SEYCHELLES COMMERCIAL BANK LIMITED

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CORPORATE INFORMATION

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

The Directors are pleased to submit their report together with the audited financial statements of **Seychelles Commercial Bank Limited** (hereafter called the "Bank") for the year ended December 31, 2019.

PRINCIPAL ACTIVITY

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

CURRENT YEAR EVENT

Adoption of International Financial Reporting Standard 16 (IFRS 16) - " Leases"

The Bank adopted IFRS 16 - Leases, effective January 1, 2019, which replaced IAS 17 Leases and IFRIC 4 Determining whether an Arrangement Contains a Lease.

The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise operating leases on the Statement of Financial Position.

The new standards resulted in the recognition of right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. An election was made to match the lease liability and right-of-use asset on transition, i.e, January 1, 2019 and any existing straight-lining asset or liability was adjusted against the right-of-use asset. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application *(refer to note 2(b)(i))* .

RESULTS FOR THE YEAR

	SCR
Profit before tax	**23,162,300**
Tax expense	**(7,685,067)**
Profit for the year	**15,477,233**
Transfer to statutory reserve	**(3,095,447)**
Retained earnings brought forward	**38,649,709**
Retained earnings carried forward	**51,031,495**

DIVIDENDS

No dividend was proposed during the year under review (2018: proposed and paid amount of SR 6m).

PROPERTY AND EQUIPMENT

The Bank acquired property and equipment amounting to **SR 7.6m** during the year (2018: SCR 5.0m) comprising mainly work in progress, computer equipment, motor vehicles and furniture and fittings.

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

DIRECTORS AND DIRECTORS' INTEREST

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

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

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

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

The Directors consider they have met their aforesaid responsibilities.

EVENT AFTER REPORTING DATE

The outbreak of Covid-19 has brought considerable economic uncertainty around the World and Seychelles. The Government of Seychelles has adopted economic and financial measures at all levels to help those who have been heavily impacted. The Board and Management of the Bank are confident that the Bank will have adequate resources to continue in operational existence and have therefore adopted the going concern basis in preparing the these financial statements (refer to *note 28*).

AUDITORS

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

BOARD APPROVAL

Mr. Patrick Payet
Chairman

Mrs. Annie Vidot
Managing Director

Ms. Esther Boniface
Director

Mr. Robert Morgan
Director

Mr. Sandy Mothee
Director

Mrs. Jenna Thelermont
Director

Mr. Jamshed Pardiwalla
Director

Dated: 29 MAY 2020
Victoria, Seychelles

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS

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

Report on the audit of the Financial Statements

Opinion

We have audited the financial statements of **SEYCHELLES COMMERCIAL BANK LIMITED** set out on pages **4 to 64** which comprise the Statement of Financial Position as at December 31, 2019, the Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and the Statement of Cash Flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at December 31, 2019 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Seychelles Companies Act, 1972.

Emphasis of Matter

(i) Effects of COVID-19 pandemic

We draw attention to Note 28(a) of the financial statements which describes a material uncertainty regarding the Coronavirus pandemic which is affecting Seychelles severely. Actions adopted by countries such as closing borders, grounding flights and discouraging people from travelling abroad are impacting heavily on all industries thereby raising a significant uncertainty on going concern of the Bank.

The Directors of the Bank together with Management are confident that they will continue to have the financial and otherwise support from their Shareholders and are therefore of the opinion that the going concern basis of preparation of these financial statements remains appropriate in the foreseeable future.

(ii) Losses of Correspondent Bank

We also attention to note 28(b) regarding losses of correspondent banks. The Directors are confident that the new correspondent banking relationships will be reached in the foreseeable future.

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

The Financial Institutions – Credit Classification and Provisioning Regulations 2010 as amended in 2011, are still broadly based on the requirements of IAS 39 and are in the process of being updated for those of IFRS 9. As such, in adopting IFRS9 - "Financial Instruments" and as reported in the monthly returns to the Central Bank of Seychelles, the Bank is adhering to IFRS 9 in lieu of the provisions of the Financial Institutions – Credit Classification and Provisioning Regulations 2010 as amended in 2011.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS

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

Key Audit Matters

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

(i) ***Adoption of IFRS 16 - Leases***

The Bank adopted IFRS 16 Leases effective January 1, 2019 which modifies the classification and measurement of leases, with the recognition on the Statement of Financial Position of a right-of-use asset and a lease liability. The right-of-use asset and liability are unwound over the term of the lease, giving rise to an amortisation charge and interest expense respectively.

