

DEVELOPMENT BANK OF SEYCHELLES

Directors' Report & Audited Financial Statements
for the year ended December 31, 2018



DEVELOPMENT BANK OF SEYCHELLES

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

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CORPORATE INFORMATION

BOARD OF DIRECTORS	:	Brenda Bastienne Brian Charlette Ina Barbe Marc Naiken Roy Clarisse Rupert Simeon Daniel Gappy Nicholle Belle (appointed effective March 25, 2019) Rosanda Alcindor (term ended 23 August 2018)
REGISTERED OFFICE	:	Independence Avenue Victoria, Mahé, Seychelles
PRINCIPAL PLACE OF BUSINESS	:	Independence Avenue Victoria, Mahé, Seychelles
AUDITORS	:	Baker Tilly Chartered Accountants Seychelles
BANKERS	:	1. Seychelles International Mercantile Banking Corporation Limited 2. The Mauritius Commercial Bank (Seychelles) Limited 3. Barclays Bank (Seychelles) Limited 4. Seychelles Commercial Bank Limited 5. Al Salam Bank Seychelles Limited

DIRECTORS' REPORT

The Management present their report together with the audited financial statements of Development Bank of Seychelles (the "Bank" or "DBS") for the year ended December 31, 2018.

PRINCIPAL ACTIVITIES

The principal activities of the Bank are:

- to establish, maintain, develop or re-organize, or to assist in or promote the establishment, maintenance, development or reorganization of any industry; to establish, maintain or develop;
- or to assist in or promote the establishment, maintenance or development of, money or capital markets in the Seychelles; and
- to co-operate with other institutions and organizations, whether public or private, national or international, which wish to further any of the purposes referred to in section (4) of the Development Bank of Seychelles Decree 1977.

There has been no change in the nature of this activity for the financial year under review.

RESULTS

SR

Profit for the year	26,446,316
Effect on initial application of IFRS 9	(1,906,539)
Retained earnings brought forward	<u>218,520,784</u>
Retained earnings carried forward	<u><u>243,060,561</u></u>

EQUIPMENT

Additions of SR. 526,709 during the year comprised mainly furniture and equipment (2017: SR. 1,516,165). Disposals during the year comprised mainly furniture and equipment carried at net book value of SR. 26,708 (2017 : SR. 10,745).

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

DIRECTORS' AND THEIR INTEREST IN THE BANK

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

Brenda Bastienne	:	Chairperson
Brian Charlette	:	Vice-Chairperson
Daniel Gappy	:	Member
Ina Barbe	:	Member
Marc Naiken	:	Member
Roy Clarisse	:	Member
Rupert Simeon	:	Member
Nicholle Belle	:	Member (appointed effective March 25, 2019)
Rosanda Alcindor	:	Member (term ended August 23, 2018)

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

DIRECTORS' REPORT *Continued***STATEMENT OF MANagements' RESPONSIBILITIES**

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

The Board is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and in compliance with the Development Bank of Seychelles Decree 1977, the Financial Institutions Act 2004, as amended, the Financial Institutions (Application of Act) Regulations, 2010, and the regulations and directives of the Central Bank of Seychelles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies that fall within the accounting policies adopted by the Bank as a whole; and making accounting estimates that are reasonable in the circumstances. The Board has the general responsibility of safeguarding the Bank's assets.

The Board confirms that the financial statements presented for audit are free from material misstatement and it has met the aforesaid responsibilities.

GOING CONCERN

The Bank's Management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern.

AUDITORS

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

BOARD APPROVAL


Brenda Bastienne
Chairperson

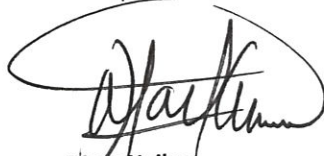


Brian Charlette
Vice-Chairperson

Daniel Gappy
Member



Ina Barbe
Member



Marc Naiken
Member



Roy Clarisse
Member


Rupert Simeon
Member



Nicholle Belle
Member

Dated: April 23, 2019
Victoria, Seychelles

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

DEVELOPMENT BANK OF SEYCHELLES

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

Report on the Audit of the Financial Statements

Opinion

We have audited the attached financial statements of the Development Bank of Seychelles set out on pages 5 to 57 which comprise the Statement of Financial Position at December 31, 2018, the Statement of Comprehensive Income, Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements set out on pages 5 to 57 give a true and fair view of the financial position of the Bank at December 31, 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), Development Bank of Seychelles Decree 1977, the Financial Institutions Act 2004, as amended, the Financial Institutions (Application of Act) Regulations, 2010 and the regulations and directives of Central Bank of Seychelles.

Basis of Opinion

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

DEVELOPMENT BANK OF SEYCHELLES

Report on the Audit of the Financial Statements *Continued*

Other information

The Bank Management is responsible for the other information.

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

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

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

Responsibilities of the Board for the Financial Statements

The Board is responsible for the preparation of the financial statements in accordance with International Financial Reporting Standards ('IFRS'), Development Bank of Seychelles Decree 1977, the Financial Institutions Act 2004, as amended, the Financial Institutions (Application of Act) Regulations, 2010 and the regulations and directives of Central Bank of Seychelles 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 Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

DEVELOPMENT BANK OF SEYCHELLES

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

DEVELOPMENT BANK OF SEYCHELLES

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:

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

Other matter

The financial statements of the Company for the year ended December 31, 2017 were audited by another auditor who expressed an unmodified opinion on April 26, 2018.



BAKER TILLY
Chartered Accountants




Victoria, Seychelles
Dated: April 23, 2019

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2018

	Notes	2018 SR	2017 SR
ASSETS			
Cash and bank balances	5	134,033,347	158,987,407
Loans and advances	6	870,992,059	885,154,986
Held to maturity investments	7	-	-
Other assets	8	24,882,331	20,374,661
Property and equipment	9	22,025,643	18,389,947
Intangible assets	10	125,538	145,216
Total Assets		<u>1,052,058,918</u>	<u>1,083,052,217</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Funds under management	13	10,489,906	10,210,173
Other liabilities	14	4,130,379	3,660,665
Borrowings	11	433,550,622	445,419,076
DBS bonds	12	251,893,151	302,246,575
Retirement benefit obligation	15	6,348,144	5,230,027
Total Liabilities		<u>706,412,202</u>	<u>766,766,516</u>
EQUITY			
Share capital	16	39,200,000	39,200,000
Contingent reserve	17	41,385,321	41,385,321
Revaluation reserve		22,000,834	17,179,596
Retained earnings		243,060,561	218,520,784
Total Equity		<u>345,646,716</u>	<u>316,285,701</u>
Total Liabilities and Shareholders' equity		<u>1,052,058,918</u>	<u>1,083,052,217</u>


These financial statements were approved for issue by the Board of Directors on April 23, 2019



Brenda Bastienne
Chairperson

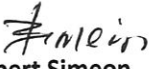

Brian Charlette
Vice-Chairperson


Daniel Gappy
Member


Ina Barbe
Member


Marc Naiken
Member


Roy Clarisse
Member


Rupert Simeon
Member


Nicholle Belle
Member

The notes on pages 9 to 57 form an integral part of these financial statements
Auditors' Report on pages 4 to 4 (c)

