HOUSING FINANCE COMPANY LIMITED

DIRECTORS' REPORT AND AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

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CORPORATE INFORMATION

DIRECTORS	:	Ronny Palmyre - Chief Executive Officer Daniel Frichot Yves Choppy Elizabeth Agathine Michel Marie
SECRETARY	:	Marilyn Port-Louis
REGISTERED OFFICE	:	1st Floor, Victoria House, P.O. Box 112 Victoria, Mahé, Seychelles
PRINCIPAL PLACE OF BUSINESS	:	1st Floor, Victoria House, Victoria, Mahé, Seychelles
AUDITORS	:	Baker Tilly Chartered Accountants Seychelles
BANKERS	:	1. Seychelles International Mercantile Banking Corporation Limited 2. Barclays Bank (Seychelles) Limited 3. The Mauritius Commercial Bank (Seychelles) Limited 4. Habib Bank (Seychelles) Limited 5. Seychelles Commercial Bank Limited 6. Bank of Baroda Limited

DIRECTORS' REPORT

The Directors present their report together with the audited financial statements of the Company for the year ended December 31, 2018.

PRINCIPAL ACTIVITIES

The principal activities of the Company comprise of providing finance to the housing sector. There has been no change to this activity for the financial year under review.

RESULTS

	SR
Profit before tax	**27,251,159**
Tax expense	**(8,978,457)**
Profit for the year	**18,272,702**
Retained earnings brought forward	**47,277,602**
Effect on initial application of IFRS 9	**4,491,921**
Effect of IFRS 9 on deferred tax	**(1,473,535)**
Retained earnings carried forward	**68,568,690**

DIVIDENDS

The Directors did not propose any dividend for the financial year under review (2017 : Nil).

PROPERTY AND EQUIPMENT

Additions to property and equipment of SR. 384,698 (2017: SR. 522,374) during the year comprised mainly furniture and fittings, office equipment, computers and a motor vehicle.

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

DIRECTORS AND DIRECTORS' INTERESTS

The Directors of the Company since the date of the last report and the date of this report are:

Chief Executive Officer	Ronny Palmyre
Directors:	Daniel Frichot
	Yves Choppy
	Elizabeth Agathine
	Michel Marie

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

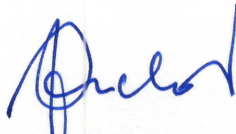
The Directors confirms that the financial statements presented for audit are free from material misstatement and they have met their aforesaid responsibilities.

AUDITORS

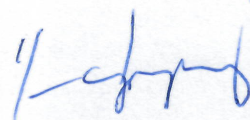
The retiring auditors, Messers. Baker Tilly, being eligible offer themselves for re-appointment.

BOARD APPROVAL

Ronny Palmyre
Director



Daniel Frichot
Director



Yves Choppy
Director

Elizabeth Agathine
Director

Michel Marie
Director

Dated: April 25, 2019
Victoria, Seychelles

BAKER TILLY
Assurance • Advisory • Taxation

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

HOUSING FINANCE COMPANY LIMITED

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

Report on the Audit of the Financial Statements

Opinion

We have audited the attached financial statements of the Housing Finance Company Limited set out on pages 5 to 55 which comprise the Statement of Financial Position at December 31, 2018, and the Statement of Comprehensive Income, Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements set out on pages 5 to 55 give a true and fair view of the financial position of the Company at December 31, 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and in compliance with the Companies Act 1972, the Financial Institutions Act 2004, as amended and the regulations and directives of Central Bank of Seychelles.

Basis of Opinion

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

HOUSING FINANCE COMPANY LIMITED

Report on the Audit of the Financial Statements *Continued*

Emphasis of matter

Tax assessment

We draw attention to note 25 which gives the details of the tax assessment undergone by the Company for the tax years 2009 to 2013.

Our opinion is not qualified in respect of the above.

Other information

The Board is responsible for the other information.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board for the Financial Statements

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

In preparing the financial statements, the Board is responsible for assessing the Company'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 Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

HOUSING FINANCE COMPANY LIMITED

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 Company to cease to continue as a going concern.

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

Baker Tilly is the trade name of Baker Tilly JFC Group in the Middle East. An Independent member of Baker Tilly International.
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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

HOUSING FINANCE COMPANY LIMITED

Report on Other Legal Regulatory Requirements

Financial Institutions Act 2004, as amended

The Financial Institutions Act, 2004, as amended, 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 (Credit Classification and Provisioning) Regulations, 2010, as amended in 2011 and Financial Institutions (Liquidity Risk Management) (Amendment) Regulations, 2012, except for the following:

(i) All categories of non-performing credit shall be placed on a non-accrual basis, that is interest due but uncollected should not be accrued as Income but instead should be shown as 'Interest in Suspense'. The Company's banking software does not support to identify and suspend interest to recognise it in Interest in Suspense and consequently all interest is recognised in the Statement of Profit or Loss.

(ii) The Company accepts interest bearing deposits from its customers. However, the Company not being a commercial bank, does not possess a license for the same. The Company has represented to us that this matter is under discussion with the Ministry of Finance.

(iii) The Board of Directors of each bank shall establish a Risk Management Committee consisting of at least three members of the Board and such other members as determined by the Board. The Company has not yet complied with this regulation.

The explanations or information called for or given to us by the management and employees of the Company were satisfactory.

The Company did not carry out any fiduciary duties for the year under review.

Companies Act, 1972

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

We have obtained all information and explanations required for the purpose of our audit.

In our opinion, proper accounting records have been kept by the Company as far as it appears from our examination of those records and comply with the provisions of the Seychelles Companies Act, 1972.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

HOUSING FINANCE COMPANY LIMITED

Report on Other Legal Regulatory Requirements *Continued*

Public Enterprise Monitoring Commission Act, 2013

In our opinion, proper accounting records have been kept by the Company as far as it appears from our examination of those records.

We have obtained all information necessary for the purpose of our audit and are satisfied with the information received.

BAKER TILLY
Chartered Accountants

Victoria, Seychelles
Dated: April 25, 2019

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2018

	Notes	2018	2017
		SR	SR
ASSETS			
Cash and bank balances	5	**25,235,330**	64,957,137
Loans and advances	6	**592,656,123**	573,632,840
Investment in financial asset	7	**55,328,367**	-
Property and equipment	8	**737,443**	731,476
Intangible assets	9	**556,746**	901,998
Other receivables	10	**5,579,034**	5,396,983
Deferred tax assets	11	**1,728,843**	4,479,682
Total Assets		**681,821,886**	650,100,116
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Tax payable	12	**2,273,071**	2,854,137
Borrowings	13	**114,256,170**	132,195,168
Deposits	14	**147,904,009**	129,771,169
Other payables	15	**31,654,037**	22,195,748
Retirement benefit obligations	16	**1,009,745**	1,167,017
Total Liabilities		**297,097,032**	288,183,239
EQUITY			
Share capital	17	**20,000,000**	20,000,000
Capital reserve	2.9	**255,915,014**	257,562,003
Retained earnings		**68,568,690**	47,277,602
Contingency reserve	18	**40,241,150**	37,077,272
Total Equity		**384,724,854**	361,916,877
Total Liabilities and Shareholders' equity		**681,821,886**	650,100,116

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

Ronny Palmyre
Director

Daniel Frichot
Director

Yves Choppy
Director

Elizabeth Agathine
Director

Michel Marie
Director

The notes on pages 9 to 55 form an integral part of these financial statements
Auditors' Report on pages 4 to 4 (d)

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

	Notes	2018 SR	2017 SR
Interest income	19	**48,237,768**	48,346,086
Interest expense	19	**(13,023,580)**	(13,910,099)
Gross profit		**35,214,188**	34,435,987
Fee income		**1,180,799**	729,052
Other income	20	**-**	(769,659)
Operating expenses	21	**(18,199,567)**	(16,617,203)
Operating profit		**18,195,420**	17,778,177
Reversal of provision for credit impairment	6	**9,055,739**	793,614
Profit before tax		**27,251,159**	18,571,791
Tax expense	12 (b)	**(8,978,457)**	(7,795,525)
Profit and total comprehensive income for the year		**18,272,702**	10,776,266

