management and corroborated the assumptions where publicly available information was used;
• We checked the calculation of the Loss Given Default (LGD) used by the Bank in the ECL calculations, including the appropriateness of the use of collateral and the resultant arithmetical calculations;
• We checked the completeness of loans and advances, off balance sheet items, investment securities, placements and other financial assets included in the ECL calculations as of 31 December 2018; We understood the theoretical soundness and tested the mathematical integrity of the Models;
• For data from external sources, we understood the process of choosing such data, its relevance for the Bank's and the controls and governance over such data;
• Where relevant, we used Information System specialists to gain comfort on data integrity;
• We checked consistency of various inputs and assumptions used by the Bank's management to determine impairment provisions; and
As a result of the above audit procedures, no material differences were noted.

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

BDO

SEYCHELLES COMMERCIAL BANK LIMITED

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

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

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

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

Report on Other Legal Regulatory Requirements

Companies Act, 1972

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

We have obtained all information and explanations we have required.

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

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

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

Other Matter

The financial statements of the Bank for the year ended December 31, 2017 were audited by another auditor who expressed an unmodified opinion on April 27, 2018.

BDO Associates

BDO ASSOCIATES

Chartered Accountants

Dated: 25 APR 2019

Victoria, Seychelles

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2018

	Notes	2018	2017
		SR	SR
ASSETS			
Cash and cash equivalents	5	**537,382,792**	409,589,865
Loans and advances	6	**709,865,109**	633,800,416
Investment in Financial assets at amortised cost	7	**304,193,732**	335,105,775
Property and equipment	8	**53,477,666**	51,958,121
Intangible assets	9	**6,801,301**	7,894,148
Other assets	10	**13,692,793**	14,241,684
Deferred tax asset	16 (a)	**1,424,978**	-
Total assets		**1,626,838,371**	1,452,590,009
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from customers	11	**1,444,192,676**	1,277,440,759
Retirement benefit obligations	12	**7,153,856**	6,995,850
Dividends payable	13	**6,000,000**	6,000,000
Current tax liabilities	14 (a)	**1,690,124**	1,386,437
Other liabilities	15	**14,157,724**	12,970,417
Deferred tax liabilities	16	-	215,262
Total liabilities		**1,473,194,380**	1,305,008,725
EQUITY			
Share capital	17	**60,000,000**	60,000,000
Statutory reserve	18	**27,520,694**	24,921,105
Revaluation reserve		**27,473,588**	26,831,097
Retained earnings		**38,649,709**	35,829,082
Total equity		**153,643,991**	147,581,284
Total liabilities and equity		**1,626,838,371**	1,452,590,009
CONTINGENT LIABILITIES			
Loan commitments, guarantees and other obligations on account of customers	3(III)(i)	**175,446,765**	99,679,976

These financial statements have been approved for issue by the Board of Directors on: 25 APR 2019

Mr. Patrick Payet
Chairman

Mrs. Annie Vidot
Managing Director

Ms. Esther Boniface
Director

Mr. Robert Morgan
Director

Mr. Sandy Mothee
Director

Mrs. Jenna Thelermont
Director

Mr. Jamshed Pardiwalla
Director

The notes on pages 8 to 58 form an integral part of these financial statements.
Auditors' report on pages 3 to 3(d).

STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME - YEAR ENDED DECEMBER 31, 2018

	Notes	2018	2017
		SR	SR
Interest income	2(l)/19	**100,015,986**	87,210,157
Interest expense	2(l)/20	**(35,147,096)**	(32,216,707)
Net interest income		**64,868,890**	54,993,450
Fee and commission income	2(m)/21	**16,236,790**	15,179,611
Net interest, fee and commission income		**81,105,680**	70,173,061
Net foreign exchange gain		**3,820,918**	5,733,481
Sundry income	22	**1,179,904**	799,585
Operating income		**86,106,502**	76,706,127
Employee benefit expense	23	**(29,887,036)**	(28,697,356)
Depreciation of equipment	8	**(3,148,305)**	(2,870,348)
Amortisation of intangible assets	9	**(1,413,197)**	(1,402,519)
Other operating expenses	24	**(27,427,044)**	(24,393,414)
Total operating expenses		**(61,875,582)**	(57,363,637)
Operating profit before impairment		**24,230,920**	19,342,490
Allowance for credit impairment	6(b)(vi)	**(3,939,024)**	(203,608)
Profit before taxation		**20,291,896**	19,138,882
Tax charge	14(b)	**(7,293,950)**	(5,804,503)
Profit for the year		**12,997,946**	13,334,379
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation on buildings	6(c)(i)	**642,491**	642,491
Total comprehensive income		**13,640,437**	13,976,870

The notes on pages 8 to 58 form an integral part of these financial statements.
Auditors' report on pages 3 to 3(d).

STATEMENT OF CHANGES IN EQUITY - YEAR ENDED DECEMBER 31, 2018

	Notes	Share capital	Statutory reserve	Revaluation reserve	Retained earnings	Total
		SR	SR	SR	SR	SR
At January 1, 2018						
- As previously reported		**60,000,000**	**24,921,105**	**26,831,097**	**35,829,082**	**147,581,284**
- Effect of adopting IFRS 9	38	**-**	**-**	**-**	**(1,577,730)**	**(1,577,730)**
As restated		**60,000,000**	**24,921,105**	**26,831,097**	**34,251,352**	**146,003,554**
Total comprehensive income for the year		**-**	**-**	**642,491**	**12,997,946**	**13,640,437**
Transfer to statutory reserve	18	**-**	**2,599,589**	**-**	**(2,599,589)**	**-**
Dividends	19	**-**	**-**	**-**	**(6,000,000)**	**(6,000,000)**
Balance at December 31, 2018		**60,000,000**	**27,520,694**	**27,473,588**	**38,649,709**	**153,643,991**
Balance at January 1, 2017		60,000,000	22,254,229	26,188,606	31,161,579	139,604,414
Total comprehensive income for the year		-	-	642,491	13,334,379	13,976,870
Transfer to statutory reserve	18	-	2,666,876	-	(2,666,876)	-
Dividends	19	-	-	-	(6,000,000)	(6,000,000)
Balance at December 31, 2017		60,000,000	24,921,105	26,831,097	35,829,082	147,581,284

The notes on pages 8 to 58 form an integral part of these financial statements.
Auditors' report on pages 3 to 3(d).

STATEMENT OF CASH FLOWS - YEAR ENDED DECEMBER 31, 2018

	Notes	2018	2017
		SR	SR
Cash generated from operations			
Profit before taxation		**20,291,896**	19,138,882
Adjustments for:			
Depreciation of property and equipment	8	**3,148,305**	2,870,348
Amortisation of intangible assets	9	**1,413,197**	1,402,519
Profit from disposal of property and equipment	22	**(5,754)**	-
Movement in allowance for credit impairment			
- Loans and advances (net movement)	6(b)	**2,903,031**	35,639
- Investments	6(b)(v) & 7(a)	**(48,184)**	-
- Other commitments	6(b)(v) & 15	**1,084,177**	-
Accrued interest on loans and advances	6(a)	**(273,931)**	(178,061)
Accrued interest on deposits from customers	11	**1,224,858**	2,551,959
Movement in retirement benefit obligations	12	**2,440,991**	2,285,631
Accrued interest on Investment in financial assets	7	**(7,019,468)**	(5,159,917)
Currency translation differences		**(3,820,918)**	-
		21,338,200	22,947,000
Changes in operating assets and liabilities			
- Loans and advances	6	**(80,410,927)**	(34,362,666)
- Other assets	10	**548,891**	(6,530,482)
- Deposits from customers	11	**165,527,059**	245,276,586
- Other liabilities	15	**(473,737)**	4,204,281
Retirement benefit obligations paid	12	**(2,282,985)**	(1,127,096)
Tax paid	14(a)	**(7,210,922)**	(8,038,290)
Net cash generated from operating activities		**97,035,579**	222,369,333
Cash flows from investing activities			
Purchase of property and equipment (net of transfer)	8	**(4,667,850)**	(2,550,126)
Purchase of intangible assets	9	**(320,350)**	-
Proceeds from disposal of property and equipment		**5,755**	-
Addition to investment in financial assets	7(a)	**(204,817,309)**	(87,239,021)
Redemption of investment in financial assets	7(a)	**242,736,184**	7,885,345
Net cash inflow from investing activities		**32,936,430**	(81,903,802)
Cash flows from financing activity			
Dividends paid and net cash used in financing activity	13(a)	**(6,000,000)**	(6,000,000)
Net increase in cash and cash equivalents		**123,972,009**	134,465,531
Movement in cash and cash equivalents			
At January 1,		**409,589,865**	275,124,334
Increase		**123,972,009**	134,465,531
Currency translation differences		**3,820,918**	-
At December 31,	5	**537,382,792**	409,589,865

The notes on pages 8 to 58 form an integral part of these financial statements.
Auditors' report on pages 3 to 3(d).

1. GENERAL INFORMATION

Seychelles Commercial Bank Limited is a limited liability Bank incorporated and domiciled in Seychelles. The registered address of the Bank is at Orion Mall, Mahé, Seychelles. The Bank changed its name from Seychelles Savings Bank Limited to Seychelles Commercial Bank Limited on October 25, 2013. Its principal activity is as stated on page 2.