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

	<u>Notes</u>	<u>2018</u> SR	<u>2017</u> SR
Interest income	19	91,970,104	79,721,197
Interest expense	20	<u>(40,336,509)</u>	<u>(37,816,695)</u>
Net interest income		51,633,595	41,904,502
Other income	21	1,340,707	1,992,580
Net foreign exchange profit		<u>166,972</u>	<u>1,359,168</u>
		53,141,274	45,256,250
Non-interest expense			
Employee benefit expense	22	<u>(18,859,807)</u>	(17,219,733)
Depreciation	9	<u>(1,685,545)</u>	(1,706,296)
Amortisation	10	<u>(57,443)</u>	(12,750)
Administrative expenses	23	<u>(7,791,646)</u>	<u>(7,153,001)</u>
Total operating expenses		<u>(28,394,441)</u>	<u>(26,091,780)</u>
Operating profit		24,746,833	19,164,470
Write back/(Provision) for credit impairment	6	<u>1,699,483</u>	<u>(3,346,077)</u>
Profit from continuous operations		26,446,316	15,818,393
Other comprehensive income			
Revaluation of land and building	9	<u>4,821,238</u>	-
Total other comprehensive income for the year		<u>4,821,238</u>	-
Total comprehensive income for the year		<u>31,267,554</u>	<u>15,818,393</u>

The notes on pages 9 to 57 form an integral part of these financial statements
Auditors' Report on pages 4 to 4 (c)

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

	Notes	Share Capital SR	Contingent reserve SR	Asset Revaluation reserve SR	Retained earnings SR	Total SR
Balance at January 1, 2018		39,200,000	41,385,321	17,179,596	218,520,784	316,285,701
Effect of change in measurement of on initial application of IFRS 9	2.1	-	-	-	(1,906,539)	(1,906,539)
Profit for the year		-	-	-	26,446,316	26,446,316
Other comprehensive income	9	-	-	4,821,238	-	4,821,238
Balance at December 31, 2018		39,200,000	41,385,321	22,000,834	243,060,561	345,646,716
Balance at January 1, 2017		39,200,000	41,385,321	17,179,596	202,702,391	300,467,308
Profit for the year		-	-	-	15,818,393	15,818,393
Other comprehensive income	9	-	-	-	-	-
Balance at December 31, 2017		39,200,000	41,385,321	17,179,596	218,520,784	316,285,701

The notes on pages 9 to 57 form an integral part of these financial statements
Auditors' Report on pages 4 to 4 (c)

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

	Notes	2018 SR	2017 SR
OPERATING ACTIVITIES			
Profit for the year		26,446,316	15,818,393
Adjustments for:			
Depreciation	9	1,685,545	1,706,296
Amortisation	10	57,443	12,750
Loss/(Profit) on disposal of equipment		24,388	(318,796)
Allowance for credit impairment	6	(1,664,283)	10,820,641
Provision for retirement benefit obligations	15	2,804,759	1,980,455
Net interest on financial instruments		567,390	807,988
Net foreign exchange difference		(166,972)	(1,359,168)
Operating profit before working capital changes		<u>29,754,586</u>	<u>29,468,559</u>
Changes in working capital			
- Loans and advances	6	13,981,496	(148,453,319)
- Other assets (*)	8	(6,347,415)	(1,213,663)
- Funds under management	13	279,733	(2,247,880)
- Other liabilities	14	196,943	1,346,241
Net cash generated from/(used in) operations		<u>37,865,344</u>	<u>(121,100,062)</u>
Compensation paid	15	(1,686,642)	(2,455,419)
Net cash inflow/(outflow) from operating activities		<u>36,178,702</u>	<u>(123,555,481)</u>
INVESTING ACTIVITIES			
Purchase of intangible assets	10	(37,765)	(145,496)
Purchase of equipment	9	(526,709)	(1,516,165)
Proceeds from sale of equipment	9	2,318	329,541
Purchase of treasury bills	7	(3,793,862)	-
Proceeds from redemption of treasury bills	7	3,845,000	9,872,000
Net cash (outflow)/inflow from investing activities		<u>(511,018)</u>	<u>8,539,880</u>
FINANCING ACTIVITIES			
Proceeds received from borrowings	11	50,000,000	41,687,059
Repayment of borrowings	11	(60,788,715)	(52,079,007)
Proceeds from bonds issued	12	-	150,000,000
Bonds redeemed	12	(50,000,000)	-
Net cash (outflow)/inflow from financing activities		<u>(60,788,715)</u>	<u>139,608,052</u>
Net change in cash and cash equivalents		<u>(25,121,032)</u>	<u>24,592,451</u>
Movement in cash and cash equivalents:			
At January 1,		158,987,407	133,053,441
(Decrease)/Increase during the year		(25,121,032)	24,592,451
Net foreign exchange difference		166,972	1,341,515
At December 31,	5	<u>134,033,347</u>	<u>158,987,407</u>

(*) Significant non-cash transactions

The Bank contracted loans in line with the Public Debt Management Act, and signed a contract with the Ministry of Finance, Trade and Investment stating that the net foreign exchange losses arising on the loan facilities will be reimbursed by the latter. Total net foreign exchange incurred during 2018 was SR. 1,839,746 (2017: SR. 13,027,218).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

1. GENERAL INFORMATION

The Development Bank of Seychelles was established in 1977 under the Development Bank of Seychelles Decree as a corporate body. The principal activities of the Bank are as stated on page 1 of the Directors' Report. The principal place of business is situated at the Independence Avenue, Victoria, Mahé, Seychelles.

These financial statements were authorised for issue by the Board of Directors.

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 Development Bank of Seychelles have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and comply with the Companies Act, 1972, the Financial Institutions Act, 2004 as amended and the Regulations and Directives of the Central Bank of Seychelles. Where necessary, comparative figures have been amended to conform with the change in presentation in the current year. The financial statements are prepared under the historical cost convention with the exception of available-for-sale investments which are measured at fair value. The financial statements are presented in Seychelles Rupees (SCR).

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

New and amended standards

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

Changes in accounting policies***IFRS 9 Financial Instruments***

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*2.1 Basis of preparation *Continued**IFRS 9 Financial Instruments Continued*

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

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

		IAS 39 Carrying amount SR' 000	IFRS 9 Carrying amount SR' 000
	<u>Measurement Category</u>		
Financial assets			
Loans and advances	Amortised cost	885,155	883,521

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

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

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

	IAS 39 Carrying amount 31 Dec 2017 SR' 000	Reclassifi- cations SR' 000	Remeasure- ments SR' 000	IFRS 9 Carrying amount 1 Jan 2018 SR' 0000
AMORTISED COST:				
Loans and Advances	885,155	-	(1,634)	883,521
Total financial assets at Amortised Cost	<u>885,155</u>	<u>-</u>	<u>(1,634)</u>	<u>883,521</u>
Undrawn commitments	<u>118,714</u>	<u>-</u>	<u>(273)</u>	<u>118,441</u>
Retained earnings effect on January 1, 2018				<u><u>(1,907)</u></u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*2.1 Basis of preparation *Continued**IFRS 9 Financial Instruments Continued*

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

(i) Classification of financial assets and financial liabilities

On initial recognition, a financial asset is classified as measured: at amortised cost, Fair Value through other comprehensive income ('FVOCI') or Fair Value through profit and loss ('FVTPL').

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment:

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*2.1 Basis of preparation *Continued**IFRS 9 Financial Instruments Continued**Business model assessment:*

- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about the future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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

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

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

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

Reclassifications:

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

Derecognition:

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*2.1 Basis of preparation *Continued**IFRS 9 Financial Instruments Continued*

(ii) Impairment

The Bank recognises loss allowances for Expected Credit Losses ('ECL') on the following financial instruments that are not measured at FVTPL:

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

No impairment loss is recognised on equity investments.