The notes on pages 9 to 55 form an integral part of these financial statements
Auditors' Report on pages 4 to 4 (d)

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

	Notes	Share capital	Capital reserve	Retained earnings	Contingency reserve	Total
		SR	SR	SR	SR	SR
Balance at January 1, 2018		**20,000,000**	**257,562,003**	**47,277,602**	**37,077,272**	**361,916,877**
Effect of change in measurement of on initial application of IFRS 9	2.1	-	-	**4,491,921**	-	**4,491,921**
Effect of IFRS 9 on deferred tax	11	-	-	**(1,473,535)**	-	**(1,473,535)**
Profit for the year		-	-	**18,272,702**	-	**18,272,702**
Additions during the year	18	-	-	-	**3,163,878**	**3,163,878**
Movement in Housing Subsidy scheme						
-Subsidy received during the year	22	-	**12,778,268**	-	-	**12,778,268**
-Disbursed during the year		**-**	**(14,425,257)**	-	-	**(14,425,257)**
Balance at December 31, 2018		**20,000,000**	**255,915,014**	**68,568,690**	**40,241,150**	**384,724,854**
Balance at January 1, 2017		20,000,000	269,726,999	36,501,336	34,999,798	361,228,133
Profit for the year		-	-	10,776,266	-	10,776,266
Additions during the year	18	-	-	-	2,077,474	2,077,474
Movement in Housing Subsidy scheme						
-Subsidy received during the year	22	-	5,784,775	-	-	5,784,775
-Disbursed during the year		-	(17,949,771)	-	-	(17,949,771)
Balance at December 31, 2017		20,000,000	257,562,003	47,277,602	37,077,272	361,916,877

The notes on pages 9 to 55 form an integral part of these financial statements
Auditors' Report on pages 4 to 4 (d)

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

	Notes	2018	2017
		SR	SR
OPERATING ACTIVITIES			
Profit before taxation		**27,251,159**	18,571,791
Adjustments for:			
Depreciation	8	**378,731**	450,427
Amortisation of intangible assets	9	**388,501**	384,659
Interest accrued on investments in financial assets	7	**(791,291)**	(139,680)
Interest accrued on deposits	14	**4,033,589**	3,712,030
Movement in provision for credit impairment	6	**(9,055,739)**	(793,614)
Loans written off in provision for credit impairment	6	**253,459**	(272,684)
Contributions and subsidy received during the year	22	**12,778,268**	5,784,775
Subsidy disbursed during the year	22	**(14,425,257)**	(17,949,771)
Received on Home Savings scheme	14	**35,100,037**	28,949,706
Repayment on Home Savings scheme	14	**(21,000,787)**	(8,643,024)
Movement in retirement benefit obligations	16	**626,549**	683,182
Movement in contingency reserve	18	**3,163,878**	2,077,474
Operating profit before working capital changes		**38,701,097**	32,815,271
Changes in working capital			
- Loans and advances		**(4,497,746)**	6,460,336
- Other receivables		**(182,051)**	921,444
- Other payables		**8,226,952**	2,641,788
Net cash generated from operations		**42,248,252**	42,838,839
Tax paid	12	**(8,282,217)**	(7,945,572)
Retirement benefit obligations paid	16	**(783,821)**	(532,587)
Net cash inflow from operating activities		**33,182,214**	34,360,680
INVESTING ACTIVITIES			
Additions to property and equipment	8	**(384,698)**	(522,374)
Additions to intangible assets	9	**(43,249)**	(25,000)
Investment in financial assets	7	**(82,404,750)**	(13,193,073)
Redemption of financial assets	7	**27,867,674**	13,332,753
Net cash outflow from investing activities		**(54,965,023)**	(407,694)
FINANCING ACTIVITIES			
Borrowings received	13	**-**	50,000
Repayment of borrowings	13	**(8,949,007)**	(1,942,587)
Repayment of interest on borrowings	13	**(8,989,991)**	(10,198,069)
Net cash outflow from financing activities		**(17,938,998)**	(12,090,656)
Net change in cash and cash equivalents		**(39,721,807)**	21,862,330
Movement in cash and cash equivalents:			
At January 1,		**64,957,137**	43,094,807
Decrease during the year		**(39,721,807)**	21,862,330
At December 31,	5	**25,235,330**	64,957,137

The notes on pages 9 to 55 form an integral part of these financial statements
Auditors' Report on pages 4 to 4 (d)

1. GENERAL INFORMATION

Housing Finance Company Limited is a limited liability company, incorporated and domiciled in the Republic of Seychelles with its registered office located at Victoria House, Mahé, Seychelles. The Company's principal activities are as stated on page 2 of the Directors' Report. The principal place of business is situated at the Victoria House, Mahé, Seychelles. These financial statements of the Company will be submitted for consideration and approval at the forthcoming Annual General Meeting of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and comply with the Companies Act, 1972. Where necessary, comparative figures have been amended to conform the with change in presentation in the current year. The financial statements are prepared under the historical cost convention with the exception of certain vehicles (now fully depreciated) that were acquired during the year of inception of the Company at deemed cost.

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

New and amended standards

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

Changes in accounting policies

IFRS 9 Financial Instruments

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

As permitted by the transitional provisions of IFRS 9, the Company elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

2.1 Basis of preparation *Continued*

IFRS 9 Financial Instruments *Continued*

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

(i) Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Company.

	Measurement Category	IAS 39 Carrying amount	IFRS 9 Carrying amount
		SR' 000	SR' 000
Financial assets			
Cash and cash equivalents	Amortised cost	64,957	64,957
Loans and advances	Amortised cost	565,474	578,125
Other receivables	Amortised cost	5,397	5,397
		635,828	648,479
Financial liabilities			
Other payables	Amortised cost	14,037	22,196

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

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

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

	IAS 39 Carrying amount 31 Dec 2017	Reclassifi-cations	Remeasure-ments	IFRS 9 Carrying amount 1 Jan 2018
	SR' 000	SR' 000	SR' 000	SR' 000
AMORTISED COST:				
Cash and cash equivalents	64,957	-	-	64,957
Loans and advances	565,474	8,159	4,492	578,125
Other receivables	5,397	-	-	5,397
Other payables	(14,037)	(8,159)	-	(22,196)
Total	621,791	-	4,492	626,283
Retained earnings effect on January 1, 2018				4,492

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

2.1 **Basis of preparation** *Continued*

IFRS 9 Financial Instruments *Continued*

(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 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 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.

(c) No changes noted in the carrying amounts of financial liabilities upon adoption of IFRS 9.

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

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.

The Company classifies its financial assets as subsequently measured at either amortised cost or fair value depending on the Company's business models 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.

The following summarises the key changes for the Company for the year ended December 31, 2018:

- The held-to-maturity (HTM) financial asset category was removed; and
- A new asset category designated as debt instruments measured at amortised cost was introduced since it met the above two conditions. These debt instruments 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.

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

2.1 **Basis of preparation** *Continued*

IFRS 9 Financial Instruments *Continued*

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan 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.

Business model

The business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company’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 Company 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 Company as part of liquidity management and is generally classified within the hold to collect and sell business model. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the ‘other’ business model and measured at FVPL.

SPPI

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Company assesses whether the financial instruments’ cash flows represent solely payments of principal and interest (the ‘SPPI test’). In making this assessment, the Company 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 profit or loss.

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

2.1 **Basis of preparation** *Continued*

IFRS 9 Financial Instruments *Continued*

The Company reclassifies its debt investments 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.

Policies before January 1, 2018

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

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

The Company 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.