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements of the Bank have been prepared on a historic cost basis, except as disclosed in the accounting policies which follow.

(a) Basis of preparation

The financial statements of the Bank comply with International Financial Reporting Standards (IFRS), the Companies Act, 1972, the Financial Institutions Act 2004, as amended and Regulations and Directives of the Central Bank of Seychelles.

The preparation of financial statements in compliance with adopted IFRS requires the use of certain critical accounting estimates. It also requires Bank's management to exercise judgment in applying the Bank's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in note 4.

Amendments to published Standards effective in the reporting period

IFRS 9 - Financial Instruments

(i) *Transition*

The Bank has elected to adopt IFRS 9 - Financial Instruments issued in July 2014 which has been applied with initial application date of January 1, 2018. In accordance with the transition exemption under IFRS 9, differences in carrying amounts of financial assets and liabilities resulting from adoption of IFRS 9 have been recognised in Retained Earnings as at January 1, 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 but rather those of IAS 39.

(ii) Classification and measurement of financial assets and financial liabilities
Financial assets ¤
Policies effective January 1, 2018

IFRS 9 contains three principal classifications for financial assets: measured at amortised cost, Fair Value though other comprehensive income (FVOCI) and at fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on business model under which it they are managed and contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available for sale.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation (Cont'd)

(ii) Classification and measurement of financial assets and financial liabilities (Cont'd)

The Bank classifies its financial assets as subsequently measured at amortised cost based on the Bank's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

A financial asset is measured at amortised cost only if both of the following conditions are met:

- It is held within a business model whose objective is to hold assets in order to collect contractual cashflows; and
- The contractual terms that gives rise to contractual cash flows on specified dates that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Upon implementation of IFRS 9,

the held-to-maturity (HTM) financial asset category was removed; and

a new asset category designated as financial asset measured at amortised cost was introduced since it met the above two conditions. These financial assets are initially recognised at fair value plus directly attributable costs and subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses, interest income, foreign exchange gains and losses and any gain and losses on derecognition are recognised in the Statement of Profit or Loss.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation (Cont'd)

(ii) Classification and measurement of financial assets and financial liabilities (Cont'd)

Business model: the business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. Another example is the liquidity portfolio of assets, which is held by the Bank as part of liquidity management and is generally classified within the hold to collect and sell business model.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through Statement of Profit and Loss.

The Bank reclassifies its financial assets when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period under review.

Policies before January 1, 2018

The Bank classified its financial assets as loans and advances and held-to-maturity. These were measured at amortised cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(ii) Classification and measurement of financial assets and financial liabilities (Cont'd)

Policies after January 1, 2018

The following summarises the impact on classification and measurement to the Bank's financial assets at January 1, 2018

IFRS 9 largely retained existing requirements of IAS39 for classification and measurements of its financial assets and financial liabilities of the Bank continued to be measured at amortised cost.

				As at January 1, 2018	
Financial assets	**Original measurement under IAS 39**	**note**	**New measurement under IFRS 9**	**Original carrying amount under IAS 39**	**New carrying amount under IFRS 9**
				SR	SR
Cash and cash equivalents	Amortised cost	(a)	Amortised cost	409,589,865	**409,589,865**
Loans and advances	Amortised cost	(b)	Amortised cost	633,800,416	**632,083,282**
Investment in financial assets at amortised cost	Amortised cost	(b)	Amortised cost	335,105,775	**335,044,955**
Other assets	Amortised cost	(c)	Amortised cost	11,711,586	**11,711,586**
TOTAL FINANCIAL ASSETS				1,390,207,642	**1,388,429,688**

(a) While cash and cash equivalents are also subject to the impairment requirements of IFRS 9 and meet the business model of Hold to Collect and the SPPI test is met. No loss was noted in the past as well as based on available information, there is unlikely to have any loss due to default, therefore impairment loss for Cash and cash equivalent has been estimated to be nil.

(b) Loans and advances and Investments are financial assets with fixed and determinable payments and fixed maturities and after initial measurement, they are subsequently measured at amortised cost less allowance for impairment. IFRS 9 introduces a revised impairment model which requires entities to recognise expected losses (ECL) based on unbiased looking forward information. This replaces the existing IAS 39 incurred model which only recognised impairment if there was objective evidence that a loss has already occurred and would measure the loss based on the most probable outcome. The impact is as shown in above table and note 6(v).

(c) IFRS 9 had no impact on other assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(ii) Classification and measurement of financial assets and financial liabilities (Cont'd)

The following summarises the impact on classification and measurement to the Bank's financial liabilities on January 1, 2018¤

				As at January 1, 2018	
Financial liabilities	**Original measurement under IAS 39**	**note**	**New measurement under IFRS 9**	**Original carrying amount under IAS 39**	**New carrying amount under IFRS 9**
				SR	**SR**
Deposits from customers	Amortised cost	(d)	Amortised cost	1,277,440,759	**1,277,440,759**
Other liabilities	Amortised cost	(e)	Amortised cost	12,970,417	**13,547,284**
TOTAL FINANCIAL LIABILITIES				1,290,411,176	**1,290,988,043**

(d) No changes noted in the carrying amounts of deposits upon adoption of IFRS 9.

(e) Other liabilities increased due to allowance for credit losses recognised on Commitments upon adoption of IFRS 9. (note 3(iii)(i))

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(iii) *Changes due to impairment of financial assets*

The Bank applies a three-stage approach to measuring expected credit losses (ECLs) whereby the financial assets move through the three stages as their credit quality changes. The stage dictates how an entity measures impairment losses and applies the effective interest rate method.

A simplified approach is permitted for financial assets that do not have a significant financing component (e.g. trade receivables). On initial recognition, entities will record a day-1 loss equal to the 12-month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired.

Stage 1: 12 months ECL

The Bank collectively assesses ECLs on exposures where there has not been a significant increase in credit risk since initial recognition and that were not credit impaired upon origination. For these exposures, the Bank recognizes as a collective provision the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months. The Bank does not conduct an individual assessment of exposures in Stage 1 as there is no evidence of one or more events occurring that would have a detrimental impact on estimated future cash flows.

Stage 2: Lifetime ECL – not credit impaired

The Bank collectively assesses ECLs on exposure where there has been a significant increase in credit risk since initial recognition but are not credit impaired. For these exposures, the Bank recognizes as a collective provision a lifetime ECL, (i.e., reflecting the remaining lifetime of the financial asset). Similar to Stage I, the Bank does not conduct an individual assessment on Stage 2 exposures as the increase in credit risk is not, in itself, an event that could have a detrimental impact on future cash flows.

Stage 3: Lifetime ECL-Credit impaired

The Bank identifies both collectively and individually ECLs on those exposures that are assessed as credit impaired based on whether one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognised as a collective or specific provision and interest revenue is calculated by applying effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

Determining the stage of impairment and quantitative criteria

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial asset's credit risk has increased significantly since initial recognition, by using 30 days past due as a backstop and any other information on the borrower that may indicate future financial difficulties. The Bank considers that a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Bank in full without recourse by the Bank to actions such as realizing security (if any is held) or the financial asset is more than 90 days past due.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(iii) *Changes due to impairment of financial assets (Cont'd)*

Qualitative criteria

The borrower's unlikeliness to pay indicates that borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance;
- The borrower is deceased;
- The borrower is insolvent;
- The borrower is in breach of financial covenant(s);
- An active market for that financial asset has disappeared because of financial difficulties;
- Concessions have been made by the lender relating to the borrower's financial difficulty; and
- It is becoming probable that the borrower will enter bankruptcy.

Measurement of Expected Credit Losses (ECLs)

Change in credit quality since initial recognition

Stage 1 *(initial recognition)*	***Stage 2*** *(Significant increase in credit risk since*	***Stage 3*** *(Credit-impaired assets)*
12-month	***Lifetime ECL***	***Lifetime ECL***

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves, and also reverses any previously assessed significant increase in credit risk since origination, then the provision for credit impairment reverts from lifetime ECL to 12-months ECL.

Exposures that have not deteriorated significantly since origination are considered to have a low credit risk. The provision for credit impairment for these financial assets is based on a 12-month ECL.

When an asset is uncollectible, it is written off against a related provision and subsequent recoveries of amounts previously written off reduce the amount of the expense in the statement of profit or loss.

The Bank assesses whether credit risk on an exposure has increased significantly on an individual or collective basis. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of shared credit risk characteristics, credit risk ratings, date of initial recognition, remaining term of maturity and sector to which the borrowers belong and other relevant factors.

ECLs for the Bank are derived from unbiased and probability-weighted estimates of expected loss and are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value (PV) of all cash shortfalls over the expected life the financial asset discounted by the effective interest rate. The cash shortfall is the difference between the cash flows due to the Bank in accordance with the agreement and the cash flows the Bank expects to receive.

- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and PV of estimated cash flows discounted by the effective interest rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(iii) *Changes due to impairment of financial assets (Cont'd)*

Presentation of ECL

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets and ECLs are recognised using a provision for credit impairment account in the statement of profit or loss.