In order to compute the transition impact of IFRS 16, a significant data extraction exercise was undertaken by Management to summarise all the leased assets of the Bank such that the respective inputs could be uploaded into the IFRS 16 model. Since the implicit rates of interest in the leases were not readily available, the Bank upon first time implementation of IFRS 16 adopted the modified retrospective transitional approach as permitted by the standard. This approach mandates that the right-of-use asset is recognised at the date of initial application at an amount equal to the lease liability using the Bank's prevailing incremental borrowing rate as at the date of initial application, adjusted for any prepaid or accrued payments relating to that lease that were previously recognised in the Statement of Financial Position immediately before the date of initial application.

The following were the key audit matters identified under IFRS 16;

▪ Determination of all the leasing arrangements to ensure that they fall within the scope of IFRS 16 and whether they were appropriately included in the computation at transition date;
▪ To ensure the appropriateness of assumptions used to determine the present value using the relevant discount rates for each lease;
▪ To ensure completeness and accuracy of the underlying available data and information for each lease used to calculate the transitional impact; and
▪ To ensure completeness of disclosures with respect to IFRS 16 and relevant corresponding standards in the financial statements.

Key Audit Matters (Cont'd)

(i) ***Adoption of IFRS 16 - Leases (Cont'd)***

Response to Key Audit Matters

√	Assessed the design and implementation of key controls pertaining to the determination IFRS 16 transition impact disclosures;
√	Assessed the appropriateness of the discount rates applied in determining the present value of lease liabilities with input from our technical department;
√	Verified the accuracy of the underlying lease data by agreeing a representative sample of leases to original contract or other supporting information, and checked the integrity and accuracy of the IFRS 16 calculations for each lease sampled through recalculation of the expected IFRS 16 adjustments;
√	Reviewed the journal entries with respect to the impact of implementation of the right-of-use assets and lease liabilities; and
√	Assessed whether the disclosures within the financial statements are appropriate and sufficient.

(ii) ***Computation of Expected Credit losses per IFRS 9 - Financial instruments***

The Bank adopted the accounting standard IFRS 9 'Financial instruments' effective January 1, 2018. The standard introduced new requirements around two main aspects of how financial instruments are treated - measurement and classification and impairment.

This standard also introduced new impairment rules which prescribed a new, forward looking, expected credit loss ('ECL') impairment model which takes into account reasonable and supportable forward looking information, which will generally result in the earlier recognition of impairment provisions.

Key Audit Matters

▪	There are a number of significant management determined judgements including: the reclassification of financial assets in accordance with the Bank's business model; determining the criteria for a significant increase in credit risk; techniques used to determine probability of default (PDs) and loss given default (LGD); and factoring forward looking assumptions.
▪	IFRS 9 implementation requires complex technical modelling based on subjective data and assumptions. Consequently, the inherent credit risk embedded in the data assumptions is high.

Key Audit Matters (Cont'd)

(ii) ***Computation of Expected Credit losses per IFRS 9 - Financial instruments (Cont'd)***