Stage 1: 12 months ECL

The Company 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 Company 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 Company 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 Company 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 Company recognizes as a collective provision a lifetime ECL, (i.e., reflecting the remaining lifetime of the financial asset). Similar to Stage I, the Company 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 Company 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.

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

2.1 **Basis of preparation** *Continued*

IFRS 9 Financial Instruments *Continued*

(iv) **Determining the stage of impairment**

The Company 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 Company considers that a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full without recourse by the Company to actions such as realizing security (if any is held) or the financial asset is more than 90 days past due.

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments (with the sole exception of prime retail mortgages where a borrower is required to be more than 180 days past due to be considered in default).

Qualitative criteria

The borrower meets unlikeliness to pay criteria, which indicates the 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);
- 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.

(v) **Modification of loans and advances**

The Company sometimes renegotiates or otherwise the contractual cash flow of loans and advances. When this happens, the Company 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;
- Insertion of a collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

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

2.1 **Basis of preparation** *Continued*

IFRS 9 Financial Instruments *Continued*

(v) **Modification of loans and advances** *Continued*

If the terms are substantially different, the Company 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 Company 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 Company 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 (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

(vi) **Measurement of Expected Credit Losses (ECLs)**

Change in credit quality since initial recognition:

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

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 low credit risk. The provision for credit impairment reverts from lifetime ECL to 12-months 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 Company 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.

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

2.1 **Basis of preparation** *Continued*

IFRS 9 Financial Instruments *Continued*

(vi) **Measurement of Expected Credit Losses (ECLs)** *Continued*

ECLs for the Company 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 Company in accordance with the agreement and the cash flows the Company 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.

(vii) **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.

(viii) **Write-off**

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial in its entirety or a portion thereof. For individual customers, the Company has a policy of writing off the gross carrying amount when the financial asset is 180 days past due based on historical experience of recoveries of similar assets. The Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off but however, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company procedures for recovery of amounts due.

IFRS 15 Revenue from Contracts with Customers

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

2.1 Basis of preparation *Continued*

IFRS 15 Revenue from Contracts with Customers *Continued*

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

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

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

Amendments to IAS 40 Transfers of Investment Property

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

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

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

2.1 **Basis of preparation** *Continued*

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

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

Standards, amendments and interpretations in issue but not yet effective

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

• IFRS 16	Leases (January 1, 2019)
IFRS 17	Insurance Contracts (January 1, 2021)
• Amendments to IFRS 9	Financial Instruments - Prepayment Features with Negative Compensation
• Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
• Annual improvements to IFRS Standards 2015–2017	Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs
• Amendments to IAS 19 Employee Benefits	Plan Amendment, Curtailment or Settlement
• IFRS 10 Consolidated Financial Statements and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
• IFRIC 23	Uncertainty over Income Tax Treatments (January 1, 2019)

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

IFRS 16 Leases

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

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

2.1 **Basis of preparation** *Continued*

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

IFRS 16 Leases *Continued*

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

Amendments to IFRS 9 Prepayment Features with Negative Compensation

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

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

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

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

2.2 Equipment and depreciation

Equipment are stated at cost (deemed cost) less accumulated depreciation/amortisation and any impairment in value. Initial cost of equipment comprises its purchase price and any attributable costs of bringing the asset to its working condition for its intended use. Such cost also includes the cost of replacing components of the equipment. Borrowing costs for long-term construction projects are capitalised only if the recognition criteria is met. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow and the cost can be reliably measured. Expenditure for additions, improvements and renewals are capitalised and expenditure for maintenance and repairs is charged to the Statement of Profit or Loss.

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

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

	Years
Leasehold improvements	5
Furniture and fittings	3
Computer equipment	3
Office equipment	5
Motor vehicles	3

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

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

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

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

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

2.3 **Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any. The useful lives of intangible assets are assessed as either finite or infinite.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in Statement of Profit or Loss when incurred.

Intangible assets are amortised on a straight-line basis in the Statement of Profit or Loss over their estimated useful lives, from the date that they are available for use. The estimated useful life of computer software for the current and comparative periods was 5 years. Intangible assets' residual value, useful life and amortisation methods are reviewed and adjusted if appropriate, at the end of each reporting period.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Income Statement when the asset is derecognised.

2.4 **Loans and advances and provision for credit impairment**

Loan portfolio of the Company includes a bulk loan portfolio taken over from Seychelles Housing Development Corporation ('SHDC') upon its liquidation. This loan portfolio was initially recognised in the books of the Company at the amount stated by the SHDC in its books at the date of its transfer which comprised the original amount advanced by the SHDC to its borrowers, interest accrued from the lending date to the date of transfer, reduced by the repayments received by the SHDC from the borrowers to date. The net cost of this loan portfolio was recognised in the Capital Reserve since the Company was not required to pay for the net cost. Consequently, the documentation of the loan portfolio was inherited from the SHDC.

Loans taken over from Seychelles Housing Development Corporation (SHDC) are stated at the amount stated by SHDC and interest accrued by them from the date of transfer reduced by the repayments received by the Company during the year.

Loans originated by the Company by providing money directly to the borrower at draw-down are categorised as loans originated by the Company and are carried at amortised cost.

All loans and advances are recognised when cash is advanced to the borrowers. The Company also follows the regulations on Financial Institutions (Credit Classification and Provisioning) Regulations, 2010, as amended in 2011, issued by the Central Bank of Seychelles. An allowance for credit impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the contractual terms of the loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collaterals, discounted at the original effective interest rate of the loans.

If the amount of the impairment subsequently decreases due to an event occurring after a write down, the release of the provision is credited as a reduction of the provision for credit impairment in the Statement of Profit or Loss.

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

2.5 **Financial instruments**

2.5.1 ***Financial assets***

Initial Recognition

Financial instruments are recognised in the statement of financial position when the Company 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 Company 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 Company have been recognised at amortised cost as previously explained under note 2.1. 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.

(a) ***Loans and advances to customers***

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 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 (for example, prepayment, call and similar options) 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. The losses arising from impairment are recognised in the statement of profit or loss.

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

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

2.5.2 ***Financial guarantee contracts and loan commitments***

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. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities. 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 Company are measured as the amount of the loss allowance. The Company 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.

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 Company 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.

Impairment

The Company assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Company 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.
- Note 2.1 provides more detail of how the expected credit loss allowance is measured.

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 Company transfers substantially all the risks and rewards of ownership, or (ii) the Company neither transfers nor retains substantially all the risks and rewards of ownership and the Company has not retained control.

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

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

2.5.2 ***Financial guarantee contracts and loan commitments*** *Continued*

Derecognition other than on a modification *Continued*

The Company 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 Company:

- 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.

2.5.3 ***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.

Loans taken over from Seychelles Housing Development Corporation (SHDC) are stated at the amount stated by that Corporation and interest accrued by them from the date of transfer reduced by the repayments received by the Company during the year.

The Company also follows the regulations on Credit Classification and Provisioning Regulations 2010, as amended in 2011 issued by the Central Bank of Seychelles.

2.5.4 ***Other receivables***

Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for impairment of other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision normally recognised in the Statement of Profit and Loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

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

2.5 **Financial instruments** *Continued*

2.5.5 ***Deposits***

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

2.5.6 ***Other payables***

Other payables are stated at cost which is the fair value of the consideration to be paid in the future for goods and services received whether billed or not billed to the Company. The carrying amount of other payables approximate their amortised cost.

2.5.7 ***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 Company in the management of its short-term commitments. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of 3 months or less. Bank overdrafts are not netted off with cash and cash equivalents but are shown within borrowings in current liabilities on the statement of financial position.

2.5.8 ***Borrowings***

Initially Loans and Borrowings are recognised at their fair value being their issue proceeds net of transactions costs incurred. After initial recognition, interest bearing loans and borrowings are subsequently stated at amortised cost; any difference between the proceeds and the redemption value is recognised in the Statement of Profit or Loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

2.5.9 ***Share capital***

Ordinary shares are classified as equity.