Modification of loans and advances

The Bank sometimes renegotiates or otherwise the contractual cash flow of loans and advances. When this happens, the Bank assesses whether or not the terms are substantially different to the original terms, amongst others, the following factors:

- If the borrower is in financial difficulty;
- Whether any substantial new terms are introduced that substantially affect the risk profile of the loan;
- Significant extension of the loan term;
- Significant change in interest rate;
- Change in currency the loan is determined in; and
- Insertion of a collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in the statement of profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in the statement of profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

Write-off

The gross carrying amount of a financial asset is written off when the Bank has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Bank has a policy of writing off the gross carrying amount when the financial asset has more than 365 days in the loss category. The Bank expects no significant recovery from the amount written off but however, financial assets that written off could still be subject to enforcement activities in order to comply with the Bank procedures for recovery of amounts due.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation (Cont'd)

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

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in the financial statements. The Bank has elected to apply the exemption in IFRS 9 paragraph 7.2.15 not to restate prior periods in the year of initial application of the standard.

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)
The amendments clarify the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. *The amendment has no impact on the Bank's financial statements.*

IFRS 15 Revenue from Contracts with Customers is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The Bank has adopted IFRS 15 Revenue from Contracts with Customers from January 1, 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. *The amendment has no impact on the Bank's financial assets.*

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)
The amendment provides two different solutions for insurance companies: a temporary exemption from IFRS 9 for entities that meet specific requirements (applied at the reporting entity level), and the 'overlay approach'. Both approaches are optional. *The amendment has no impact on the Bank's financial statements.*

Annual Improvements to IFRSs 2014-2016 Cycle

IFRS 1 - deleted short-term exemptions covering transition provisions of IFRS 7, IAS 19 and IFRS 10 which are no longer relevant.

IAS 28 - clarifies that the election by venture capital organisations, mutual funds, unit trusts and similar entities to measure investments in associates or joint ventures at fair value through profit or loss should be made separately for each associate or joint venture at initial recognition.

The amendment has no impact on the Bank's financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration. The interpretation clarifies how to determine the date of transaction for the exchange rate to be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts. *The amendment has no impact on the Bank's financial statements.*

Transfers of Investment Property (Amendments to IAS 40). The amendments clarify that transfers to, or from, investment property can only be made if there has been a change in use that is supported by evidence. A change in use occurs when the property meets, or ceases to meet, the definition of investment property. A change in intention alone is not sufficient to support a transfer. *The amendment has no impact on the Bank's financial statements.*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation (Cont'd)

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

Certain standards, amendments to published standards and interpretations have been issued that are mandatory for accounting periods beginning on or after 1 January 2019 or later periods, but which the Bank has not early adopted.

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

Sale or contribution of assets between an investor and its Associate or Joint venture (Amendments to IFRS 10 and IAS 28)

IFRS 16 Leases;

IFRS 17 Insurance contracts;

IFRIC 23 Uncertainty over Income Tax treatments;

Prepayment features with negative compensation (Amendments to IFRS 9);

Long- term interests in Associates and Joint ventures (Amendments to IAS 28);

Annual improvements to IFRSs 2015–2017 Cycle;

Plan amendment, curtailment or settlement (Amendments to IAS 19);

Definition of a business (Amendments to IFRS 3); and

Definition of Material (Amendments to IAS 1 and IAS 8).

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

(b) Property and equipment

Land and buildings are carried at revalued amounts and all other equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The next revaluation is expected to be in 2018.

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.

Increases in the carrying amount arising on revaluation are credited to revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against revaluation reserve directly in equity; all other decreases are charged to the Statement of Profit or Loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Property and equipment (Cont'd)

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

	Years
Buildings	35 - 40
Furniture and equipment	10
Vehicles	5
Computer equipment	5

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

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

Gains and losses on disposals of equipment are determined by comparing the proceeds with their carrying amount and are included in the statement of profit or loss.

(c) Intangible assets - Computer Software

Acquired computer software licenses are capitalised on the basis of costs incurred to acquire and bring to use the specific software and are amortised using the straight line method over the estimated useful life of 10 years.

(d) Financial instruments - initial recognition and subsequent measurement

(i) Financial assets

Initial Recognition
Financial instruments are recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument, which is generally on trade date.

These financial instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost.

Financial assets are not reclassified subsequent to their initial recognition unless the Bank changes the business model for managing those financial assets in which case, all affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

All the financial assets of the Bank have been recognised at amortised cost as previously explained under note 2(ii). Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets at amortised cost which results in an accounting loss being recognised in the statement of profit or loss when an asset is newly recognised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) **Financial instruments - initial recognition and subsequent measurement (Cont'd)**

(i) Financial assets (Cont'd)

(a) *Loans and advances*

Loans and advances are recognised when cash is advanced to the borrowers at fair value inclusive of transaction costs.

Loans and advances to customers are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. After initial measurement, loans and advances to customers are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate.

The effective interest rate (EIR) method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument but shall not consider future credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

The EIR amortisation is included in interest income in the statement of profit or loss as well as the losses arising from impairment.

(b) *Guarantees and other obligations on account of customers*

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the Bank are measured as the amount net of the loss allowance. The Bank has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) **Financial instruments - initial recognition and subsequent measurement (Cont'd)**

(i) Financial assets (Cont'd)

(b) *Guarantees and other obligations on account of customers (Cont'd)*

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Bank cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

(c) *Impairment*

The Bank assesses on a forward-looking basis the expected credit losses ('ECL') associated with its financial assets carried at amortised cost and with the exposure arising from loan commitments and financial guarantee contracts. The Bank recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Bank previously followed the Regulations on Credit Classification and Provisioning Regulations 2010 as amended in 2011 issued by the Central Bank which was mostly based on IAS 39 requirements. No such Regulation has been made available following the introduction of IFRS 9.

(d) *Derecognition other than on a modification*

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Bank:

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- Has an obligation to remit any cash it collects from the assets without material delay.

(d) **Financial instruments - initial recognition and subsequent measurement (Cont'd)**

(ii) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and 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. Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 3 months or less, and bank overdrafts.

(iii) Financial liabilities

Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost.

Derecognition

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

(iv) Offsetting financial instruments

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

(e) Deposits from customers

Deposits are initially recognised on the day they are originated. Other financial liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

Other payables are stated at fair value and subsequently measured at amortised cost using the effective interest method.

(f) Share capital

Ordinary shares are classified as equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) Retirement benefit obligations

(i) Defined benefit plans

The Bank provides for a payment of gratuity to permanent employees. Gratuities are paid every five years (except in the case of early retirement) as from January 2007, for continuous service. The amount provisioned every year is based on the number of years the employee has worked after the last payment date. This type of employee benefits has the characteristics of a defined benefit plan. The liability recognised in the Statement of Financial Position in respect of the defined benefit plan is the present value of the defined obligation at the reporting date less fair value of plan assets together with adjustments for unrecognised actuarial gains and losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

The Bank did not carry out any actuarial valuation since the Directors have based themselves on the method as prescribed by the Seychelles Employment Act and they have estimated that the amount of liability provided will not be materially different had it been computed by an external Actuary.

(h) Taxation

Current tax

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

Deferred tax

Deferred tax is provided for using the liability method on all taxable temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation of equipment and provision for retirement benefit obligation. The rates enacted or subsequently enacted at the date of the reporting period are used to determine deferred tax.

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

(i) Acceptances

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) Foreign currencies

Functional and presentation currency

Items included in the financial statements are measured using Seychelles Rupee, the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements of the Bank are presented in Seychelles Rupees, which is 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 the statement of profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date the fair value was determined.

(k) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(l) Interest income and expense

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Interest income and expense (Cont'd)

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

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

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 amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities. Fore credit-impaired financial assets, the interest income is calculated by applying the effective interest rate to the amortised cost of the credit-impaired financial assets i.e, the gross carrying amount less the allowance for expected credit losses.

(m) Fees and commission income

Fee and commission income and expense include fees other than those that are an integral part of EIR. The fees included in this part of the Banks include among other things feees charged for servicing a loan, non-utilisation fees relating to loan commitments when it is unlikely that these will result in a specific lending arrangement. Fee and commission expenses with regards to services are accounted for as the services are received.

(n) Provisions

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

3. FINANCIAL RISK MANAGEMENT

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

(i) Strategy in using financial instruments

The Bank accepts deposits from customers at fixed rates at variable terms and seeks to earn above average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

The Bank also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances but the Bank also enters into guarantees.

(ii) Capital adequacy

Capital adequacy ratio is closely monitored in line with the requirements of the Financial Regulations (Capital Adequacy) Regulations 2010 and those of the Central Bank of Seychelles. The ratio is given below:

	2018	2017
	SR'000	SR'000
Capital Base:		
Tier I Capital	**123,350**	116,083
Tier II Capital	**12,998**	17,329
Total Capital Base (a)	**136,348**	133,412
Risk Adjusted Assets (b)	**747,521**	629,180
Capital Adequacy (a/b * 100)	**18%**	21%
Minimum Requirement	**12%**	12%

The Bank has adhered to the capital requirements of Central Bank of Seychelles for the year under review.