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

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

Measurement of ECL

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

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

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*2.1 Basis of preparation *Continued**IFRS 9 Financial Instruments Continued*

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset. The cash shortfalls are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

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

Purchased or originated credit impaired assets (POCI)

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

Revolving facilities

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

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

Write-off

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued***2.1 Basis of preparation** *Continued**IFRS 9 Financial Instruments* *Continued***(iii) Financial guarantees and loan commitments**

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

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

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

(iv) Derivatives and hedging

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

The Bank does not have any hedging activities.

(v) Foreign currencies

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

(vi) Loans and advances

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

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

(vii) Investment in financial assets

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

- debt investment securities measured at amortised cost: these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*2.1 Basis of preparation *Continued**IFRS 9 Financial Instruments Continued*(vii) Investment in financial assets *Continued*

- debt and equity investment securities measured at FVTPL or designated as at FVTPL: these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as FVOCI.

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

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

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

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

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

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

IFRS 15 Revenue from Contracts with Customers

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*2.1 Basis of preparation *Continued****Amendments to IAS 28 included in the 2014-2016 Annual Improvements Cycle***

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

Amendments to IAS 40 Transfers of Investment Property

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*2.1 Basis of preparation *Continued***Standards, amendments and interpretations in issue but not yet effective**

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

- IFRS 16 Leases (January 1, 2019)
- IFRS 17 Insurance Contracts (January 1, 2021)
- Amendments to IFRS 9 Financial Instruments - Prepayment Features with Negative Compensation
- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures
- Annual improvements to IFRS Standards Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement Employee Benefits
- IFRS 10 Consolidated Financial Statements and IAS 28 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 Branch's financial statements. The Bank will adopt the other standards on their effective dates.

IFRS 16 Leases

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued***2.1 Basis of preparation** *Continued***Standards, amendments and interpretations in issue but not yet effective** *Continued****Amendments to IFRS 9 Prepayment Features with Negative Compensation***

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

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

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

2.2 Foreign currency translation

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

Transactions and balances

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transactions.

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

2.3 Financial instruments - initial recognition and subsequent measurement

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

2.3.1 Recognition and measurement

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued***2.3 Financial instruments - initial recognition and subsequent measurement** *Continued***2.3.2 Held-to-maturity financial assets**

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

2.3.3 Loans and advances

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

2.3.4 Borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included as interest expense in profit or loss.

2.3.5 Bonds

DBS bonds, which are issued for the purpose of raising capital are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process. The effective interest rate amortisation is included as interest expense in the statement of profit or loss.

2.3.5 Other Liabilities

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

2.4 Derecognition of financial assets and financial liabilities**2.4.1 Financial assets**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued***2.4 Derecognition of financial assets and financial liabilities** *Continued***2.4.1 Financial assets** *Continued*

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

2.4.2 Financial liabilities

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

2.5 Fair value

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

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

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

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued***2.6 Impairment of assets**

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

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

Financial assets carried at amortised cost

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

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

2.7 Offsetting financial instruments

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

2.8 Property, Equipment and depreciation

Land and buildings are carried at fair value at the revaluation date, less accumulated depreciation on buildings and impairment losses recognised at the date of revaluation. Valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value.

A revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve. The revaluation surplus is transferred, in full, upon disposal of the asset to retained earnings.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*2.8 Property, Equipment and depreciation *Continued*

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

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

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

	Years
Buildings	10 to 25
Equipment	3 to 7
Furniture and fittings	3
Motor vehicles	4

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued***2.9 Intangible assets**

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

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

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

2.10 Compensation benefit obligations

The Bank contributes to a defined contribution plan as well as has several other long term benefit schemes.

Payments to defined contribution retirement benefit plans are recognised as an expense in the statement of profit or loss when employees have rendered service entitling them to the contributions.

The other long term benefit schemes include those benefits that do not meet the definition of short-term employee benefits, post-employment benefits and termination benefits. The cost of providing these benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising of actuarial gains and losses, is recognised in profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate to the net defined liability or asset.

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

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

2.11 Taxation

The Bank is exempted from the provision of Business Tax Act, 2009.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued***2.12 Recognition of income and expenses**

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

2.12.1 Interest income and expense

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

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

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

2.12.2 Other income

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

2.13 Cash and cash equivalents

In the Statement of Cash Flows, cash and cash equivalents includes money market placements, cash in hand, balances with banks, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts, if any. In the Statement of Financial Position, bank overdrafts are shown within borrowings in current liabilities.

2.14 Leases

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued***2.14 Leases** *Continued***Bank as a lessee**

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

Bank as a lessor

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

2.16 Going concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

2.16 Contingent Liabilities

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

3. FINANCIAL RISK MANAGEMENT**3.1 Financial risk factors**

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*3. FINANCIAL RISK MANAGEMENT *Continued*3.1 Financial risk factors *Continued*(i) *Strategy in using financial instruments*

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

(ii) *Capital adequacy*

Capital includes share capital, contingent reserve and retained earnings.

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

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

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

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

	<u>2018</u>	<u>2017</u>
	SR' 000	SR' 000
Capital Base (a)	291,252	265,078
Risk adjusted assets (b)	1,005,662	1,032,418
Capital adequacy (a/b)*100	<u>29%</u>	<u>26%</u>
Minimum Requirement	<u>12%</u>	<u>12%</u>
Capital Base		
<u>Tier 1 Capital</u>		
Share Capital	39,200	39,200
Retained earnings	<u>218,521</u>	202,702
Total Tier 1 Capital	<u>257,721</u>	241,902
<u>Tier 2 Capital</u>		
Year-to-date net profit after tax	26,446	15,818
General Provision - see Note 6 (b)	<u>7,085</u>	7,358
Total Tier 2 Capital	<u>33,531</u>	23,176
	<u>291,252</u>	<u>265,078</u>

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

3. FINANCIAL RISK MANAGEMENT *Continued*(iii) *Credit risk*

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

The Bank 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.

The Bank'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	134,033,347	158,987,407
Loans and advances to customers	870,992,059	885,154,986
Held-to-maturity financial assets	-	-
Other assets	24,882,331	20,374,661
Total credit risk exposure	1,029,907,737	1,064,517,054

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 Bank 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 and vehicles. Corporate and personal guarantees are also accepted by the Bank. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

3. FINANCIAL RISK MANAGEMENT *Continued*(iii) *Credit risk Continued**Collateral and other credit enhancements Continued*

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.

Commitments

To meet the financial needs of customers, the Bank enters into various irrevocable commitments. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are, therefore, part of the overall risk of the Bank. The table below shows the Bank'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	<u>57,309,685</u>	<u>118,713,770</u>

Credit quality per class of financial assets

The Bank 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 through providing other financial services products to counterparties or customers. The Bank 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 Bank 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 Bank 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).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

3. FINANCIAL RISK MANAGEMENT *Continued*(iii) *Credit risk Continued****Assessment of significant increase in credit risk***

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

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

Establishing groups of assets with similar credit risk characteristics:

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

Portfolio classification

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

1 Service/Trade	4 Agriculture	7 Building & Construction
2 Industry/Manufacturing	5 Fisheries	8 Staff Loans
3 Tourism	6 Transport	9 Ex Staff Loans

Calculation of Expected Credit Loss (ECL)

ECL are calculated using three main components¹, 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.