2.6 **Impairment of assets**

The Company assesses at each reporting date whether there is any indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

2.7 **Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Profit or Loss net of any reimbursement.

2.8 **Employee Benefits**

(a) **Defined contribution plans**

A defined contribution plan is a post employment benefit plan under which the Company pays fixed contributions into a separate entity and the Company has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in the Statement of Profit or Loss in the period during which services are rendered by employees.

(b) **Defined benefit plans**

A defined benefit plan is a post employment benefit other than a defined contribution plan. The Company provides for payments of compensation based on contractual terms for two years. 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 Company does 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 the liability provided will not be materially different had it been computed by an external Actuary.

(c) **Short-term employee benefits**

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under a short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(d) **Provision for length of service**

Provision for compensation is provided as per the contractual terms as follows:

i) Staff below management level, compensation equals 10% of total salaries for two years.
ii) Staff above management level, compensation equals 10% - 30% of total salaries for two years.

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

2.9 **Capital reserve**

The capital reserve originally arose from contra credit entries to net assets transferred from SHDC to the Company at nil consideration in 2005. Subsequent movements represent further additions to properties transferred from the Government of Seychelles also at nil consideration and cash grants. It also includes revaluations by Directors of assets previously transferred. The Company has not fully recognised to retained earnings, the principal repayments by customers for loans transferred by the Government at nil consideration.

2.10 **Revenue Recognition**

Revenue comprises interest on loans and advances and other related income. Interest on loans and advances are recognised on the accrual basis using the effective yield method. Other revenues earned by the Company comprises interest income which is recognised on a time-proportion basis using the effective interest method.

2.11 **Interest income and expense**

Interest income and expense are recognised in the Statement of Profit or Loss for all interest bearing instruments on an accrual basis using the effective yield method based an actual purchase price.

2.12 **Fees and commission income**

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

2.13 **Current and Deferred taxation**

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

Deferred 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, provision for credit impairment on loans and advances 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 profits will be available against which the temporary differences can be utilised.

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

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

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

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

(a) ***Interest rate risk***

The Company takes term loans at floating rates and for various periods and earns interest margins by providing finance to the housing sector. The Company seeks to increase interest margins by rolling over short-term funds and lending for longer periods at higher rates.

At December 31, 2018

	Less than 1 year	Between 1 and 3 years	After 3 years	Non-Interest bearing	Total
	SR	SR	SR	SR	SR
Assets					
Cash and bank balances	-	-	-	25,235,330	25,235,330
Loans and advances	26,783,159	75,810,965	526,724,536	-	629,318,660
Investment in financial asset				55,328,367	55,328,367
Property and equipment	-	-	-	737,443	737,443
Intangible asset	-	-	-	556,746	556,746
Other receivables	-	5,579,034	-	-	5,579,034
Deferred tax assets	-	-	-	1,728,843	1,728,843
	26,783,159	81,389,999	526,724,536	83,586,729	718,484,423
Less allowances for credit impairment					(36,662,537)
					681,821,886
Liabilities					
Borrowings	26,928,991	53,857,982	33,469,197	-	114,256,170
Deposits	-	-	147,904,009	-	147,904,009
Other payables	-	-	-	31,654,037	31,654,037
Retirement benefit obligations	-	-	-	1,009,745	1,009,745
Tax payable	-	-	-	2,273,071	2,273,071
	26,928,991	53,857,982	181,373,206	34,936,853	297,097,032
Interest sensitivity gap	(145,832)	27,532,017	345,351,330	48,649,876	421,387,391
Less allowances for credit impairment					(36,662,537)
					384,724,854

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

3.1 **Financial risk factors** *Continued*

(a) ***Interest rate risk*** *Continued*

At December 31, 2017

	Less than 1 year	Between 1 and 3 years	After 3 years	Non-Interest bearing	Total
	SR	SR	SR	SR	SR
Assets					
Cash and bank balances	-	-	-	64,957,137	64,957,137
Loans and advances	36,856,446	94,148,880	493,815,588	-	624,820,914
Property and equipment	-	-	-	731,476	731,476
Intangible assets	-	-	-	901,998	901,998
Other receivables	-	5,396,983	-	-	5,396,983
Deferred tax assets	-	-	-	4,479,682	4,479,682
	36,856,446	99,545,863	493,815,588	71,070,293	701,288,190
Less allowances for credit impairment					(51,188,074)
					650,100,116
Liabilities					
Borrowings	26,928,991	53,857,982	51,408,195	-	132,195,168
Deposits	-	-	129,771,169	-	129,771,169
Other payables	-	-	-	22,195,748	22,195,748
Retirement benefit obligations	-	-	-	1,167,017	1,167,017
Tax payable	-	-	-	2,854,137	2,854,137
	26,928,991	53,857,982	181,179,364	26,216,902	288,183,239
Interest sensitivity gap	9,927,455	45,687,881	312,636,224	44,853,391	413,104,951
Less allowances for credit impairment					(51,188,074)
					361,916,877

Sensitivity analysis

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

	2018	2017
	SR	SR
Impact on results	**± 210,694**	± 206,552

3. FINANCIAL RISK MANAGEMENT *Continued*

3.1 Financial risk factors *Continued*

(b) ***Cash flow and fair value interest rate risk***

The Company is exposed to the effects of mismatch in tenure on term loans obtained from commercial banks and loans advanced to customers. An increase in interest rates would result in increasing the interest rates on loans advanced to customers resulting in no overall increase in interest margins. However, decrease in interest rates would result in lower interest expense on term loans obtained. Accordingly, increases and decreases in market interest rates would not have a substantial effect on interest margins as the Company reserves the right to increase interest rates on loans and advances reducing the Company's exposure due to changes in interest rates.

(c) ***Liquidity Risk***

The Company is exposed to call-back of term loans from commercial banks. The Board sets limits on the ratio of borrowing for loans and advances. Prudent liquidity risk management implies maintaining sufficient cash and availability of funding through an adequate amount of committed credit facilities. Furthermore, management monitors rolling forecasts of the Company's liquidity reserve on the basis of expected cash flows.

The table below analyses the Company's financial exposure into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date.

At December 31, 2018

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	SR	SR	SR	SR	SR
Assets					
Cash and bank balances	25,235,330	-	-	-	25,235,330
Loans and advances	26,783,158	28,985,257	88,792,803	484,757,442	629,318,660
Investment in financial asset	55,328,367				55,328,367
Property and equipment	-	-	-	737,443	737,443
Intangible assets	-	556,746	-	-	556,746
Other receivables	-	-	5,579,034	-	5,579,034
Deferred tax assets	-	-	1,728,843	-	1,728,843
	107,346,855	29,542,003	96,100,680	485,494,885	718,484,423
Less allowances for credit impairment					(36,662,537)
					681,821,886
Liabilities					
Borrowings	26,928,991	26,928,991	60,398,189	-	114,256,171
Deposits	-	-	-	147,904,009	147,904,009
Other payables	17,114,969	-	14,539,067	-	31,654,036
Retirement benefit obligations	-	1,009,745	-	-	1,009,745
Tax payable	2,273,071	-	-	-	2,273,071
	46,317,031	27,938,736	74,937,256	147,904,009	297,097,032
Maturity gap	61,029,824	1,603,267	21,163,424	337,590,876	384,724,854

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

3.1 **Financial risk factors** *Continued*

(c) ***Liquidity Risk*** *Continued*

At December 31, 2017

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	SR	SR	SR	SR	SR
Assets					
Cash and bank balances	64,957,137	-	-	-	64,957,137
Loans and advances	36,856,446	52,479,434	101,936,723	433,548,311	624,820,914
Property and equipment	-	-	-	731,476	731,476
Intangible asset	-	901,998	-	-	901,998
Other receivables	-	-	5,396,983	-	5,396,983
Deferred tax assets	-	-	4,479,682	-	4,479,682
	101,813,583	53,381,432	111,813,388	434,279,787	701,288,190
Less allowances for credit impairment					(51,188,074)
					650,100,116
Liabilities					
Borrowings	26,928,991	26,928,991	78,337,186	-	132,195,168
Deposits	-	-	-	129,771,168	129,771,168
Other payables	10,490,994	-	11,704,754	-	22,195,748
Retirement benefit obligations	-	1,167,018	-	-	1,167,018
Tax payable	2,854,137	-	-	-	2,854,137
	40,274,122	28,096,009	90,041,940	129,771,168	288,183,239
Maturity gap	61,539,461	25,285,423	21,771,448	304,508,619	361,916,877

(d) ***Credit Risk***

Credit risk is the risk that the Company will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower.