(iii) Credit risk

(a) *Portfolio classification and 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. 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.

3. FINANCIAL RISK MANAGEMENT (CONT'D)

(iii) Credit risk (Cont'd)

(a) *Portfolio classification and establishing groups of assets with similar credit risk characteristics: (Cont'd*

The Bank classifies its portfolio of loans and avances within the following segments; *term loans, mortgages and overdraft*.

(b) *Assessment of significant increase in credit risk*

When determining whether the risk of default has increased significantly since initial recognition, the Bank considers both quantitative and qualitative information and analysis based on the Bank's historical experience and expert credit risk assessment, including forward-looking information.

The Bank uses the number of days past due (DPD) to determine significant in credit risk. Credit ratings are assigned to facilities granted by sectors upon initial recognition based on available information. Credit risk is deemed to have increased significantly if credit ratings have deteriorated at the reporting date. In addition, as a backstop, the Bank considers that significant increase in credit risk occurs when an assets is more than 30 DPD.

(c) Credit quality per class of financial assets

An ageing analysis of credit quality by class of asset for all financial assets exposed to credit risk has been performed. Credit risk for loans and advances is managed by the Credit department subject to Bank's established policy, procedures and control relating to credit risk management. Credit quality is assessed based on a credit rating evalustion, collateral values and ability of underlying projects to service the debt. Loans and advances in arrears are regularly monitored and evaluated for restructuring when warranted.

(d) *Collateral and other credit enhancements*

Exposure to credit risk is also managed, in part, by obtaining and monitoring collateral in the form of interests over properties and vehicles. Corporate and personal guarantees are also accepted by the Bank. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim.

(e) *Exposure to credit risk*

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

3. FINANCIAL RISK MANAGEMENT (CONT'D)

(iii) Credit risk (Cont'd)

(e) *Exposure to credit risk (Cont'd)*

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

The table below shows the maximum exposure of financial assets to credit risk for the components of the Statement of Financial Position.

	Gross maximum exposure	
	2018	2017
	SR	SR
Cash and cash equivalents	**537,382,792**	409,589,865
Loans and advances to customers	**709,865,109**	633,800,416
Held-to-maturity financial assets	**304,193,732**	335,105,775
Other assets	**11,085,411**	11,711,586
Total credit risk exposure	**1,562,527,044**	1,390,207,642

(f) *Calculation of Expected Credit Loss (ECL)*

ECL are calculated using three main components:i.e., a probability of default (PD), a loss given default (LGD) and an exposure at default (EAD). These parameters are generally derived from internally developed statistical models combined with historical, current and forward-looking customer and macro-economic data.

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per “Definition of default and credit-impaired” above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- Loss Given Default (LGD) represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.
- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

3. FINANCIAL RISK MANAGEMENT (CONT'D)

(iii) **Credit risk (Cont'd)**

(f) *Calculation of Expected Credit Loss (ECL) (Cont'd)*

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.
The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- The 12-months ECL is equal to the discounted sum over the next 12-months of monthly PD multiply by LGD and EAD.
- Lifetime ECL is calculated using the discounted sum of monthly PD over the full remaining life multiply by LGD and EAD.

  The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.
- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery
- For unsecured products, LGD’s are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD’s are influenced by collection strategies, including contracted debt sales and price.

(g) *Incorporation of forward-looking information*

The Bank has established procedures to consider a range of relevant forward-looking macro-economic assumptions for the determination of unbiased general sector / industry adjustments and any related specific sector/ industry adjustments that support the calculation of ECLs. The team consists of Management, senior executives from risk, finance and economic functions and the members of the audit committee. Macro-economic factors taken into consideration include but not limited to unemployment, interest rates, gross domestic product, inflation and commercial property prices and require an evaluation of both the current and forecast direction of the macro-economic cycle. Incorporating forward-looking infrmation increases the degree of judgement required as to how changes in these macro-economic factors will affect ECLs. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

The assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change etc. – are monitored and reviewed on a quarterly basis. The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

3. FINANCIAL RISK MANAGEMENT (CONT'D)

(iii) Credit risk (Cont'd)

(f) *Modifications of financial assets*

The Bank sometimes modifies the terms of loans and advances provided to customers due to commercial renegotiations or for distressed loans with a view to maximise recovery.

Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans.

The Bank observes a minimum probationary period of six months to confirm if the risk of default has decreased significantly before upgrading exposures within stages, i.e. from stage 3 to stage 2 or stage 2 to stage 1.

(g) *Collateral repossessed*

The Bank’s accounting policy under IFRS 9 remains the same as it was under IAS 39. The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank's policy.

(h) *Write-off policy*

The Bank’s accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

3. FINANCIAL RISK MANAGEMENT (CONT'D)

(iii) Credit risk (Cont'd)

(i) Commitments

To meet the financial needs of customers, the Bank enters into various irrevocable commitments. Even though these obligations may not be recognised on the Statement of Financial Position, they do contain credit risk and are, therefore, part of the overall risk of the bank. Detailed below is the Bank's maximum credit risk exposure for commitments. The maximum exposure to credit risk relating to the loan commitment is the full amount of the commitment.

	2018	2017
	SR	SR
Loan commitments, guarantees and other obligations on account of customers	**175,446,765**	**99,679,976**

Loan commitments provided by the Bank are measured as the amount of the loss allowance. For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However for the contracts that include both a loan and an undrawn commitment and the bank cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected losses are recognised as a provision.

	2018
	SCR
Loan commitments, guarantees and other obligations on account of customers	**175,446,765**
Allowance for credit impairment (notes 6(b)(v) & (ii))	**(1,661,044)**
At December 31,	**173,785,721**

Included in the balance of Loan commitments, guarantee contracts and other obligations is guarantees of SCR 16,990,000 for 2018 and SCR 15,730,000 for 2017. While guarantees are also subject to the impairment requirements of IFRS 9 and meet the business model of Hold to Collect and the SPPI test is met, no loss was noted in the past as well as based on available information, there is unlikely to have any loss due to default, therefore impairment loss for guarantees has been estimated to be nil.

3. **FINANCIAL RISK MANAGEMENT (CONT'D)**

(iii) **Credit risk (Cont'd)**

An analysis of the Bank's maximum exposure to credit risk per class of financial asset, internal rating and 'stage', at the reporting date, without taking account of any collateral held and other credit enhancements is as disclosed below:

	Year ended 2018				Year ended 2017
	At amortised cost				Amortised cost
Class of financial asset	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL - not credit impaired**	**Stage 3 Lifetime ECL - credit impaired**	**Total**	**Total**
	SCR	**SCR**	**SCR**	**SCR**	SCR
(i) *Loans and advances*					
High Grade	**694,592,708**	**6,175,739**	**-**	**700,768,447**	601,223,267
Special Mention Grade	**-**	**11,122,407**	**-**	**11,122,407**	20,920,565
Sub Standard Grade	**-**	**-**	**3,723,634**	**3,723,634**	2,272,250
Doubtful Grade	**-**	**-**	**2,439,212**	**2,439,212**	1,337,480
Loss Grade	**-**	**-**	**6,528,262**	**6,528,262**	18,143,542
Total amount committed	**694,592,708**	**17,298,146**	**12,691,108**	**724,581,962**	643,897,104
Allowance for credit impairment for the year	**6,535,272**	**630,412**	**7,551,169**	**14,716,853**	(10,096,688)
Carrying amount	**688,057,436**	**16,667,734**	**5,139,939**	**709,865,109**	633,800,416
(ii) *Investments in financial assets at amortised cost (note a)*	**311,433,787**	**-**	**-**	**311,433,787**	335,105,775
Allowance for credit impairment for the year	**12,636**	**-**	**-**	**12,636**	-
Carrying amount	**311,421,151**	**-**	**-**	**311,421,151**	335,105,775
(iii) *Commitments*	**175,446,765**	**-**	**-**	**175,446,765**	99,679,976
Allowance for credit impairment for the year	**1,661,044**	**-**	**-**	**1,661,044**	-
Carrying amount	**173,785,721**	**-**	**-**	**173,785,721**	99,679,976

(a) The above figure represents the gross exposure of the financial assets at amortised cost. The difference as compared to SCR 304,193,732 per note 7 represents unearned interest.

3. **FINANCIAL RISK MANAGEMENT (CONT'D)**

(iii) **Credit risk (Cont'd)**

Maximum exposure to credit risk

Type of collateral or credit enhancement

Maximum exposure to credit risk	Value of collateral and credit enhancements held	Land	Eligible financial collateral
	SCR	SCR	SCR
2018	**1,526,179,325**	**1,276,425,935**	**249,753,390**

It is the Bank's practice to require security cover of at least a ratio of 1.25 or above for all its loans and advances.

3. FINANCIAL RISK MANAGEMENT (CONT'D)

(iv) Currency risk

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

The Bank managed its foreign currency exposure during the year under review to remain within limits set by the Central Bank of Seychelles which requires that long and short position to capital is not more than 30% respectively.