- 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

3. **FINANCIAL RISK MANAGEMENT** *Continued*(iii) **Credit risk** *Continued**Calculation of Expected Credit Loss (ECL) Continued*

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

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, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies, including contracted debt sales and price.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

3. **FINANCIAL RISK MANAGEMENT** *Continued*(iii) **Credit risk** *Continued***Collateral repossessed**

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

In its normal course of business, the Bank does not physically repossess properties or other assets in its retail portfolio, but engages to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the balance sheet.

Write-off Policy

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

Modifications of financial assets

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

3. **FINANCIAL RISK MANAGEMENT** *Continued*(iii) **Credit risk** *Continued****Incorporation of forward-looking information***

The Bank 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.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

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.

Collateral and other credit enhancements

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, guarantees, real estate, receivables, inventories etc. The Bank's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same as it was under IAS 39. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a three year basis as per internal policy of the Bank.

Non-financial collateral, such as real estate, is valued based on data provided by third parties such as land Valuers or based on housing price indices.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

3. FINANCIAL RISK MANAGEMENT *Continued*(iii) *Credit risk Continued**Collateral and other credit enhancements Continued*

The Bank closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Bank 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
<u>Credit impaired assets</u>				
Agriculture	4,765,493	(158,024)	4,607,469	19,507,536
Building & Construction	7,820,288	(1,395,962)	6,424,326	5,223,290
Ex Staff Loan	-	-	-	-
Fisheries	6,035,826	(1,006,421)	5,029,405	10,521,132
Industry/Manufacturing	6,801,014	(1,137,541)	5,663,473	9,193,129
Service/Trade	16,571,533	(2,281,771)	14,289,762	17,658,603
Staff Loan	-	-	-	-
Tourism	3,455,467	(194,733)	3,260,734	19,282,469
Transport	24,183,808	(6,563,334)	17,620,474	20,925,587
Total credit impaired assets	69,633,429	(12,737,786)	56,895,643	102,311,746

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' 000	SR' 000
Segment		
Agriculture	30,558,119	32,570,119
Building & Construction	416,382,216	377,288,990
Fisheries	36,577,248	36,657,511
Industry / manufacturing	45,290,070	44,896,389
Tourism	178,867,360	188,105,486
Transport	55,471,926	76,790,186
Service / trade	108,592,915	129,469,006
Staff Loan	21,806,605	21,312,213
Ex Staff loan	1,280,870	1,718,925
Total	894,827,329	908,808,825
Allowance for impairment	(16,701,579)	(16,185,016)
Carrying amount	878,125,750	892,623,809
Contingent liabilities and credit related commitments	190,579	272,770

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

3. FINANCIAL RISK MANAGEMENT *Continued*(iii) *Credit risk Continued**Credit exposure*

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

	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total 2018	2017
	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000
Loans and advances					
<i>Credit rating</i>					
High Grade	684,794,835	22,173,374	1,571,081	708,539,290	735,787,342
Special Mention Grade	16,016,390	98,553,985	-	114,570,375	106,650,389
Sub Standard Grade	3,593,408	-	31,414,773	35,008,181	19,207,716
Doubtful Grade	-	-	11,943,964	11,943,964	12,447,016
Loss Grade	61,909	-	24,703,610	24,765,519	34,716,363
Total	704,466,542	120,727,359	69,633,428	894,827,329	908,808,825
Allowance for impairment	(1,628,606)	(1,218,875)	(13,854,098)	(16,701,579)	(16,185,016)
Carrying amount	<u>702,837,936</u>	<u>119,508,484</u>	<u>55,779,330</u>	<u>878,125,750</u>	<u>892,623,809</u>
Total Non-Performing				71,717,664	66,371,095
Non-Performing Ratio				<u>8%</u>	<u>7%</u>

*The non-performing loans ratio is based on loans in arrears greater than 89 days.

Maximum exposure to credit risk

	Maximum exposure to credit	
	2018	2017
	SR	SR
<i>Value of collateral and credit enhancements held</i>		
Mortgage	1,157,508,291	1,994,611,922
Vehicle	459,205,061	118,267,693
Boat and Engine	222,631,656	63,230,758
Equipment	59,703,178	15,643,710
Others	180,625,837	160,212
Total	<u>2,079,674,023</u>	<u>2,191,914,295</u>

As it is the Bank's practice for all loans to require security cover of at least a ratio between 1:1 and 1:1.25, all loans are fully collateralized.

(a) *Currency risk*

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

The Bank's exposure to fluctuations on the translation of borrowings from Nouvobanq, Mauritius Commercial Bank and Al Salam Bank Bahrain is limited by the financial guarantee agreements signed with the Government of Seychelles.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

3. FINANCIAL RISK MANAGEMENT *Continued*(a) *Currency risk Continued*

Concentration of assets and liabilities by currency:

At December 31, 2018

	SCR	EURO	US Dollars	GBP	Total
	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000
Assets					
Cash and bank balances	109,890	3,745	20,398	-	134,033
Loans and advances	870,992	-	-	-	870,992
Other assets	24,780	-	80	22	24,882
	1,005,662	3,745	20,478	22	1,029,907
Liabilities					
Borrowings	342,298	44,300	46,953	-	433,551
DBS bonds	251,893	-	-	-	251,893
Funds under management	10,490	-	-	-	10,490
Other liabilities	4,130	-	-	-	4,130
	608,811	44,300	46,953	-	700,064

At December 31, 2017

	SCR	EURO	US Dollars	GBP	Total
	SR' 000	SR' 000	SR' 000	SR' 000	SR' 000
Assets					
Cash and bank balances	133,276	5,999	19,712	-	158,987
Loans and advances	885,155	-	-	-	885,155
Other assets	19,866	479	-	30	20,375
	1,038,297	6,478	19,712	30	1,064,517
Liabilities					
Borrowings	330,216	66,506	48,697	-	445,419
DBS bonds	302,247	-	-	-	302,247
Funds under management	10,210	-	-	-	10,210
Other liabilities	3,661	-	-	-	3,661
	646,334	66,506	48,697	-	761,537

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

	2018	2017
	SR' 000	SR' 000
EUR	± 2,028	± 3,001
USD	± 1,324	± 1,449

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

3. FINANCIAL RISK MANAGEMENT *Continued*(b) *Interest rate risk*

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

Interest sensitivity of assets and liabilities - repricing analysis

The following table demonstrates the sensitivity to a reasonably possible change in interest rates by 10 basis points, with all other variables held constant, of the Bank's interest bearing net financial assets. The sensitivity of the profit or loss and equity is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at December 31, 2018 and December 31, 2017.

	<u>2018</u>	<u>2017</u>
	Effect on profit	Effect on profit
	before tax	before tax
	and equity	and equity
Interest bearing net financial assets	<u>± 73,951</u>	<u>± 70,392</u>

Cash and cash equivalents include foreign placements which earn interest at fixed rates which are determined upon purchase.