The Company has established a credit quality review process to provide identification of the creditworthiness of counterparties. There is regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment and of collateral and guarantees.

Credit risk arises from cash and cash equivalents, contractual cash flows of debt investments carried at amortised cost, and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables.

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

3.1 **Financial risk factors** *Continued*

(d) ***Credit Risk*** *Continued*

The Company's investments in debt instruments are considered to be low risk investments. The credit ratings of the investments are monitored for credit deterioration.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position and is shown gross before effect of collateral arrangements.

	Gross maximum exposure	
	2018	2017
	SR	SR
Cash and cash equivalents	**25,235,330**	64,957,137
Loans and advances to customers	**592,656,123**	573,632,840
Held-to-maturity financial assets	**55,328,367**	-
Other assets	**5,579,034**	5,396,984
Total credit risk exposure	**653,563,524**	643,986,961

Collateral and other credit enhancements

Loans and advances comprise mostly general lending with varying level of collateralisation depending on the amounts disbursed and credit worthiness of customers. Collaterals comprise mainly business assets, inventories and personal assets of the borrower. The Company manages its exposure by completing a credit evaluation to assess the customer's character, industry, business model and capacity to meet their commitments without distress. Collateral provides a secondary source of repayment in the event that customers cannot meet their contractual obligations. For amounts due from customers on acceptances, the Bank generally has recourse to guarantees, underlying inventories or other assets in the event of default which significantly mitigates the credit risk associated with accepting the customer's credit facility with a third party.

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

Other assets which are exposed to credit risk comprise mainly from recovery on financial guarantee contracts from the Ministry of Finance, Trade and Investment which currently has a credit rating of BB- from Fitch. Other assets also include interest receivable accrued which are subject to the same collateral as the underlying loans and advances. Other receivables are mostly unsecured.

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

3.1 **Financial risk factors** *Continued*

(d) ***Credit Risk*** *Continued*

Commitments

To meet the financial needs of customers, the Company 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 Company. The table below shows the Company's maximum credit risk exposure for commitments. The maximum exposure to credit risk relating to a loan commitment is the full amount of the commitment. The maximum risk exposure is greater than the amount recognised as a liability in the statement of financial position.

	Gross maximum exposure	
	2018	2017
	SR	SR
Undrawn commitments to lend	**133,323,835**	138,554,990

Credit quality per class of financial assets

The Company has an internally developed credit rating master scale derived from historical default data drawn from a number of sources to assess the potential default in lending or though providing other financial services products to counterparties or customers. The Company has predefined counterparty probabilities of default across almost all its various sectors of loans and advances.

In assessing the impairment of financial assets under the ECL model, the Company defines default in accordance with its Credit Policy and Procedures which includes defaulted assets and impaired assets as described below. IFRS 9 contains a rebuttable presumption that default occurs when a loan obligation is 90 days or more past due or where it is considered unlikely that the credit obligation to the Company will be paid in full without recourse to actions such as realisation of security.

Impaired exposures under the ECL model consist of:

- Loans that are contractually 90 days or more past due with sufficient doubt exists about the ability to collect principal and interest and/or insufficient security to cover principal and interest.
- Off balance sheet credit exposures where current circumstances indicate that losses may be incurred.
- Unsecured portfolio managed facilities which are 180 days past due (if not written off).

Assessment of significant increase in credit risk

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

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

3.1 **Financial risk factors** *Continued*

(d) ***Credit Risk*** *Continued*

Assessment of significant increase in credit risk *Continued*

The Company 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 Company considers that significant increase in credit risk occurs when an assets is more than 30 DPD.

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 Company 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.

Portfolio classification

The Bank classifies its portfolio of loans and advances within the following sectors:

1 Home loans-secured
2 Home loan-unsecured
3 SHDC loans -secured
4 Pensioners & SHRLS-unsecured
5 Staff loans.

Calculation of Expected Credit Loss (ECL)

ECL are calculated using three main components'., 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.

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

3.1 **Financial risk factors** *Continued*

(d) ***Credit Risk*** *Continued*

Calculation of Expected Credit Loss (ECL) Continued

- Loss Given Default (LGD) represents the Company'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 Company 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 Company 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.

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 costs observed.
- 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.

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

3.1 **Financial risk factors** *Continued*

(d) ***Credit Risk*** *Continued*

Write-off policy

The Company'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 Company 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.

Incorporation of forward-looking information

The Company has established an expert panel 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 expert panel consists of 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 information 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** *Continued*

3.1 **Financial risk factors** *Continued*

(d) ***Credit Risk*** *Continued*

Collateral and other credit enhancements

The Company closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Company will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
	SR	SR	SR	SR
Credit impaired assets				
Home loan - Secured	6,427,212	(769,262)	5,657,950	9,450,637
Home loan - Unsecured	14,290,594	(14,230,468)	60,126	-
SHDC - Secured loans	2,869,962	(1,092,759)	1,777,203	19,304,837
Pensioner + SHRLS - Unsecured	9,200,302	(2,760,832)	6,439,470	142,880
Staff loan	263,872	-	263,872	161,689
Total credit impaired assets	33,051,942	(18,853,321)	14,198,621	29,060,043

Risk concentration

Concentration of risk is managed by segment.

Concentration of credit risks exists when a number of counterparties are engaged in similar activities or operate in the same geographical areas, industry sections and have similar economic characteristics so that their ability to meet contractual obligations is similarly affected by changes in economic, political and other conditions.

The following table shows the level of concentration of the financial assets of the Bank at December 31,

	2018	2017
	SR	SR
Segment		
Home loan - Secured	517,039,096	425,170,969
Home loan - Unsecured	64,545,018	126,404,682
SHDC - Secured loans	20,965,161	24,187,700
Pensioner + SHRLS - Unsecured	24,830,247	43,660,657
Staff loan	1,939,138	5,396,906
Total	629,318,660	624,820,914
Allowance for impairment	(36,662,537)	(51,188,074)
Carrying amount	592,656,123	573,632,840
Contingent liabilities and credit related commitments	3,403,945	811,472

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

3.1 **Financial risk factors** *Continued*

(d) ***Credit Risk*** *Continued*

Credit exposure

An analysis of the Company'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:

	12-month ECL	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Total 2018**	2017
	SR	**SR**	**SR**	**SR**	SR
Loans and advances					
Credit rating					
Pass	**519,145,820**	**2,668,608**	**4,154,167**	**525,968,595**	507,833,492
Special Mention	**12,345,457**	**1,615,817**	**117,777**	**14,079,051**	13,910,633
Sub Standard	**441,504**	**12,418,521**	**408,721**	**13,268,746**	16,552,331
Doubtful	**71,020**	**13,212,182**	**856,403**	**14,139,605**	14,458,792
Loss	**477,270**	**33,870,518**	**27,514,874**	**61,862,662**	72,065,666
Total	**532,481,071**	**63,785,646**	**33,051,942**	**629,318,659**	624,820,914
Allowance for impairment	**(2,893,948)**	**(14,915,267)**	**(18,853,321)**	**(36,662,536)**	(51,188,074)
Carrying amount	**529,587,123**	**48,870,379**	**14,198,621**	**592,656,123**	573,632,840
Value of collateral and credit enhancements held				**839,331,405**	788,616,701

The Company does not have a significant concentration of credit risk, since exposure is spread over a large number of customers. However, the Company has policies in place to ensure that collections are made on a timely basis.