Concentration of assets and liabilities by currency

At December 31, 2018	SR	Euro	US Dollars	Others	Total
	SR'000	SR'000	SR'000	SR'000	SR'000
Assets					
Cash and cash equivalents	449,257	16,758	67,175	4,193	537,383
Loans and advances	707,683	7,015	8,166	1,718	724,582
Investments	304,206	-	-	-	304,206
Property and equipment	53,478	-	-	-	53,478
Intangible assets	6,801	-	-	-	6,801
Other assets	3,882	-	9,811	-	13,693
Deferred tax asset	1,425	-	-	-	1,425
	1,526,732	23,773	85,151	5,911	1,641,568
Less allowances for credit impairment					(14,729)
					1,626,839
Liabilities					
Customer deposits	1,370,960	8,496	63,013	1,724	1,444,193
Other liabilities	14,158	-	-	-	14,158
Dividend proposed	6,000	-	-	-	6,000
Current tax liabilities	1,690	-	-	-	1,690
Retirement benefit obligation	7,154	-	-	-	7,154
	1,399,962	8,496	63,013	1,724	1,473,195
Net on balance sheet position	126,770	15,277	22,138	4,187	168,373
Less allowances for credit impairment					(14,729)
					153,644
Off balance sheet position	175,447	-	-	-	175,447
Less allowances for credit impairment					(1,661)
					173,786

3. FINANCIAL RISK MANAGEMENT (CONT'D)

(iv) Currency risk (Cont'd)

At December 31, 2017	SR SR'000	Euro SR'000	US Dollars SR'000	Others SR'000	Total SR'000
Assets					
Cash and cash equivalents	310,576	7,554	85,674	5,786	409,590
Loans and advances	633,344	5,907	2,229	2,417	643,897
Held-to-maturity financial asse	335,106	-	-	-	335,106
Property and equipment	46,132	-	-	-	46,132
Intangible assets	7,894	-	-	-	7,894
Other assets	20,068	-	-	-	20,068
	1,353,120	13,461	87,903	8,203	1,462,687
Less allowances for credit impairment					(10,097)
					1,452,590
Liabilities					
Customer deposits	1,184,958	8,556	80,480	3,447	1,277,441
Other liabilities	12,970	-	-	-	12,970
Dividend proposed	6,000	-	-	-	6,000
Current tax liabilities	1,386	-	-	-	1,386
Deferred tax liabilities	215	-	-	-	215
Retirement benefit obligations	6,997	-	-	-	6,997
	1,212,526	8,556	80,480	3,447	1,305,009
Net on balance sheet position	140,594	4,905	7,423	4,756	157,678
Less allowances for credit impairment					(10,097)
					147,581
Off balance sheet position	99,680	-	-	-	99,680
Less allowances for credit impairment					-
					99,680

Sensitivity analysis

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

	2018 SR	2017 SR
Impact on results	**±1,910**	±2,867

3. FINANCIAL RISK MANAGEMENT (CONT'D)

(v) Interest risk

Interest rate risk refers to the potential variability in the Bank's financial condition owing to changes in the level of interest rates. It is the Bank's policy to apply variable interest rates to lending and deposit taking.

Sensitivity analysis

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

	2018	2017
	SR'000	SR '000
Impact on results	**± 324**	± 275

(vi) Liquidity risk

The Bank is exposed to daily calls on its available cash resources from deposits, current accounts, maturing deposits, loan drawdowns, guarantees and from margin and other calls. The Bank maintains cash resources to meet all of these needs based on experience. The Board of Directors sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing that should be in place to cover withdrawals at unexpected levels of demand.

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

During the year 2018, the Bank has calculated its liquidity ratio as follows;

	2018	2017
	SR'000	SR'000
Liquid Assets (a)	**576,398**	494,406
Banks total Liabilities (b)	**1,476,825**	1,301,076
Liquidity Ratio (a/b)	**39%**	38%

3. FINANCIAL RISK MANAGEMENT (CONT'D)

(vi) Liquidity Risk (Cont'd)

Maturities period of assets and liabilities are follows:

At December 31, 2018	Up to 3 months	3-6 months	6-9 months	9-12 months	1-3 years	More than 3 years	Non-maturity items	Total
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
Assets								
Cash and cash equivalents	499,291	-	-	-	-	-	38,092	537,383
Loans and advances	53,504	7,409	4,772	13,758	48,332	596,807	-	724,582
Investments	80,389	73,460	64,107	16,250	40,000	30,000	-	304,206
Property and equipment	-	-	-	-	-	-	53,478	53,478
Intangible assets	-	-	-	-	-	-	6,801	6,801
Other assets	-	-	-	-	-	-	13,693	13,693
Deferred tax	-	-	-	-	-	-	1,425	1,425
	633,184	80,869	68,879	30,008	88,332	626,807	112,064	1,641,568
Less allowances for credit impairment								(14,729)
								1,626,839
Liabilities								
Customer deposits	1,214,767	54,841	110,706	10,502	26,700	26,677	-	1,444,193
Other liabilities	-	-	-	-	-	-	14,158	14,158
Dividend proposed	-	6,000	-	-	-	-	-	6,000
Retirement benefit obligations	-	-	-	-	-	-	7,154	7,154
Current tax liabilities	1,690	-	-	-	-	-	-	1,690
	1,216,457	60,841	110,706	10,502	26,700	26,677	21,312	1,473,195
Maturity gap	(583,273)	20,028	(41,827)	19,506	61,632	600,130	90,752	168,373
Less allowances for credit impairment								(14,729)
								153,644

3. FINANCIAL RISK MANAGEMENT (CONT'D)

(vi) Liquidity Risk (Cont'd)

Maturities period of assets and liabilities are follows:

At December 31, 2017	Up to 3 months	3-6 months	6-9 months	9-12 months	1-3 years	More than 3 years	Non-maturity items	Total
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
Assets								
Cash and cash equivalents	210,317	-	-	-	-	-	199,273	409,590
Loans and advances	51,111	-	6,532	7,179	186,971	392,104	-	643,897
Held-to-maturity financial assets	105,426	65,770	13,113	59,082	61,715	30,000	-	335,106
Property and equipment	-	-	-	-	-	-	46,132	46,132
Intangible assets	-	-	-	-	-	-	7,894	7,894
Other assets	-	-	-	-	-	-	20,068	20,068
	366,854	65,770	19,645	66,261	248,686	422,104	273,367	1,462,687
Less allowances for credit impairment								(10,097)
								1,452,590
Liabilities								
Customer deposits	178,640	45,787	31,758	20,480	99,094	38,157	863,165	1,277,441
Other liabilities	-	-	-	-	-	-	12,970	12,970
Dividend proposed	-	6,000	-	-	-	-	-	6,000
Current tax liabilities	-	-	-	-	-	-	1,387	1,387
Deferred tax liabilities	-	-	-	-	-	-	215	215
Retirement benefit obligations	-	-	-	-	-	-	6,996	6,996
	178,640	51,787	31,758	20,480	99,094	38,157	884,733	1,305,009
Maturity gap	188,214	13,983	(12,113)	45,781	149,592	383,947	(611,366)	157,678
Less allowances for credit impairment								(10,097)
								147,581

3. FINANCIAL RISK MANAGEMENT (CONT'D)

(vii) Fair values

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

Fair value measurement hierarchy for assets:

		Fair value measurement using		
As at 31st December 2018	**Total**	**Quoted prices in active market**	**Significant observable input**	**Significant unobservable input**
		(Level 1)	**(Level 2)**	**(Level 3)**
Assets measured at fair value:	**SR'000**	**SR'000**	**SR'000**	**SR'000**
Recurring measurement				
Land and building	**43,470**	-	**43,470**	-
As at 31st December 2017				
Land and building	43,470	-	43,470	-

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the acBanking disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

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

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

Critical accounting estimates and assumptions

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

(i) *Impairment losses on financial assets*

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets 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 in which can result in different levels of allowances.

The Bank’s ECL calculations are outputs of 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:

- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

In the previous years, the Bank followed the guidelines of the Central Bank of Seychelles. No such guideline was made available upon implementation of IFRS 9 effective January 1, 2018.

(ii) *Calculation of Loss allowance*

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 constitutes a key input in measuring ECL. Probability of default 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.

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

(iii) *Impairment of other assets*

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

(iv) *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.

(v) Significant increase in credit risk

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 considers qualitative and quantitative reasonable and supportable forward-looking information.

(vi) *Property and equipment*

Useful lives and residual values

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

(vii) *Revaluation*

The Bank measures land and buildings at revalued amounts with increases in the carrying amount arising on revaluation are credited to revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against revaluation reserve directly in equity; all other decreases are charged to the statement of profit or loss. The Bank engaged independent valuation specialists to determine fair value of its properties as at December 31, 2015. The Directors are of the opinion that the carrying amount of the property and equipment approximate its fair value at December 31, 2016. The next revaluation is expected in 2019.