(c) *Liquidity Risk*

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management monitors future cash flows and liquidity on a daily basis. The Bank maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. Net liquid assets consist of cash, short-term bank deposits and liquid debt securities, less borrowings due to mature within the next month.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

3. FINANCIAL RISK MANAGEMENT *Continued*3.1 Financial risk factors *Continued*(d) *Liquidity risk Continued*

At December 31, 2018

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	> 5 years	Total
	SR	SR	SR	SR	SR	SR	SR
Financial liabilities							
Undrawn commitments to lend	857,631	15,066,350	35,973,411	5,412,293	-	-	57,309,685
Borrowings	4,931,243	10,315,714	16,560,953	35,987,640	247,992,104	117,762,969	433,550,623
DBS Bonds	-	4,684,931	54,648,335	8,090,411	184,469,474	-	251,893,151
Funds under management	10,489,906	-	-	-	-	-	10,489,906
Other liabilities	-	4,130,379	-	-	-	-	4,130,379
Total financial liabilities	16,278,780	34,197,374	107,182,699	49,490,344	432,461,578	117,762,969	757,373,744

At December 31, 2017

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	> 5 years	Total
	SR	SR	SR	SR	SR	SR	SR
Financial liabilities							
Undrawn commitments to lend	7,756,697	22,970,783	58,030,403	29,955,887	-	-	118,713,770
Borrowings	7,465,772	10,686,427	22,235,205	36,875,049	318,031,273	128,855,314	524,149,040
DBS Bonds	-	2,520,548	56,999,080	8,065,753	276,758,471	-	344,343,852
Funds under management	10,210,173	-	-	-	-	-	10,210,173
Other liabilities	-	3,660,665	-	-	-	-	3,660,665
Total financial liabilities	25,432,642	39,838,423	137,264,688	74,896,689	594,789,744	128,855,314	1,001,077,500

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

3. FINANCIAL RISK MANAGEMENT *Continued*3.1 Financial risk factors *Continued*(d) *Liquidity risk Continued*

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

	<u>2018</u>	<u>2017</u>
	SR	SR
Liquid assets (a)	134,033,347	158,987,407
Bank's total liabilities (b)	706,412,202	766,766,516
Liquidity (a/b)*100	<u>19%</u>	<u>21%</u>

(e) *Fair values*

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

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.

<i>Fair value measurement hierarchy for assets as at 31 December 2018:</i>	Fair value measurement using		
	Date of valuation	Quoted prices in active market (Level 1) SR' 000	Significant observable input (Level 2) SR' 000

Assets measured at fair value

Recurring measurement

Land and buildings	12/31/2018	-	-	20,600
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*Fair value measurement hierarchy for assets
as at 31 December 2017:**Assets measured at fair value*

Recurring measurement

Land and buildings	12/6/2016	-	-	17,525
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Additional fair value information in respect of land and buildings is disclosed in Note 9.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

4.1 Financial instruments (applicable from 1 January 2018)

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

- (i) Classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and interest of the principal amount outstanding.
- (i) Calculation of expected credit loss (ECL): changes to the assumptions and estimation uncertainties that have a significant impact on ECL for the year ended 31 December 2018 pertain to the changes introduced as a result of adoption of IFRS 9: Financial instruments. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

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

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

Assessment of Significant Increase in Credit Risk:

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

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

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

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

Governance:

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS *Continued***4.2 Revaluation of properties**

The Bank measures its properties at revalued amounts, with changes in fair value being recognised in OCI. The Bank engages an independent valuer to assess fair values of its properties. The key assumptions used to determine the fair value of the properties are provided Note 3 (f).

4.3 Going concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

4.4 Long term employee benefits

The present value of the long term employee benefits depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for compensation include discount rate, future salary growth and retirement age. Any changes in these assumptions will impact the carrying amount of compensation obligations. The Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the compensation obligations. In determining the appropriate discount rate, the Bank considers the interest rates of government treasury bills that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related compensation liability. Refer to Note 15 for disclosures on employee.

4.5 Limitation of sensitivity analysis

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

5. CASH AND CASH EQUIVALENTS

	<u>2018</u>	<u>2017</u>
	SR	SR
Balances with local banks	133,589,329	158,730,835
Cash on hand	444,018	256,572
	<u>134,033,347</u>	<u>158,987,407</u>

The Bank's risk management committee 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

	<u>2018</u>	<u>2017</u>
	SR	SR
Loans and advances to customers	873,020,724	887,496,612
Staff Loans	21,806,605	21,312,213
	<u>894,827,329</u>	<u>908,808,825</u>
Less: Allowance for credit impairment (see below)	(16,701,579)	(16,185,016)
Interest in Suspense	(7,133,691)	(7,468,823)
	<u>870,992,059</u>	<u>885,154,986</u>

Loans and advances by credit quality

	<u>2018</u>	<u>2017</u>
	SR	SR
Gross loans and advances		
Neither past due not impaired	687,493,495	699,393,413
Past due but not impaired	190,632,255	191,606,282
Impaired	16,701,579	17,828,440
	<u>894,827,329</u>	<u>908,828,135</u>
Loans and advances past due not impaired		
1 to 7 days past due	65,052,642	73,410,084
8 to 29 days past due	31,881,689	23,809,272
30 to 89 days past due	39,174,637	39,105,197
90 or more days past due	54,523,287	55,281,729
	<u>190,632,255</u>	<u>191,606,282</u>

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

A reconciliation of interest in suspense is as follows:

	<u>2018</u>	<u>2017</u>
	SR	SR
At January 1,	7,468,823	3,230,624
Direct write off to Loans and Advances	(370,332)	(350,980)
Charged to profit and loss (i)	35,200	4,589,179
	<u>7,133,691</u>	<u>7,468,823</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

6. LOANS AND ADVANCES *Continued*

A reconciliation of allowance for credit impairment and credit/(charge) to profit or loss is as follows:

	2018	2017
	SR	SR
Allowance for credit impairment		
<i>At January 1,</i>	16,185,016	10,137,885
<i>IFRS 9 impact</i>	1,633,769	-
<i>Direct write off</i>	(11,415)	(184,331)
Charged/ (released) to profit and loss (i)	(1,105,792)	6,231,462
	<u>16,701,579</u>	<u>16,185,016</u>
Bad Debts (written off)/ recovered:		
<i>Bad Debts Recovered</i>	1,805,664	3,073,578
Loans Written Off to profit and loss	(1,211,973)	(188,193)
Total Bad Debts (written off)/ recovered (ii)	<u>593,691</u>	<u>2,885,385</u>
Total allowance for credit impairment credited/(charged) to profit and loss:		
Allowance for credit impairment	1,105,792	(6,231,462)
Bad Debts (written off)/ recovered	593,691	2,885,385
	<u>1,699,483</u>	<u>(3,346,077)</u>

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

	Number of loans	2018		2017	
		SR	%	SR	%
SME Scheme	534	491,729,102	54.95%	487,790,096	53.67%
Services	106	82,604,962	9.23%	99,589,571	10.96%
Tourism	56	102,289,059	11.43%	116,109,519	12.78%
Building & Construction	71	118,810,101	13.28%	100,885,209	11.10%
Agriculture	9	19,939,809	2.23%	21,391,095	2.35%
Manufacturing	11	29,085,450	3.25%	28,282,974	3.11%
Staff (*)	131	21,806,605	2.44%	21,312,213	2.35%
Transport	13	4,408,928	0.49%	9,317,794	1.03%
Agriculture and horticulture	3	7,336,262	0.82%	7,958,060	0.88%
Manufacturing industry	3	5,402,477	0.60%	4,953,674	0.55%
Fisheries	17	5,418,415	0.61%	4,103,238	0.45%
Trade	8	2,345,533	0.26%	2,909,261	0.32%
Community, social and personal	1	2,369,756	0.26%	2,465,602	0.27%
Former staff	11	1,280,870	0.14%	1,718,925	0.19%
Professional, Scientific and Technical Services	0	-	0.00%	21,594	0.00%
	974	<u>894,827,329</u>	<u>100.00%</u>	908,808,825	100.00%
Less: Allowance for credit impairment		(16,701,579)	(1.87%)	(16,185,016)	(1.78%)
Interest in Suspense		(7,133,691)	(0.80%)	(7,468,823)	(0.82%)
		<u>870,992,059</u>	<u>97.34%</u>	885,154,986	97.40%

DBS offers variable interest rate loans and periodically evaluates their lending pool to adjust rates globally based on changing market conditions. Interest rates on loans in the DBS Scheme range from 7.50% to 12%. Staff loans range from 3.75% to 10%. The SME scheme offers 10.00% to 11.75% and is subsidized by the Government of Seychelles; borrowers are charged 5% on the first million and 7% on the remaining.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

6. LOANS AND ADVANCES *Continued*

- (*) This pertains to loans to current and former staff. Interest on loans to current staff ranges from 3.75% to 4%, and interest on loans to former staff is at 10%.