3. FINANCIAL RISK MANAGEMENT *Continued*

3.2 Fair value estimation

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

3.3 Capital risk management

The Company's policy is to maintain a strong capital base designed to provide sufficient liquidity to the business, maintain market confidence and sustain future growth of the business. The Company's main objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company monitors capital on the basis of the debt-to-adjusted capital ratios. The ratio is calculated as net debt to adjusted capital. Net debt is calculated as total debt less cash and cash equivalents. Adjusted capital comprises all components of equity (i.e. capital and retained earnings).

During the financial year ended December 31, 2018, the Company's strategy, which was unchanged from the financial year ended December 31, 2017, was to maintain the debt-to-adjusted capital ratio at a reasonable level in order to secure access to finance at a reasonable cost. The debt-to-adjusted capital ratio at December 31, 2017 and 2016 were as follows:

	2018	2017
	SR	SR
Total debt	114,256,171	132,195,168
Less: cash and cash equivalents	(25,235,330)	(64,957,137)
	89,020,841	67,238,031
Total equity	384,724,854	361,916,877
Debt-to-adjusted capital ratio	**23%**	19%

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

In the process of applying the Company’s accounting policies, management has made the following estimates and judgments, which have the most significant effect on the amounts recognized in the financial statements:

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

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

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

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

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

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

Assessment of Significant Increase in Credit Risk:

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

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

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

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

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

(I) The Company has established thresholds for significant increases in credit risk based on movement in Probability of Default relative to initial recognition.

(ii) Additional qualitative reviews have been performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.

(iii) IFRS 9 contains a rebuttable presumption that instruments which are 90 days past due have experienced a significant increase in credit risk.

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

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

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

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

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

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

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

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

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

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

Definition of default:

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

Expected Life:

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

Governance:

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

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

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

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

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS *Continued*

4.2 *Impairment of property and equipment*

A decline in the value of property and equipment could have a significant effect on the amounts recognized in the financial statements. Management assesses the impairment of property and equipment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important that could trigger an impairment review include the following:

(I) Significant change in the useful life which would be expected from the passage of time or normal use.

(ii) Evidence that the performance of the equipment could have a negative impact on the operating results, hence the economic viability of the asset itself and where it is a component of a larger economic unit, the viability of that unit itself.

4.3 *Estimated useful lives of property and equipment*

Estimated useful lives and residual values of property and equipment are assigned based on the intended use of these respective assets and their economic lives. Subsequently if there are changes in circumstances such as technological advances or prospective utilization of the assets concerned that could result in the actual useful lives or residual values differing from initial estimates, the estimated useful lives and residual values are re-adjusted in line with the current circumstances. The Directors has reviewed the residual values and useful lives of major items of property and equipment and determined necessary adjustments.

4.4 *Depreciation policies*

Property and equipment are depreciated to their residual value over their estimated useful lives. The residual values of an asset is the estimated net amount that the Company would currently obtain from its disposal, if the asset was already of the age, and in condition expected at the end of its useful life.

The Directors therefore make estimates based on historical experience and use best judgement to assess the useful lives of assets and to forecast their expected values at the end of their expected useful lives.

4.5 *Impairment of loans and advances and deferred tax assets*

The Company reviews its loans and advances portfolio on a regular basis to assess whether any allowance for credit impairment losses for loans and advances should be recognized in the Statement of Profit or Loss. In particular, judgement is made about the amount and timing of future cash flows when determining the level of allowance required. The allowance for credit impairment losses is based on the best estimates available. However, the actual amount of impairment may differ from amount provided resulting in higher or lower charges to the Statement of Profit or Loss. This will also impact the carrying amount of deferred tax assets.

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

4.6 ***Employee benefit obligation***

Employee benefit obligations (other than defined monthly contributions to pension fund with no further obligations) comprise gratuity payable; compensation for length of service determined based on length of service; unutilized leave pay; and end of contract bonus on fixed term contracts. The present value of these obligations depend on a number of factors and assumptions that are required to be estimated for the purpose of determining the liability. The assumptions used in determining the net cost include the discount rate and any changes in these assumptions will impact the carrying amount of the total obligation.

The present value of the obligation is normally determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Employment benefit liability has been determined using the method suggested by the Seychelles Employment Act and the Management has estimated that the amount of liability provided will not be materially different had it been computed by an external Actuary.

4.7 ***Capital reserve***

Investment properties and cash are granted to the Company by the Government of Seychelles. The corresponding credits are accounted under Capital Reserve. Capital reserve also includes revaluation of assets previously granted to the Company.

4.8 ***Limitation of sensitivity analysis***

Sensitivity analysis demonstrates the effect of a change in key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. However, these sensitivities are non-linear and larger or smaller impacts should not be interpolated or extrapolated from the results derived.

Sensitivity analysis does not necessarily take into consideration that the Company's assets and liabilities are actively managed. Other limitations include the use of hypothetical market movements to demonstrate potential risk that only represent the Company's views of possible changes in the market in the near future that cannot be predicted with any certainty.

5. CASH AND CASH EQUIVALENTS

	2018	2017
	SR	SR
Balances with banks	**25,221,090**	64,922,509
Cash on hand	**14,240**	34,628
	25,235,330	64,957,137

The Management team 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 amount represents the maximum exposure to credit loss.

6. LOANS AND ADVANCES

	2018	2017
	SR	SR
Gross loans and advances		
Neither past due not impaired	**533,315,894**	507,504,380
Past due but not impaired	**59,340,229**	71,806,542
Impaired	**36,662,537**	45,509,992
Gross loans and advances	**629,318,660**	624,820,914
Provision for credit impairment (see note (c) below)	**(36,662,537)**	(51,188,074)
Net loans and advances	**592,656,123**	573,632,840

(a) Loans and advances past due not impaired

	2018	2017
1 to 7 days past due	**78,448**	8,731
8 to 29 days past due	**3,522,926**	61,343
30 to 89 days past due	**44,712,934**	269,314
90 or more days past due	**11,025,921**	71,467,154
	59,340,229	71,806,542

(b) *Analysed as follows:*

	2018	2017
Non-current	**602,535,502**	587,964,468
Current	**26,783,158**	36,856,446
	629,318,660	624,820,914

(c) **Movement in provision for credit impairment**

	2018	2017
	SR	SR
At January 1,		
As per IAS 39	**51,188,074**	52,254,372
ECL recognised under IFRS 9	**(5,723,257)**	-
At January 1 (As per IFRS 9)	**45,464,817**	52,254,372
Decrease in provision	**(9,055,739)**	(793,614)
Written back/(off) during the year	**253,459**	(272,684)
At December 31,	**36,662,537**	51,188,074

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

(d) Loans taken over from SHDC represent outstanding balances due from ex clients of SHDC transferred to HFC upon liquidation of former net of discounts (note (g) below). Interest varies from 3% to 10%. (2017: 3% to 10%) per annum.

(e) Loans advanced by the Company are granted from own funds and interest rates vary from 7% to 10%. (2017: 7% to 10%) per annum.

(f) Discounts granted to ex-SHDC borrowers were based on the applicable terms as per the Discount Scheme announced in 2005 by the Government of Seychelles.

7. **INVESTMENT IN FINANCIAL ASSETS**

	2018	2017
	SR	SR
Held-to-maturity financial assets		
Treasury bills	**-**	-
Term deposits	**55,328,367**	-
	55,328,367	-

(a) Investment in treasury bills in 2018 and 2017 matured within during the period end and were denominated in Seychelles Rupee.