How the key audit matter was addressed in the audit

√	We reviewed for any changes in the Bank's key processes comprising granting, booking, monitoring and provisioning and tested the operating effectiveness of key controls over these processes;
√	We reviewed for any changes in the Bank's provisioning methodology, assessed the reasonableness of the underlying assumptions and the sufficiency of the data used by the Management.
√	***With respect to classification and measurement of financial assets and financial liabilities, our audit procedures comprised the following;*** We reviewed the Bank's IFRS 9 classification and measurement of financial assets and financial liabilities policies for the year under review for any changes and compared them with the requirements of IFRS 9; and Reconfirmed and checked the Bank's business model assessment and the test on the contractual cash flows, which give rises to cash flows that are 'solely payments of principal and interest [SPPI test].
√	***With respect to impairment methodology, our audit procedures comprised the following;*** We obtained an understanding of the Bank's internal rating models for loans and advances and reviewed the rating validation report prepared by the Bank's Management to gain comfort that the discrimination and calibration of the rating model is appropriate.
√	We checked the appropriateness of the Bank's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages.
√	For a sample of exposures, we checked the appropriateness of the Bank's staging.
√	We checked and understood the key data sources and assumptions for data used in the Expected Credit Loss (ECL) models used by the Bank's to determine impairment provisions.
√	For assumptions used by the Bank's management in its Loss Given Default (LGD) calculations, we held discussions with Management and corroborated the assumptions where publicly available information was used.
√	We checked the calculation of the LGD used by the Bank in the ECL calculations, including the appropriateness of the use of collateral and the resultant arithmetical calculations.
√	We checked the completeness of loans and advances, off balance sheet items, investment securities, placements and other financial assets included in the ECL calculations as of 31 December 2019.
√	We checked consistency of various inputs and assumptions used by the Bank's management to determine impairment provisions; and
	As a result of the above audit procedures, no material differences were noted.

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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SEYCHELLES COMMERCIAL BANK LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS (CONT'D)

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

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

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

Report on Other Legal Regulatory Requirements

Companies Act, 1972

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

We have obtained all information and explanations we have required.

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

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

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

BDO Associates

BDO ASSOCIATES
Chartered Accountants

Dated: 29 MAY 2020
Victoria, Seychelles

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2019

	Notes	2019	2018
		SR	SR
ASSETS			
Cash and cash equivalents	5	577,111,325	537,382,792
Loans and advances	6	830,370,044	709,865,109
Investment in Financial assets at amortised cost	7	349,768,517	304,193,732
Right-of-use assets	8(b)	1,865,228	-
Property and equipment	9	57,818,090	53,477,666
Intangible assets	10	6,104,007	6,801,301
Other assets	11	19,591,558	13,692,793
Deferred tax asset	17(a)	3,124,770	1,424,978
Total assets		1,845,753,539	1,626,838,371
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from customers	12	1,641,619,243	1,444,192,676
Retirement benefit obligations	13	8,854,473	7,153,856
Lease liabilities	8(c)	2,234,262	-
Dividends payable	14	-	6,000,000
Current tax liabilities	15(a)	2,826,487	1,690,124
Other liabilities	16	21,097,850	14,157,724
Total liabilities		1,676,632,315	1,473,194,380
EQUITY			
Share capital	18	60,000,000	60,000,000
Statutory reserve	19	30,616,141	27,520,694
Revaluation reserve		27,473,588	27,473,588
Retained earnings		51,031,495	38,649,709
Total equity		169,121,224	153,643,991
Total liabilities and equity		1,845,753,539	1,626,838,371
CONTINGENT LIABILITIES			
Loan commitments	6(c)	170,484,766	175,446,765

These financial statements have been approved for issue by the Board of Directors on: 29 MAY 2020

Mr. Patrick Payet Chairman	Mrs. Annie Vidot Managing Director	Ms. Esther Boniface Director
Mr. Robert Morgan Director	Mr. Sandy Mothee Director	Mrs. Jenna Thelermont Director
Mr. Jamshed Pardiwalla Director		

The notes on pages 8 to 64 form an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME - YEAR ENDED DECEMBER 31, 2019

	Notes	2019	2018
		SR	SR
Interest income	2.15/20	**119,073,504**	100,015,986
Interest expense	2.15/21	**(41,161,589)**	(35,147,096)
Net interest income		**77,911,915**	64,868,890
Fee and commission income	2.16/22	**15,895,492**	16,236,790
Net interest, fee and commission income		**93,807,407**	81,105,680
Net foreign exchange gain		**2,548,880**	3,820,918
Sundry income	23	**318,325**	1,179,904
Operating income		**96,674,612**	86,106,502
Employee benefit expense	24	**(34,065,348)**	(29,887,036)
Amortisation of right-of-use assets	8(b)	**(2,062,223)**	-
Depreciation of equipment	9	**(3,304,686)**	(3,148,305)
Amortisation of intangible assets	10	**(1,568,522)**	(1,413,197)
Other operating expenses	25	**(28,347,447)**	(27,427,044)
Total operating expenses		**(69,348,226)**	(61,875,582)
Operating profit before impairment		**27,326,386**	24,230,920
Allowance for credit impairment	6(d)	**(4,164,086)**	(3,939,024)
Profit before taxation		**23,162,300**	20,291,896
Tax charge	15(b)	**(7,685,067)**	(7,293,950)
Profit for the year		**15,477,233**	12,997,946
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation on buildings	17(b)	**-**	642,491
Total comprehensive income		**15,477,233**	13,640,437