7. HELD-TO-MATURITY INVESTMENTS

	<u>2018</u>	<u>2017</u>
	SR	SR
Treasury Bills		
As at January 1,	-	9,915,604
Additions	3,793,862	-
Interest	51,138	84,396
Maturity	(3,845,000)	(9,872,000)
Interest received	-	(128,000)
As at December 31,	<u>-</u>	<u>-</u>

- (a) *Remaining terms of maturity of held to maturity investments are as follows:*

	<u>2018</u>	<u>2017</u>
	SR	SR
Between 1 and 5 years	<u>-</u>	<u>-</u>

- (b) *Held-to-maturity investments are denominated in Seychelles Rupees.*
- (c) *The fair value disclosures are provided in note 3 (f)*

8. OTHER ASSETS

	<u>2018</u>	<u>2017</u>
	SR	SR
Deposits	12,250,415	14,090,161
Other assets held for sale (b)	2,406,299	-
Prepayments	975,426	1,138,201
Other receivables (c)	9,250,191	5,146,300
	<u>24,882,331</u>	<u>20,374,662</u>

- (a) The Bank contracted loans with Nouvobanq S.I.M.B.C, Mauritius Commercial Bank in line with the Public Debt Management Act, and signed contracts with the Ministry of Finance, Trade and Investment, stating that upon maturity of the loans net foreign losses arising on the loan facilities will be reimbursed by the latter. Refer to Note to 11 for notes on borrowings.
- (b) During the year ended December 31, 2018, the Company re-classed a loan, net of the associated provision, to "other assets" reflecting the fact that the Company had acquired legal title to the property which was the subject of a collateral arrangement and which was legally enforced through the Courts upon default of the customer.
- (c) Other receivables mainly comprise of management fees charged for management of the Photovoltaic Fund, Agricultural Development Fund, EU Fisheries Development Fund, subsidise Small and Medium Enterprise interest due from Seychelles Government, and balances receivable from staff in respect of telephone charges settled by the Bank on their behalf.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

9. PROPERTY AND EQUIPMENT

	Land and Buildings	Equipment	Furniture & fixtures	Motor Vehicles	Total
	SR	SR	SR	SR	SR
COST					
At January 1, 2017	17,525,000	3,151,147	1,415,582	1,496,037	23,587,766
Additions	-	1,026,394	190,604	299,167	1,516,165
Disposals	-	(1,163,299)	(80,201)	(504,317)	(1,747,817)
At December 31, 2017	17,525,000	3,014,242	1,525,985	1,290,887	23,356,114
Additions	-	364,689	162,020	-	526,709
Disposals	-	(30,595)	(188,999)	-	(219,594)
Revaluation adjustment	3,075,000	-	-	-	3,075,000
At December 31, 2018	20,600,000	3,348,336	1,499,006	1,290,887	26,738,229

ACCUMULATED DEPRECIATION

At January 1, 2017	73,611	2,736,195	1,158,154	1,028,983	4,996,943
Charge for the year	882,980	419,263	153,081	250,972	1,706,296
Disposals	-	(1,153,814)	(78,941)	(504,317)	(1,737,072)
At December 31, 2017	956,591	2,001,644	1,232,294	775,638	4,966,167
Charge for the year	882,980	450,229	155,031	197,305	1,685,545
Disposals	-	(30,595)	(162,293)	-	(192,888)
Eliminated on revaluation	(1,746,238)	-	-	-	(1,746,238)
At December 31, 2018	93,333	2,421,278	1,225,032	972,943	4,712,586

NET BOOK VALUE

At December 31, 2018	20,506,667	927,058	273,974	317,944	22,025,643
At December 31, 2017	16,568,409	1,012,598	293,691	515,249	18,389,947

- (a) The property has been reclassified from non-currents held for sale.
- (b) The Bank's land and buildings are stated at their revalued amounts, being their fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The revaluation was performed by Blackburn Consulting (Pty) Ltd, an independent professionally qualified chartered surveyor on December 31, 2018. The revaluation resulted in a gain of SCR 4,821,238 in the year ended 31 December 2018.

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

The next revaluation is expected to be performed in 2018. The Bank is of the opinion that the carrying amounts of land and building approximate their fair values as at the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

9. PROPERTY AND EQUIPMENT *Continued*

- (c) Cash outflow for the purchase of equipment assets was SCR 526,709 (2017: SCR 1,516,165).
- (d) The Bank does not have any of its assets pledged as securities.
- (e) Fair value measurement disclosures for revalued land and buildings are provided in Note 3 (f).
- (f) Significant unobservable valuation input:

	<u>Price per square metre</u>
2018	SR 130 - SR 26,000
2017	SR 130 - SR 22,000

Significant increases (decreases) in estimated price per square metre in isolation would result in a significantly higher (lower) fair value.

If land and buildings were measured using the cost model, the carrying amounts would be as follows:

	<u>2018</u>	<u>2017</u>
	SR	SR
Cost	6,269,469	6,269,469
Accumulated depreciation and impairment	(5,468,434)	(5,393,217)
Net carrying amount	<u>801,035</u>	<u>876,252</u>

10. INTANGIBLE ASSETS

COST

	<u>SR</u>
At January 1, 2017	4,596,508
Additions	145,496
Disposals	(158,911)
At December 31, 2017	<u>4,583,093</u>
Additions	37,765
At December 31, 2018	<u>4,620,858</u>

AMORTISATION

At January 1, 2017	4,584,038
Amortisation	12,750
Disposals	(158,911)
At December 31, 2017	<u>4,437,877</u>
Amortisation	57,443
At December 31, 2018	<u>4,495,320</u>

NET CARRYING VALUE

At December 31, 2018	<u>125,538</u>
At December 31, 2017	<u>145,216</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

10. INTANGIBLE ASSETS *Continued*

- (a) Intangible assets comprise of software and licenses.
- (b) The total cost relating to fully depreciated assets still in use amounts to SCR 4,415,168 as at December 31, 2018 (2017: SCR 4,415,168).
- (c) Cash outflow for the purchase of intangible assets was SCR 37,765 for the current year (2017: SCR 145,496).