(b) Investment in fixed deposits denominated in Seychelles Rupee with maturity periods ranging between 3 and 6 months carried interest ranging from 3.55% to 4% (2017: 4.31%) per annum.

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

	2018			2017
	Treasury Bills	**Term deposits**	**Total**	Total
	SR	**SR**	**SR**	SR
At January 1,	-	-	**-**	-
Additions during the year	7,404,750	75,000,000	**82,404,750**	13,193,073
Matured during the year	(7,500,000)	(20,367,674)	**(27,867,674)**	(13,332,753)
Interest accrued	95,250	696,041	**791,291**	139,680
At December 31,	**-**	55,328,367	**55,328,367**	-

8. **PROPERTY AND EQUIPMENT**

	Leasehold Improvements	Furniture & Fittings	Office Equipment	Computer Equipment	Motor Vehicles	Total
	SR	SR	SR	SR	SR	SR
COST						
At January 1, 2017	1,419,409	1,396,842	1,832,079	2,097,688	923,876	7,669,894
Additions	-	57,645	42,424	49,249	373,056	522,374
At December 31, 2017	1,419,409	1,454,487	1,874,503	2,146,937	1,296,932	8,192,268
Additions	-	238,393	22,430	123,875	-	384,698
At December 31, 2018	**1,419,409**	**1,692,880**	**1,896,933**	**2,270,812**	**1,296,932**	**8,576,966**
ACCUMULATED DEPRECIATION						
At January 1, 2017	1,419,409	1,194,277	1,612,949	1,859,854	923,876	7,010,365
Charge for the year	-	113,332	97,868	177,057	62,170	450,427
At December 31, 2017	1,419,409	1,307,609	1,710,817	2,036,911	986,046	7,460,792
Charge for the year	-	108,478	66,646	79,267	124,340	378,731
At December 31, 2018	**1,419,409**	**1,416,087**	**1,777,463**	**2,116,178**	**1,110,386**	**7,839,523**
NET BOOK VALUE						
At December 31, 2018	**-**	**276,793**	**119,470**	**154,634**	**186,546**	**737,443**
At December 31, 2017	-	146,878	163,686	110,026	310,886	731,476

9. INTANGIBLE ASSETS

	Computer Software	Others	Total
	SR	SR	SR
COST			
At January 1, 2017	1,454,546	450,000	1,904,546
Additions during the year	25,000	-	25,000
At December 31, 2017	1,479,546	450,000	1,929,546
Additions during the year	43,249	-	43,249
At December 31, 2018	**1,522,795**	**450,000**	**1,972,795**
AMORTISATION			
At January 1, 2017	372,889	270,000	642,889
Amortisation for the year	294,659	90,000	384,659
At December 31, 2017	667,548	360,000	1,027,548
Amortisation for the year	298,501	90,000	388,501
At December 31, 2018	**966,049**	**450,000**	**1,416,049**
NET BOOK VALUE			
At December 31, 2018	**556,746**	**-**	**556,746**
At December 31, 2017	811,998	90,000	901,998

10. OTHER RECEIVABLES

	2018	2017
	SR	SR
Staff loans	**1,283,769**	1,089,719
Prepayments	**2,681,227**	2,681,226
Other receivables	**1,614,038**	1,626,038
	5,579,034	5,396,983

(a) The carrying amounts of 'other receivables' approximate their fair value.

(b) The carrying amounts of the Company's other receivables are denominated in Seychelles Rupees.

(c) The Directors have estimated that no impairment is required with respect to other receivables at December 31, 2018 (2017: Nil).

11. DEFERRED TAX ASSETS

(a) Deferred taxes are calculated on all temporary differences under the liability method at applicable rates as mentioned in note 12 (d).

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

	2018	2017
	SR	SR
Net deferred tax assets (see note (c))	**1,728,843**	4,479,682

11. **DEFERRED TAX ASSETS** *Continued*

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

	2018	2017
	SR	SR
At January 1,	**4,479,682**	4,724,037
Charge to Retained earnings	**(1,473,535)**	-
Charge to Statement of Profit or Loss (see note 12 (b))	**(1,277,304)**	(244,355)
At December 31,	**1,728,843**	4,479,682

(c) The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same fiscal authority for the same entity, is as follows:

Deferred tax assets

	Excess of depreciation over capital allowances	**Provision for credit impairment**	**Retirement benefit obligations**	**Total**
	SR	**SR**	**SR**	**SR**
At January 1, 2017	171,978	4,247,132	304,927	4,724,037
Credit for the year	(51,448)	(238,085)	45,178	(244,355)
As December 31, 2017	**120,530**	**4,009,047**	**350,105**	**4,479,682**
Effect on IFRS 9 adoption	**-**	**-**	**-**	**(1,473,535)**
Credit/(Charge) for the year	**13,065**	**(1,243,188)**	**(47,181)**	**(1,277,304)**
At December 31, 2018	**133,595**	**2,765,859**	**302,924**	**1,728,843**

12. **TAX PAYABLE**

	2018	2017
	SR	SR
(a) **Statement of financial position**		
Payable At January 1,	**(2,854,137)**	(3,248,539)
Charge to Statement of Profit or Loss (note (b))	**(7,466,432)**	(6,700,684)
Payments effected during the year	**8,047,498**	7,095,086
Payable At December 31,	**(2,273,071)**	(2,854,137)
(b) **Statement of Profit or Loss**		
Current tax		
Current tax based on the profit for the year (note (c))	**(5,365,403)**	(5,700,000)
Provision for prior year tax assessment (note 25)	**(2,385,640)**	-
Over/(Under) provision for prior year	**284,611**	(1,000,684)
Current tax charge for the year	**(7,466,432)**	(6,700,684)
Corporate Social Responsibility Tax		
Charge for the current year	**(234,721)**	(245,375)
Charge for prior years	**-**	(605,111)
Total Business and CSR Tax charge	**(7,701,153)**	(7,551,170)
Deferred tax charge (note (11(b))	**(1,277,304)**	(244,355)
Charged to Statement of Profit or Loss	**(8,978,457)**	(7,795,525)

12. TAX PAYABLE *Continued*

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

	2018	2017
	SR	SR
Profit before taxation	**27,251,159**	18,571,791
Tax calculated at applicable tax rates (note 12 (d))	**5,408,626**	5,283,453
Impact of:		
Expenses not deductible for tax purposes	**(47,181)**	45,178
Excess of capital allowance over depreciation	**3,958**	77,651
Provision for tax contingency		293,718
	5,365,403	5,700,000

(d) Applicable tax rates are as follows:

		2018	2017
Taxable income			
Income <	SR. 1,000,000	25%	25%
Income >	SR. 1,000,000	30%	30%

13. BORROWINGS

	2018	2017
	SR	SR
Seychelles Commercial Bank (note (a))	**114,256,170**	132,195,168
Analysed as:		
Due beyond one year	**87,327,179**	105,266,177
Due within one year	**26,928,991**	26,928,991
	114,256,170	132,195,168
Movements during the year are:		
At January 1,	**132,195,168**	144,285,824
Received during the year	**-**	50,000
Repaid during the year	**(8,949,007)**	(1,942,587)
Repayment of interest	**(8,989,991)**	(10,198,069)
At December 31,	**114,256,170**	132,195,168

(a) Term loan from Seychelles Commercial Bank is secured by a guarantee by the Government of Seychelles, bears interest at 7.25% per annum (2017: 7.25% per annum) and is repayable in 84 monthly instalments of SR 2.24 million starting February 28, 2017.

(b) The exposure of the Company's borrowings to interest-rate changes and maturity and the contractual repricing dates is shown under notes 3.1 (a) and 3.1 (c) respectively.