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

(viii) *Fair value estimation*

Some of the Bank's assets were measured at fair value for financial reporting purposes. In determing the fair value of an asset, the Bank uses market-observable data to the extent it is available. Where level 1 inputs are not available, the Bank engages third party qualified Valuers to perform the valuation. In between valuations, it is the Board's responsibility to assess the fair values of the assets.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

(ix) *Limitation of sensitivity analysis*

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

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

5. CASH AND CASH EQUIVALENTS

	2018	2017
	SR	SR
Foreign currency notes and coins	**2,889,257**	5,190,045
Cash in hand	**33,963,805**	30,793,734
Balances with Central Bank of Seychelles	**424,715,383**	291,620,014
Balances with banks abroad	**65,256,173**	75,549,677
Balances with local banks		
- Seychelles rupees	**1,454,292**	1,446,652
- Foreign currencies	**9,103,882**	4,989,743
	537,382,792	409,589,865

The Bank's risk management commitee monitors the rating of counterparties regularly and at the reporting date does not expect any losses from non-performance by counterparties. For all financial assets to which the impairment requirements have not been applied, the carrying amounts represent the maximum exposure to credit losses.

6. LOANS AND ADVANCES

	2018	2017
	SR	SR
Gross loans and advances (note (a))	**721,326,401**	640,915,474
Accrued interest	**3,255,561**	2,981,630
Less allowance for credit impairment (note (b))	**(14,716,853)**	(10,096,688)
	709,865,109	633,800,416

(a) The Bank offers variable interest rate loans. The interest rates for Corporate and Retails Loans range between 5% and 15%, and for Staff loan. These range between 4% and 10%.

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

	2018	2017
	SR	SR
At January 1,		
- As previously reported	**10,096,688**	10,061,049
- Effect of adopting IFRS 9 (note 6(b)(vi))	**1,717,134**	-
As restated (note 6(b)(v))	**11,813,822**	10,061,049
Loans and advances written off during the year	**(11,286)**	(167,969)
Charged to statement of profit or loss	**2,914,317**	203,608
At December 31, (note 6b(v))	**14,716,853**	10,096,688

(i) ***Prior to January 1, 2018***

Specific allowances were made on impaired loans and advances and calculated as the shortfall between the carrying amounts of the advances and their recoverable amounts. The recoverable amount is the present value of expected future cash flows discounted at the original effective interest rate of the loans and advances.

6. LOANS AND ADVANCES (CONT'D)

(ii) ***From January 1, 2018***

The adoption of IFRS 9 has fundamentally changed the Bank's loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. From January 1, 2018, the Bank has been recording allowance for expected credit losses for all loans and advances other financial assets at amortised cost including loan commitments.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12m ECL)). The Bank's policies for determining if there has been a significant increase in credit risk are set out in note 3(a). The 12mECL is the portion of LTECLs which represent the ECLs that results from default events on a financial instruments that are possible within 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Bank opted for a collective approach and its policy for financial assets measured on a collective basis is explained in note 3(iii).

The Bank evaluates each customer's creditworthiness on a case to case basis and the amount of collateral if deemed necessary upon extension of credit is based on Management's credit evaluation of the counterparty.

(iii) *Loans and advances by credit quality*

	2018	2017
	SCR	SCR
Gross loans and advances		
Neither past due nor impaired	**703,019,027**	601,223,268
Past due but not impaired	**6,846,082**	32,577,148
Impaired	**14,716,853**	10,096,688
Total gross loans and advances	**724,581,962**	643,897,104

(iv) *Loans and advances past due but not impaired*

For the categorisation of the ageing of loans and advances, refer to note 3(iii).

Loans and advances that are past due but not impaired are classified as such where net current market value of supporting security is sufficient to cover all principal, interest and other amounts (including legal, enforcement, realisation costs, etc.,) due on the facility.

6. LOANS AND ADVANCES (CONT'D)

(v) The table below analyses the movement of the loss allowance during the year.

Loss allowances	Stage 1 12-month ECL	Stage 2 Lifetime ECL - not credit impaired	Stage 3 Lifetime ECL - credit impaired	2018 Total	2017 Total
	SCR	SCR	SCR	SCR	SCR
Loss allowance as at 31 December 2017 under IfRS 9					
Loans and advances (note 6(b))	4,363,492	1,358,634	6,091,696	11,813,822	10,096,688
Investments in Financial assets at amortised cost (note 7(b))	60,820	-	-	60,820	-
Commitments (note 3(i))	576,867	-	-	576,867	-
At January 1, 2018 (note 6(b)(vi)) (2017: note 6(vi))	5,001,179	1,358,634	6,091,696	12,451,509	10,096,688
Movement during the year: (SOCI)	3,207,773	(728,222)	1,459,473	3,939,024	
Loans and advances (note 6(b)&(d))	6,535,272	630,412	7,551,169	14,716,853	
Investments in Financial assets at amortised cost (note 7(b))	12,636	-	-	12,636	
Commitments (notes 3(iii)(i) & 15)	1,661,044	-	-	1,661,044	
Loss allowance as at December 31	8,208,952	630,412	7,551,169	16,390,533	

(vi) **Prior Year Adjustment**

	SCR
At January 1, 2018	
As previously reported	10,096,688
Effect of adopting IFRS 9: (notes 6(d) & 38)	2,354,821
- Loans and advances (note 6(b))	1,717,134
- Investments in Financial assets at amortised cost (note 7(b))	60,820
- Commitments (note 3(iii)(i))	576,867
As restated (note 6(b)(v))	12,451,509

6. LOANS AND ADVANCES (CONT'D)

(d) Credit concentration of risk by industry sectors:

	2018		2017	
Corporate:	**SR**	%	**SR**	%
Housing Finance Company	**114,203,675**	**15.76%**	132,142,672	20.52%
Business and trade	**61,111,192**	**8.43%**	43,534,126	6.76%
Tourism	**15,965,730**	**2.20%**	31,755,774	4.93%
Small Business Finance Agency	**11,944,894**	**1.65%**	26,130,701	4.06%
Building and construction	**65,783,235**	**9.08%**	23,674,028	3.68%
Transport	**28,443,106**	**3.93%**	17,284,271	2.68%
Manufacturing	**14,365,358**	**1.98%**	13,578,968	2.11%
Real estate	**17,375,567**	**2.40%**	11,767,776	1.83%
Others	**10,070,313**	**1.39%**	7,634,802	1.19%
Agriculture and horticulture	**7,587,089**	**1.05%**	3,934,454	0.61%
	346,850,159	**47.87%**	311,437,572	48.37%

	2018		2017	
Retail:				
Home repair and appliances	**154,823,671**	**21.37%**	121,422,955	18.86%
Mortgage	**93,480,823**	**12.90%**	83,196,192	12.92%
Vehicle	**35,355,907**	**4.88%**	39,911,828	6.20%
Others	**5,833,799**	**0.81%**	500,151	0.08%
Personal	**2,396,061**	**0.33%**	213,914	0.03%
	291,890,261	**40.28%**	245,245,040	38.09%
Overdrafts:	**49,477,748**	**6.83%**	43,760,478	6.80%
Others:	**3,668,244**	**0.51%**	18,702,778	2.90%
Staff:				
Mortgage	**18,258,920**	**2.52%**	12,445,233	1.93%
Home repair and appliances	**11,167,079**	**1.54%**	9,283,480	1.44%
Personal	**13,990**	**0.00%**	40,893	0.01%
	29,439,989	**4.06%**	21,769,606	3.38%
Total Gross loans and advances	**721,326,401**	**99.55%**	640,915,474	99.54%
Accrued interest	**3,255,561**	**0.45%**	2,981,630	0.46%
Total Gross loans and advances	**724,581,962**	**100.00%**	643,897,104	100.00%
Less: Provision for credit impairment (notes 6(v) & (vi))	**(14,716,853)**	(-2.031%)	(10,096,688)	(-1.57%)
	709,865,109	**97.97%**	633,800,416	100.00%

7. INVESTMENTS IN FINANCIAL ASSETS AT AMORTISED COST

(a) The movement in financial assets at amortised cost is as summarised below:

	2018	2017
	SR	SR
At January 1,	**335,105,775**	250,592,182
Additions	**204,817,309**	87,239,021
Matured	**(242,736,184)**	(7,885,345)
Accrued interest	**7,019,468**	5,159,917
Less: Net allowance for credit impairment losses (note 6(v))	**(12,636)**	-
At December 31,	**304,193,732**	335,105,775
Analysed as:		
Non-current	**91,715,000**	91,715,000
Current	**212,478,732**	243,390,775
	304,193,732	335,105,775

(b) Movement in net allowance for credit impairment

	2018
	SR
At January 1,	
As previously reported	**-**
Effect of adopting IFRS 9 (note 6b(vi))	**60,820**
As restated	**60,820**
Charge to Statement of Profit or loss	**(48,184)**
At December 31, (note 6b(v))	**12,636**

(c) Investments in financial assets include the following:

	Maturity Date	2018 Interest Rate	**2018**	2017
		%	**SR**	SR
Treasury bills	Feb - Dec 2019	1.25% - 7.00%	**207,811,721**	242,736,184
Treasury bonds	Mar '14 - Nov '24	5.50% - 7.00%	**56,118,445**	52,093,389
Government stock	N/a	N/a	**2,869**	2,869
Development Bank Seychelles Bonds	Aug '20	6.00%	**40,273,333**	40,273,333
			304,206,368	335,105,775

(d) Currency and maturity profiles of Investment in financial assets are detailed under notes 3(iv) & 3(vi). Following changes due to IFRS 9, Credit risk is detailed under note 3(iii).