11. BORROWINGS

	Interest Rate	Maturity	2018	2017
	%		SR	SR
Nouvobanq S.I.M.B.C	4.75% + 3 months Euribor	2018	-	5,306,091
Nouvobanq S.I.M.B.C	5% + 3 months Euribor	2020	25,105,130	37,953,450
BADEA bank loan	4%	2023	11,530,286	13,244,429
Seychelles Government (ADF Bilateral)	2.75%	2027	77,990,685	82,464,928
Seychelles Government (EIB) (*)	1.93%	2023	6,022,052	7,160,204
Barclays Bank Seychelles	Barclays Bank Prime Lending Rate - 4.75%	2023	45,312,500	54,687,500
Nouvobanq S.I.M.B.C	Prime Lending rate of 10% less 2%	2023	32,868,963	39,701,847
Seychelles Government (EIB) (*)	1.73%	2024	20,685,121	22,470,259
Seychelles Government (EIB) (*)	1.66%	2025	42,013,362	42,018,463
Al Salam Bank Bahrain	6.80%	2021	35,423,044	35,452,170
Mauritius Commercial Bank Seychelles	Euro Libor 3 months + margin 5.5%	2024	19,194,348	23,246,509
Mauritius Commercial Bank Seychelles	MCB base rate	2024	20,407,465	22,042,874
Al Salam Bank Seychelles	6.90%	2024	52,830,999	59,670,352
Barclays Bank Seychelles	5%	2023	44,166,667	-
Total borrowings			433,550,622	445,419,076

- (*) These are borrowing facilities which the Government of Seychelles has received from European Investment Bank and then on- lend to the Bank.

The loans are secured by the Government of Seychelles.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

11. **BORROWINGS** *Continued*

(a) Reconciliation of borrowings:

	<u>2018</u>	<u>2017</u>
	SR	SR
At January 1,	445,419,076	443,023,379
Proceeds from borrowings	50,000,000	41,687,059
Interest charges	10,888,835	23,957,939
Repayments of interest	(23,415,586)	(24,179,856)
Repayment of principal	(60,788,715)	(52,079,007)
Foreign exchange differences	11,447,012	13,009,562
At December 31,	<u>433,550,622</u>	<u>445,419,076</u>

12. **DBS BONDS**

	<u>2018</u>	<u>2017</u>
	SR	SR
At January 1,	302,246,575	151,260,274
Redeemed during the year	(50,000,000)	-
Issued during the year	-	150,000,000
Interest expense	17,240,175	13,225,670
Interest payments	(17,593,599)	(12,239,369)
At December 31,	<u>251,893,151</u>	<u>302,246,575</u>

(a) Interest rates on the above bonds ranges between 6% and 7.5% (2017: 6% and 7.5%).

(b) The bonds are guaranteed by the Government of Seychelles.

(c) The currency profile and maturity terms of the bonds are detailed in Note 3.

13. **FUNDS UNDER MANAGEMENT**

	<u>2018</u>	<u>2017</u>
	SR	SR
Credit Guarantee Scheme (a)	870,134	870,134
EU Fisheries and ADF (b)	5,318	79,570
Photovoltaic project (c)	7,792,711	9,260,469
Green Climate Fund (d)	1,821,743	-
	<u>10,489,906</u>	<u>10,210,173</u>

(a) This fund was created from a donation made by Frederick Ebert Stiftung (a private foundation in the West of Germany). The objective of the fund is to support small entrepreneurs and young graduates from the Polytechnic on ventures not exceeding SCR 150,000. The fund is repayable on demand.

(b) This pertain to funds received on behalf of EU Fisheries Development Fund and Agricultural Development Fund loan schemes, which have not yet been transferred to these respective loan schemes. The Bank has been given the mandate of administering these funds on behalf of the Government. The funds are repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

13. FUNDS UNDER MANAGEMENT *Continued*

- (c) This relates to balance held on behalf of the government with regards to the Photovoltaic project. The Government introduced the project in 2014 with the aim of intensifying efforts to reduce the country's dependency on fossil fuel by encouraging the use of renewable energy. The Bank is managing this fund on behalf of the Government. The funds are repayable on demand.
- (d) This fund was created under the United Nations Framework Convention on Climate Change. The objective of the fund is to assist in the hiring of consultants and procurement of services to build capacity of the coordination and management unit that will have the responsibility of coordinating with other ministries, NGO's and stakeholders on the Green Climate Fund.

14. OTHER LIABILITIES

	<u>2018</u>	<u>2017</u>
	SR	SR
Trade payable (a)	1,736,956	2,917,950
ECL provision on off-balance sheet items	190,579	-
Other payables and accruals (b)	2,202,844	742,829
	<u>4,130,379</u>	<u>3,660,779</u>

- (a) Trade payables consist mainly of retention amounts due upon completion of construction contracts, to which the Bank has a current obligation for services rendered and invoiced by the construction companies.
- (b) Other payables consist mainly of sundry creditors and personal contribution deposited by the producers toward the financing of total project costs.

15. COMPENSATION BENEFIT OBLIGATIONS

	<u>2018</u>	<u>2017</u>
	SR	SR
Compensation - end of contract (a)	2,276,223	1,212,882
Gratuity (b)	247,667	273,333
Compensation - retirement (c)	2,867,018	2,863,121
Long service award scheme (d)	823,279	816,625
Performance incentive (e)	133,957	64,066
	<u>6,348,144</u>	<u>5,230,027</u>

(a) COMPENSATION - END OF CONTRACT

	<u>2018</u>	<u>2017</u>
	SR	SR
At January 1,	1,212,882	2,042,900
Charged to profit or loss	1,853,257	1,238,675
Benefits paid	(789,916)	(2,068,693)
At December 31,	<u>2,276,223</u>	<u>1,212,882</u>

This represents the Bank's obligation for compensation of every five years of continued service performed.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

15. COMPENSATION BENEFIT OBLIGATIONS *Continued*

(b) GRATUITY

	<u>2018</u>	<u>2017</u>
	SR	SR
At January 1,	273,333	220,917
Charged to profit or loss	84,334	89,666
Benefits paid	<u>(110,001)</u>	<u>(37,250)</u>
At December 31,	<u>247,667</u>	<u>273,333</u>

This represents the Bank's obligation for compensation of every five years of continued service performed.

(c) COMPENSATION - RETIREMENT

Compensation benefit obligation is a statutory obligation which all financial institutions incorporated in Seychelles under the Employment Act 1995 shall pay to employee upon resignation or termination of the employee provided that same has completed five years of continuous service. However, the Bank's internal policy allows for compensation payment to be made even though the continuous five year period has not been met.

(i) Amount recognised to profit or loss:

	<u>2018</u>	<u>2017</u>
	SR	SR
Current service cost	402,838	222,328
Interest cost	154,168	174,104
Actuarial loss	<u>(151,988)</u>	<u>67,107</u>
	<u>405,018</u>	<u>463,539</u>

(ii) Reconciliation of present value of obligation

	<u>2018</u>	<u>2017</u>
	SR	SR
At January 1,	2,863,121	2,611,423
Current service cost	402,838	222,328
Interest cost	154,168	174,104
Benefits paid	<u>(401,121)</u>	<u>(211,841)</u>
Actuarial loss	<u>(151,988)</u>	<u>67,107</u>
At December 31,	<u>2,867,018</u>	<u>2,863,121</u>

(iii) The principal actuarial assumptions used were as follows:

	<u>2018</u>	<u>2017</u>
Discount rate	6.67%	6.50%
Future salary increases	6.00%	6.00%
Retirement age	<u>63</u>	<u>63</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

15. COMPENSATION BENEFIT OBLIGATIONS *Continued*(c) COMPENSATION - RETIREMENT *Continued*

Effect of changes in the assumptions above on the compensation liability with all other things being equal:

	<u>2018</u>	<u>2017</u>
	SR	SR
Discount rate - increase by 1%	(419,650)	(477,742)
Discount rate - decrease by 1%	632,720	610,069
Future salary - increase by 1%	630,517	606,849
Future salary- decrease by 1%	(502,751)	(483,773)
Retirement age - increases by 5 years	(88,916)	(66,581)
Retirement age - decreases by 5 years	<u>91,370</u>	<u>68,167</u>

The figure of 6% used to calculate future salary increases in no way commits the Bank to such increase in salary and has been used for calculation purposes only.