(c) The carrying amounts of the Company's borrowings are denominated in Seychelles Rupees.

(d) The carrying amounts of the Company's borrowings approximate their amortised costs.

14. DEPOSITS

	2018	2017
	SR	SR
Home Saving Scheme		
At January 1,	**129,771,169**	105,752,457
Received during the year	**35,100,037**	28,949,706
Refund during the year	**(21,000,787)**	(8,643,024)
Accrued interest (note 19)	**4,033,589**	3,712,030
At December 31,	**147,904,008**	129,771,169
Analysed as:		
Due beyond one year	**147,904,008**	**129,771,169**

(a) The carrying amounts of the Company's Deposits are denominated in Seychelles Rupees.

(b) The carrying amounts of the Company's Deposits approximate their fair value.

15. OTHER PAYABLES

	2018	2017
	SR	SR
Payable to Property Management Corporation	**14,539,067**	11,704,754
Project commitments	**590,234**	114,411
Other payables	**16,524,735**	10,376,583
	31,654,036	22,195,748
Analysed as:		
Due beyond one year	**14,539,067**	11,704,754
Due within one year	**17,114,969**	10,490,994
	31,654,036	22,195,748

(a) The carrying amounts of the Company's Other payables are denominated in Seychelles Rupees.

(b) The carrying amounts of the Company's Other payables approximate their fair value.

16. RETIREMENT BENEFIT OBLIGATIONS

	2018	2017
	SR	SR
At January 1,	**1,167,017**	1,016,422
Charge to Statement of Profit or Loss (note 21)	**626,549**	683,182
Paid during the year	**(783,821)**	(532,587)
At December 31,	**1,009,745**	1,167,017

17. SHARE CAPITAL

	2018	2017
	SR	SR
Authorised, Issued and paid up		
20,000 ordinary shares of SR. 1,000 each	**20,000,000**	20,000,000

18. **CONTINGENCY RESERVE**

	2018	2017
	SR	SR
At January 1,	**37,077,272**	34,999,798
Charge for the year	**3,163,878**	2,077,474
At December 31,	**40,241,150**	37,077,272

Contingency reserve is in respect of an extra 4% - 5% on all mortgage loans sanctioned to borrowers whose lives are not insured. The reserve is to be used as recovery against future losses in the event of the sudden death of the borrowers. No adjustments have been made to this reserve for mortgage loans that have been fully repaid to date for which the Company currently does not carry the risk.

19. **REVENUE**

	2018	2017
	SR	SR
(a) **Interest income**		
Loans and advances	**47,446,476**	48,206,405
Deposits with banks and treasury	**791,292**	139,681
	48,237,768	48,346,086
(b) **Interest expense**		
Bank loans	**(8,989,991)**	(10,198,069)
Home Saving Scheme	**(4,033,589)**	(3,712,030)
	(13,023,580)	(13,910,099)
Net interest income	**35,214,188**	34,435,987

20. **OTHER INCOME**

The Government of Seychelles assumed a debt on behalf of Island Development Company (IDC) with an original principal amount of SR 7,696,625. The outstanding balance in this account was estimated at SR. 4,624,511 which was expected to be repaid in 10 equal semi-annual installments over a period of 5 years starting from 2014. Since the Company's records did not reflect this outstanding balance from IDC, this receivable was recorded in the books by crediting Other Income in the year 2016.

In the year 2017, the amount receivable from Island Development Corporation (IDC) was determined to be SR. 3,854,852 which was fully settled by the end of the financial year 2017. The excess amount estimated and credited to Other Income previously was reversed to Other Income in the year 2017.

21. **OPERATING AND OTHER EXPENSES**

	2018	2017
	SR	SR
Administrative expenses	**2,892,304**	2,727,364
Auditors' remuneration	**240,000**	230,000
Depreciation of property and equipment (note 8)	**378,731**	450,427
Amortisation of intangible assets (note 9)	**388,501**	384,659
Maintenance costs	**253,055**	226,758
Rental expense	**3,105,945**	3,105,945
Employee benefit expenses (see note (a))	**10,941,031**	9,492,050
	18,199,567	16,617,203

21. OPERATING AND OTHER EXPENSES *Continued*

(a) *Employee benefit expenses*

	2018	2017
	SR	SR
Salaries and wages	9,039,953	7,588,810
Directors' emoluments (note (b) below)	738,228	721,466
Pension contribution	193,516	143,517
Provision for length-of-service compensation (note 16)	626,549	683,182
Other staff costs	342,785	355,075
	10,941,031	9,492,050

(b) *Directors' emoluments:*

	2018	2017
	SR	SR
Directors' fees		
Ronny Palmyre	-	-
Daniel Frichot	38,400	34,816
Yves Choppy	38,400	34,816
Elizabeth Agathine	38,400	34,816
Michel Marie	38,400	34,816
	153,600	139,264
Other emoluments		
Ronny Palmyre	584,628	582,202
Total Directors' emoluments	738,228	721,466

(c) An actuarial valuation is not performed on post employment and other benefits as the net impact of the discount rate and future salary and benefits level on the present value of the benefits obligation is not expected by management to be significant.

(d) Employment benefit liability has been determined using the method suggested by the Seychelles Employment Act and the Management has estimated that the amount of liability provided will not be materially different had it been computed by an external Actuary.

22. HOUSING SUBSIDY SCHEME

Housing Subsidy Scheme is an initiative undertaken by the Company based on Government of Seychelles recommendation, wherein a subsidy is provided to borrowers eligible for social housing. Funds received from the Government are allocated to borrowers based on the criteria for eligibility.

The movements in Housing Subsidy Scheme during the year are as follows:

	2018	2017
	SR	SR
At January 1,	33,060,010	45,225,006
Contributions & subsidy received during the year	12,778,268	5,784,775
Disbursed during the year	(14,425,257)	(17,949,771)
At December 31,	31,413,021	33,060,010

23. CONTINGENT LIABILITIES

There were no contingent liabilities at December 31, 2018 (2017: Nil).

24. CAPITAL COMMITMENTS

Loans and advances approved but not yet disbursed or partially disbursed as at December 31, 2018 totaled to SCR 133,323,835 (2017: 138,554,990).

25. TAX ASSESSMENT

During the year 2016, the Tax Regulatory Authority, the Seychelles Revenue Commission (SRC) carried out an audit of the Company for the years 2009 to 2013 and assessed business tax payable together with interest and penalties of SR 16.2 million. During the financial year under review, the Company paid SR 2.39 million and balance was settled with the Revenue Authorities in full and final settlement of this tax liability. Penalties were waived in full upon payment of primary tax.

26. FIVE YEAR FINANCIAL SUMMARY

	2018	2017	2016	Restated 2015	Restated 2014
	SR'000	SR'000	SR'000	SR'000	SR'000
Profit before tax - As previously reported	**27,251**	18,572	20,454	9,938	10,125
Tax charge - As re-stated	**(8,978)**	(7,796)	(5,452)	(1,144)	(1,892)
Effect on initial application of IFRS 9	**4,492**	-	-	-	-
Effect of IFRS 9 on deferred tax	**(1,474)**	-	-	-	-
Effect of transition to IFRS	**-**	-	-	(8,184)	-
Profit for the year - As re-stated	**21,291**	10,776	15,002	610	8,233
Retained earnings brought forward-As restated	**47,278**	36,502	21,500	20,890	8,317
Effect of transition to IFRS	**-**	-	-	-	4,340
Retained earnings carried forward	**68,569**	47,278	36,502	21,500	20,890

EQUITY					
Share capital	**20,000**	20,000	20,000	20,000	20,000
Capital reserve	**255,915**	257,562	256,967	239,187	224,502
Retained earnings	**68,569**	47,278	36,502	21,500	20,890
Contingency reserve	**40,241**	37,077	27,978	23,880	21,426
	384,725	361,917	341,447	304,567	286,818