8. PROPERTY AND EQUIPMENT

	Leasehold land and buildings	Furniture and equipment	Motor vehicles	Computer equipment	Work in progress	Total
	SR	SR	SR	SR		SR
COST & VALUATION						
At January 1, 2017	43,157,923	7,871,449	1,789,794	14,120,875	1,132,573	68,072,614
Additions	311,831	747,011	-	1,491,284	4,694,003	7,244,129
Disposals	-	(1,450)	-	-		(1,450)
At December 31, 2017	**43,469,754**	**8,617,010**	**1,789,794**	**15,612,159**	**5,826,576**	**75,315,293**
Additions	**-**	**406,721**	**-**	**3,556,004**	**1,025,475**	**4,988,200**
Transfer to intangible assets (note 9)	**-**	**-**	**-**	**-**	**(320,350)**	**(320,350)**
Disposals	**-**	**-**	**-**	**(1,259,708)**	**-**	**(1,259,708)**
At December 31, 2018	**43,469,754**	**9,023,731**	**1,789,794**	**17,908,455**	**6,531,701**	**78,723,435**
ACCUMULATED DEPRECIATION						
At January 1, 2017	2,137,831	5,794,481	552,358	12,003,604	-	20,488,274
Charge for the year	1,155,242	385,607	376,903	952,596	-	2,870,348
Disposals	-	(1,450)	-	-	-	(1,450)
At December 31, 2017	**3,293,073**	**6,178,638**	**929,261**	**12,956,200**	**-**	**23,357,172**
Charge for the year	**1,155,242**	**403,096**	**376,903**	**1,213,064**	**-**	**3,148,305**
Disposals	**-**	**-**	**-**	**(1,259,708)**	**-**	**(1,259,708)**
At December 31, 2018	**4,448,315**	**6,581,734**	**1,306,164**	**12,909,556**	**-**	**25,245,769**
NET BOOK VALUE						
At December 31, 2018	**39,021,439**	**2,441,997**	**483,630**	**4,998,899**	**6,531,701**	**53,477,666**
At December 31, 2017	40,176,681	2,438,372	860,533	2,655,959	5,826,576	51,958,121

8. PROPERTY AND EQUIPMENT (CONT'D)

(a) The Bank's land and buildings were last revalued at December 31, 2015 by Nigel Antoine Roucou & Co, Quantity Surveyor and Property Consultant, an independent professionally qualified valuer, and they have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The present market value was determined on an open-market basis by reference to market evidence of transaction prices for similar properties. There has been no change to the valuation technique during the year. The next revaluation is expected to be in 2019.

In determining the fair value of the property the quantity surveyor considered the current market price, not only for the properties being valued, but also for comparable properties in the same vicinity. Factors included the geographical features of the terrain and also essential services available in the vicinity. Finally, the market value was also determined in accordance with the demand and supply.

(b) The valuation of land and buildings of the Bank were carried out by external values and falls within category level 2 of the fair value hierarchy. No change was noted during the current year.

(c) Significant unobservable valuation input

	Range - SCR
Price per square metre	10,528 - 29,101

Significant increase/(decrease) in estimated price per square metre in isolation would result in significantly higher/(lower) fair value.

(d) Fair value measurement disclosures for revalued land and buildings are provided in Note 3 (vii).

(e) The Bank does not have any of its assets pledged as securities.

9. INTANGIBLE ASSETS

	Computer software	
	2018	2017
COST	**SR**	SR
At January 1,	**21,205,825**	21,205,825
Transfer from property and equipment (note 8)	**320,350**	-
At December 31,	**21,526,175**	21,205,825
AMORTISATION		
At January 1,	**13,311,677**	11,909,158
Charge for the year	**1,413,197**	1,402,519
At December 31,	**14,724,874**	13,311,677
Net book value		
At December 31,	**6,801,301**	7,894,148

The intangible assets comprises computer software and licenses.

10. OTHER ASSETS

	2018	2017
	SR	SR
Visa Collateral	**9,811,392**	9,400,836
ATM Offus transaction account	**1,056,796**	1,717,595
Others	**217,223**	593,155
	11,085,411	11,711,586
Prepayments	**2,607,382**	2,530,098
	13,692,793	14,241,684

(a) The carrying amounts of 'other assets' approximate their fair values and the currencies in which they are denominated are shown in note 3(iv).

(b) The visa collateral is a security deposit held by Visa as per the contract which is USD. Other assets include cheques in clearing and deposits.

(c) The ATM Offus account relates to receivable amount from Barclays with respect to ATM and POS transactions.

11. DEPOSITS FROM CUSTOMERS

	2018	2017
	SR	SR
Current accounts	**350,775,439**	281,318,467
Savings deposits	**627,742,821**	555,393,167
Time deposits	**455,627,581**	431,907,148
Accrued interest	**10,046,835**	8,821,977
	1,444,192,676	1,277,440,759

(a) Movements in deposits is as follows:

	2018	2017
	SR	SR
At January 1,	**1,277,440,759**	1,029,612,215
Net movements during the year	**165,527,059**	246,008,146
Net movements in accrued interest	**1,224,858**	1,820,398
At December 31,	**1,444,192,676**	1,277,440,759

(b) The currencies and maturities profiles of deposits from banks and customers are shown under notes 3(iv) and (vi) respectively.

12. RETIREMENT BENEFIT OBLIGATIONS

Length of service compensation

Movement in length of service compensation payable under the Seychelles Employment Act is given below:

	2018	2017
	SR	SR
At January 1,	**6,995,850**	5,837,315
Paid during the year	**(2,282,985)**	(1,127,096)
Charge to Statement of Profit or Loss	**2,440,991**	2,285,631
At December 31,	**7,153,856**	6,995,850

13. DIVIDENDS

The Directors have proposed a final dividend amounting to SCR **6 m** for the year under review (2017: Dividends proposed and paid amounted to SCR 6m).

This resulted into a dividend per share of **SCR 10** (2017: SCR 10).

(a) PROPOSED AND PAID

	2018	2017
	SR	SR
At January 1,	**6,000,000**	6,000,000
Dividend proposed	**6,000,000**	6,000,000
Paid during the year	**(6,000,000)**	(6,000,000)
Payable at December 31, (note 15)	**6,000,000**	6,000,000

14. CURRENT TAX LIABILITY/ EXPENSE

(a) Statement of financial position

	2018	2017
	SR	SR
At January 1,	**1,386,437**	2,945,143
Charge for the year (note 14 (c))	**7,514,609**	6,479,584
Tax paid during the year	**(7,210,922)**	(8,038,290)
At December 31,	**1,690,124**	1,386,437

(b) Statement of profit or loss

	2018	2017
	SR	SR
Current tax based on profit for the year (note 14(a))	**7,514,609**	6,479,584
Deferred tax credit (note 16(b))	**(220,659)**	(675,081)
	7,293,950	5,804,503

14. CURRENT TAX LIABILITY/ EXPENSE (CONT'D)

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

	2018	2017
	SR	SR
Profit before tax	**20,291,896**	19,138,882
Tax calculated at tax rates (note 14 (d))	**6,616,326**	6,235,831
Adjustments for Items not allowable for tax	**1,550,259**	1,723,666
Surplus of capital allowances over depreciation	**(651,976)**	(1,479,913)
	7,514,609	6,479,584

(d) Applicable tax rates are as follows:

Taxable income threshold	**2018 and '2017**
	Tax rates - %
≤ SR. 1,000,000	25%
> SR. 1,000,000	33%

15. OTHER LIABILITIES

	2018	2017
	SR	SR
Accruals	**346,843**	450,875
Provision for bonus	**3,004,355**	3,079,533
ATM and POS settlement	**4,208,644**	5,970,608
Other payables	**4,936,838**	3,469,401
Allowance for credit losses on loan commitments (note 3(iii)(i))	**1,661,044**	-
	14,157,724	12,970,417

(a) Provision for bonus relates to profit-sharing bonus payable to all employees in accordance with the policy.

(b) The ATM and POS account relates to payable amount to Barclays with respect to ATM and POS transactions.