(d) LONG SERVICE AWARD SCHEME

The Bank has a long service award scheme for all of its employees. The scheme is one where the Bank recognizes the effort and commitment of those who have been in the service for a continuous long period. This represents the Bank's obligation for compensation of every five years of continued service performed.

	<u>2018</u>	<u>2017</u>
	SR	SR
At January 1,	816,625	829,750
Charged to profit or loss	230,904	39,375
Benefits paid	(224,250)	(52,500)
At December 31,	<u>823,279</u>	<u>816,625</u>

(e) PERFORMANCE INCENTIVE

The scheme is one where the Bank recognises the performance of CEO based on the achievement of the set targets and plan for the year.

	<u>2018</u>	<u>2017</u>
	SR	SR
At January 1,	64,066	-
Charged to profit or loss	231,245	149,201
Benefits paid	(161,354)	(85,135)
At December 31,	<u>133,957</u>	<u>64,066</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

16. SHARE CAPITAL

	<u>2018</u>	<u>2017</u>
	SR	SR
Authorised shares At December 31,	<u>40,000,000</u>	<u>40,000,000</u>
Issued and fully paid shares At December 31,	<u>39,200,000</u>	<u>39,200,000</u>

17. CONTINGENT RESERVE

	<u>2018</u>	<u>2017</u>
	SR	SR
At December 31,	<u>41,385,321</u>	<u>41,385,321</u>

The contingent reserve is maintained in accordance with the provisions of Chapter 63 Development Bank of Seychelles Decree, 1977. Section 33, Application of Monies, requires that the bank set aside in a reserve fund up to the Share Capital, that is, SCR 39.2 million.

18. CONTINGENT LIABILITIES

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

19. INTEREST INCOME

	<u>2018</u>	<u>2017</u>
	SR	SR
Cash and short term funds	762,707	936,439
Interest on held to maturity investment securities	51,138	84,396
Loans and advances	91,191,459	83,289,541
Interest in suspense	(35,200)	(4,589,179)
	<u>91,970,104</u>	<u>79,721,197</u>

20. INTEREST EXPENSE

	<u>2018</u>	<u>2017</u>
	SR	SR
Interest on borrowing and loan arrangement fees	23,096,333	24,591,025
Interest on DBS bonds	17,240,175	13,225,670
	<u>40,336,508</u>	<u>37,816,695</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

21. OTHER INCOME

	<u>2018</u>	<u>2017</u>
	SR	SR
Management fees	931,790	1,000,764
Fees from loans and advances	305,370	397,574
Application fees	127,935	275,445
(Loss)/Gain on disposal of equipment, furniture and motor vehicle	(24,388)	318,796
	<u>1,340,707</u>	<u>1,992,579</u>

22. EMPLOYEE BENEFIT EXPENSE

	<u>2018</u>	<u>2017</u>
	SR	SR
Salaries and wages	14,489,715	13,287,035
Pension costs	306,456	232,347
Compensation benefit obligations	2,390,124	1,980,456
Directors fees and committee allowances	230,495	378,143
Other staff costs	1,443,017	1,341,752
	<u>18,859,807</u>	<u>17,219,733</u>

23. ADMINISTRATIVE EXPENSES

	<u>2018</u>	<u>2017</u>
	SR	SR
Auditors' remuneration	227,700	200,000
Bank charges	56,180	857,680
Communication costs	562,485	536,147
Donations	130,047	156,410
Insurance expenses	105,533	114,521
Legal and professional fees	1,086,901	892,757
Maintenance costs	1,351,928	1,002,261
Membership fees	238,878	329,263
Office expenses	434,853	523,845
Promotion and advertising costs	250,072	58,659
Rental expenses	1,049,648	820,480
Travelling expenses	814,565	847,220
Utilities costs	563,956	520,474
40th Anniversary expenses	616,516	-
Other administrative expenses	302,384	293,284
	<u>7,791,646</u>	<u>7,153,001</u>

(a) Lease arrangements

Operating lease commitments - Bank as lessee

The Bank has entered into a rental lease agreement for the premises. The lease is for a period of one year, with an option of renewal in the contract. There are no restrictions placed upon the lessee by entering into the lease.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

23. ADMINISTRATIVE EXPENSES *Continued*

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

(b) Lease commitments

	<u>2018</u>	<u>2017</u>
	SR	SR
Within one year	986,772	656,018
After one year but not more than 5 years	-	37,163
	<u>986,772</u>	<u>693,181</u>

24. CAPITAL COMMITMENTS

Loans and advances approved but not yet disbursed or partially disbursed as at December 31, 2018 totaled to SCR 57,309,685 (2017: 118,713,770). Their expected credit loss is SR 191k (2017: SR 273k). All capital commitments are classified in stage one.

25. RELATED PARTY TRANSACTIONS

During the year ended 31 December 2017, there were the following transactions between the Bank and its related parties:

	Relationship	<u>2018</u>	<u>2017</u>
		SR	SR
(a) Borrowings			
<u>Government of Seychelles</u>			
At January 1,		154,113,854	115,990,163
Proceeds received		-	41,687,059
Interests	Shareholder	3,697,304	3,711,516
Repayments		<u>(11,099,938)</u>	<u>(7,274,884)</u>
At December 31,		<u>146,711,220</u>	<u>154,113,854</u>
<u>Nouvobanq - SIMBC</u>			
At January 1,		82,961,388	100,061,651
Interests	Government	4,154,022	5,444,755
Repayments	related (*)	<u>(28,187,783)</u>	<u>(30,468,732)</u>
Exchange differences		<u>(953,534)</u>	<u>7,923,714</u>
At December 31,		<u>57,974,093</u>	<u>82,961,388</u>

(*) The Government of Seychelles holds shares in both the Development Bank of Seychelles and Nouvobanq.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

25. RELATED PARTY TRANSACTIONS *Continued*

(b) Interest subsidy

	<u>2018</u>	<u>2017</u>
	SR	SR
<u>Government of Seychelles</u>		
Interest subsidy on SME loan scheme	<u>19,561,578</u>	<u>17,643,123</u>

Interest subsidy is the difference between interest paid by the client and the lending rate of the Bank. The subsidy is payable on a quarterly basis. The above figure represents total interest subsidy for the year. The balance receivable relating to the interest subsidy is SCR 8,846,746 (2017: 4,806,309).

	<u>Relationship</u>	<u>2018</u>	<u>2017</u>
		SR	SR
(c) Salaries and other benefits			
Key management salaries	Key management	1,277,566	2,624,584
Directors remuneration	Directors	230,495	378,143
End of contract settlement	Key management	227,113	956,681
End of contract provision	Key management	803,966	340,367
Long service award scheme settlement	Key management	52,125	-
Long service award scheme provision	Key management	165,280	62,125
(d) Outstanding balances			
Recovery on Financial Guarantee Contract	Shareholder	12,250,415	14,090,161
Borrowings	Shareholder	146,711,220	154,113,854
Borrowings	Government related	57,974,093	82,961,388
Loans and advances	Key management	6,434,714	5,389,800
Loans and advances	Directors	9,839,058	9,248,635

In 2015, due to organization restructuring, the Bank created new positions to head their departments. The head of departments are considered as key management personnel.

26. EVENTS AFTER THE REPORTING PERIOD

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