16. DEFERRED TAXES

(a) There is a legally enforceable right to offset deferred tax assets and deferred tax liabilities when the deferred taxes relate to the same fiscal authority on the same entity. The following net amounts are shown in the statement of financial position:

	2018	2017
	SR	SR
Deferred tax liability (note 16 (c(i))	**6,344,670**	5,695,800
Deferred tax asset (note 16 (c(ii))	**(7,769,648)**	(5,480,538)
Net (asset) / deferred tax liability	**(1,424,978)**	215,262

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

	2018	2017
	SR	SR
At January 1,		
As previously reported	**215,262**	1,532,834
Effect of adopting IFRS 9 (note 38)	**(777,091)**	-
As restated	**(561,829)**	-
(Charge) / Credit for the year (see below) (note 14(b))	**(220,659)**	(675,081)
-Deferred tax to other comprehensive income	**(642,490)**	(642,491)
At December 31,	**(1,424,978)**	215,262
Charge / (Credit) for the year is analysed as follows:		
- Statement of profit or loss	**(220,659)**	(675,081)
Other comprehensive income		
- Deferred tax to other comprehensive income	**(642,490)**	(642,491)
	(863,149)	(1,317,572)

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

(i) **Deferred tax liabilities**

	Accelerated capital allowances	**Revaluation of assets**	**Total**
	SR	**SR**	**SR**
At January 1, 2017	4,983,442	1,284,981	6,268,423
Charge to Statement of Profit or Loss	69,868	-	69,868
Charged to other comprehensive income	-	(642,491)	(642,491)
At December 31, 2017	**5,053,310**	**642,490**	**5,695,800**
Charged to statement of profit or loss	**1,291,360**	**-**	**1,291,360**
Charged to other comprehensive income	**-**	**(642,490)**	**(642,490)**
At December 31, 2018	**6,344,670**	**-**	**6,344,670**

16. DEFERRED TAXES (CONT'D)

(ii) **Deferred tax assets**

	Provisions	
	2018	2017
	SR	SR
At January 1,		
- As previously reported	**5,480,538**	5,166,460
- Effect of adopting IFRS 9 (note 38)	**777,091**	-
As restated	**6,257,629**	5,166,460
Credit to Statement of Profit or Loss	**1,512,019**	314,078
At December 31,	**7,769,648**	5,480,538

17. SHARE CAPITAL

	2018 & 2017
	SR
Issued and fully paid up	
At December 31,	**60,000,000**

The assigned capital has been maintained above SR 20 million as per the requirements of Section 4(1) of the Financial Institutions (Capital Adequacy) Regulations, 2010.

18. STATUTORY RESERVE

	2018	2017
	SR	SR
At January 1,	**24,921,105**	22,254,229
Transfer during the year (page 5)	**2,599,589**	2,666,876
At December 31,	**27,520,694**	24,921,105

Section 24(1) of the Financial Institutions Act 2004, as amended requires that a Statutory Reserve Fund be maintained from an appropriation of not less than 20% of net profits for the year before any transfers until such reserve is equal to the Share Capital of SR 60 million.

19. INTEREST INCOME

	2018	2017
	SR	SR
Investment in financial assets	**20,277,943**	15,610,425
Loans and advances	**73,100,806**	66,867,734
Cash and short term funds	**6,637,237**	4,731,998
	100,015,986	87,210,157

20. INTEREST EXPENSE

	2018	2017
	SR	SR
Customer deposits	**35,147,096**	32,216,707

21. FEE INCOME AND COMMISSIONS

	2018	2017
	SR	SR
Account maintenance	**3,645,308**	3,662,423
Processing charges	**2,820,914**	2,286,653
Commissions from Visa	**2,974,238**	2,214,438
Standing instructions	**1,852,245**	1,901,092
Commission from agency work and sale of foreign currency	**1,210,196**	1,406,977
Transaction charges	**943,011**	964,292
Loan documentation	**737,809**	756,690
Referred cheque charges	**709,250**	536,090
Unauthorized overdraft charges	**148,950**	397,300
SMS alert charges	**339,629**	275,074
Mortgage agreement charges	**304,999**	254,021
Cheque books	**258,079**	245,267
Other related income	**292,162**	279,294
	16,236,790	15,179,611

22. SUNDRY INCOME

	2018	2017
	SR	SR
Recovery of bad debts written off	**1,094,539**	797,975
Profit on disposal	**5,754**	1,400
Miscellaneous income	**79,611**	210
	1,179,904	799,585

23. EMPLOYEE BENEFIT EXPENSE

	2018	2017
	SR	SR
Wages and salaries	**24,974,792**	24,880,485
Directors' fees (note 23(a))	**175,346**	157,968
Movement in retirement benefit obligations (note 12)	**2,440,991**	2,445,631
Pension costs	**479,536**	385,335
Other staff costs	**1,816,371**	827,937
	29,887,036	28,697,356

23. EMPLOYEE BENEFIT EXPENSE (CONT'D)

(a) *Directors' remuneration*

	2018	2017
	SR	SR
Directors' fees		
Esther Boniface	**35,840**	34,736
Robert Morgan	**35,840**	34,736
Patrick Payet	**53,760**	53,760
Sandy Mothee	**35,840**	34,736
Jamshed Pardiwalla	**14,066**	-
	175,346	157,968

24. OTHER EXPENSES

	2018	2017
	SR	SR
Premises cost	**4,979,933**	4,954,676
Computer maintenance expenses	**5,524,309**	4,954,078
Card expenses	**5,346,171**	4,800,341
Security services	**1,610,520**	1,519,895
Legal and professional charges	**1,788,319**	1,465,759
Stationery and postage expenses	**1,142,138**	1,457,910
Telecommunication	**1,987,024**	1,422,194
Licenses, insurance and subscription	**1,338,572**	944,347
Others	**1,399,427**	792,292
CSR tax	**600,726**	538,863
Tourism marketing tax	**600,726**	538,865
Fuel, conveyance and vehicles maintenance	**388,604**	453,062
Advertising and promotion expenses	**447,590**	250,754
AGM expenses	**111,985**	127,878
Auditors' remuneration	**161,000**	172,500
	27,427,044	24,393,414

25. COMMITMENTS

(a) Capital commitments

	2018	2017
	SR	SR
Approved and contracted for:		
Property and equipment	**4,175,785**	4,438,600
Intangible assets	**500,000**	3,538,000
	4,675,785	7,976,600

(b) Loan commitments and guarantees

	2018	2017
	SR	SR
Loan commitments, guarantees and other obligations on account of customers-Gross	**175,446,765**	99,679,976

(c) Operating lease commitments

The Bank leases various outlets under operating lease agreements which have varying terms, escalation clauses and renewal rights.

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

	2018	2017
	SR	SR
Within one year	**181,600**	532,600
Later than one year and not later than five years	**352,000**	351,000
	533,600	883,599

26. RELATED PARTIES

	Loans and advances	**Interest Income**
	SR'000	**SR'000**
December 31, 2018		
Key Management	**138**	**6**
Directors	**1,573**	**124**
December 31, 2017		
Key Management	351	1
Directors	1,793	3

26. RELATED PARTIES (CONT'D)

	Relationship	Deposits	Interest Expense
		SR'000	SR'000
December 31, 2018			
Parastatals	Common Control	**376,429**	**8,840**
Government organisations and agencies	Common Control	**69,606**	**-**
December 31, 2017			
Parastatals	Common Control	316,668	3,531
Government organisations and agencies other than parastatals	Common Control	66,250	27

(a) The above transactions have been made at arm's length on normal commercial terms and in the normal course of business.

This assessment is undertaken at the end of each financial year through examining the financial position of the related party and the market in which the latter operates.

(b) There has been no guarantees provided or received for any related party payable/receivable.

For the year ended 2018, the Bank has not recorded any impairment related to related parties (2017: Nil).

(c) Key management personnel

	Relationship	2018	2017
		SR	SR
Salary and short term employment benefits	Key management	**2,159,586**	3,156,317
Directors remuneration	Directors	**175,346**	157,968
End of contract service	Key management	**149,404**	468,000

37. FINANCIAL SUMMARY

	2018	2017*	2016*	2015*	2014*
	SR'000	SR'000	SR'000	SR'000	SR'000
Profit before taxation	**20,292**	19,139	22,478	17,933	12,348
Tax expense	**(7,294)**	(5,805)	(1,821)	(5,891)	(3,544)
Profit for the year	**12,998**	13,334	20,657	12,042	8,804
Transfer to statutory reserve	**(2,600)**	(2,667)	(4,130)	(2,409)	(1,761)
Dividends	**(6,000)**	(6,000)	(6,000)	(12,000)	-
Retained earning brought forward	-	31,162	20,635	23,002	19,426
Retained earning brought forward-restated (note 38)	**34,251**	-	-	-	-
Retained earnings carried forward	**38,649**	35,829	31,162	20,635	26,469
EQUITY					
Share capital	**60,000**	60,000	60,000	60,000	60,000
Statutory reserve	**27,521**	24,921	22,254	18,123	15,714
Revaluation reserve	**27,474**	26,831	26,189	26,189	21,633
Retained earnings	**38,649**	35,829	31,162	20,636	23,002
	153,644	147,581	139,605	124,948	120,349

* The financial statements prior 2018 were not adjusted to reflect the adoption of the requirements of IFRS 9, since the Bank availed itself of the transition exemption of IFRS 9 where all adjustments following implementation were recognised through Retained Earnings as at January 1, 2018 with no changes to comparatives.

38. EFFECT OF IMPLEMENTATION OF IFRS 9

Impact on the Statement of financial position		**SR**
Retained Earnings at January 1, 2018		**35,829,082**
Allowance for credit impairment from incurred loss method per IAS 39 to expected credit loss method per IFRS 9		
- Loans and advances (note 6(b))	**(1,717,134)**	
- Investment on Financial assets at amortised cost (note 6(v))	**(60,820)**	
- Loan Commitments (note 6(v))	**(576,867)**	
Effect on deferred tax (note 16(b))	**777,091**	
		(1,577,730)
As restated		**34,251,352**

The implementation of IFRS 9 had impact had no impact on the statement of profit or loss and other comprehensive income in 2017.