The notes on pages 8 to 64 form an integral part of these financial statements.
Auditors' report on pages 3 to 3(e).

STATEMENT OF CHANGES IN EQUITY - YEAR ENDED DECEMBER 31, 2019

	Notes	Share capital	Statutory reserve	Revaluation reserve	Retained earnings	Total
		SR	SR	SR	SR	SR
At January 1, 2019		**60,000,000**	**27,520,694**	**27,473,588**	**38,649,709**	**153,643,991**
Total comprehensive income for the year		**-**	**-**	**-**	**15,477,233**	**15,477,233**
Transfer to statutory reserve	19	**-**	**3,095,447**	**-**	**(3,095,447)**	**-**
Balance at December 31, 2019		**60,000,000**	**30,616,141**	**27,473,588**	**51,031,495**	**169,121,224**
At January 1, 2018						
- As previously reported		60,000,000	24,921,105	26,831,097	35,829,082	147,581,284
- Effect of adopting IFRS 9	30	-	-	-	(1,577,730)	(1,577,730)
As restated		60,000,000	24,921,105	26,831,097	34,251,352	146,003,554
Total comprehensive income for the year		-	-	642,491	12,997,946	13,640,437
Transfer to statutory reserve	19	-	2,599,589	-	(2,599,589)	-
Dividends	14	-	-	-	(6,000,000)	(6,000,000)
Balance at December 31, 2018		60,000,000	27,520,694	27,473,588	38,649,709	153,643,991

The notes on pages 8 to 64 form an integral part of these financial statements.
Auditors' report on pages 3 to 3(e).

STATEMENT OF CASH FLOWS - YEAR ENDED DECEMBER 31, 2019

	Notes	2019	2018
		SR	SR
Cash generated from operations			
Profit before taxation		**23,162,300**	20,291,896
Adjustments for:			
Amortisation of right of use	8(b)	**2,062,223**	-
Depreciation of property and equipment	9	**3,304,686**	3,148,305
Amortisation of intangible assets	10	**1,568,522**	1,413,197
Profit from disposal of property and equipment		**-**	(5,754)
Movement in allowance for credit impairment			
- Loans and advances (net movement)	6(d)	**3,129,460**	2,903,031
- Investments	6(d) & 7(a)	**1,188,322**	(48,184)
- Other commitments	6(d)) & 16	**(324,070)**	1,084,177
- Cash and cash equivalents	5(a)	**170,374**	-
Accrued interest on loans and advances	6(a)	**(86,700)**	(273,931)
Accrued interest on deposits from customers	12	**186,769**	1,224,858
Movement in retirement benefit obligations	13	**3,349,177**	2,440,991
Accrued interest on Investment in financial assets	7	**(6,740,355)**	(7,019,468)
Currency translation differences		**(2,872,645)**	(3,820,918)
		28,098,063	21,338,200
Changes in operating assets and liabilities			
- Loans and advances	6 & 6(d)	**(123,547,695)**	(80,410,927)
- Other assets	11	**(5,898,765)**	548,891
- Deposits from customers	12	**197,239,798**	165,527,059
- Other liabilities	16	**7,264,196**	(473,737)
Movement in mandatory balance with Central bank	5	**(35,802,983)**	(133,095,369)
Retirement benefit obligations paid	13	**(1,648,560)**	(2,282,985)
Tax paid	15(a)	**(8,248,496)**	(7,210,922)
Net cash generated from operating activities		**57,455,558**	(36,059,790)
Cash flows from investing activities			
Purchase of property and equipment (net of transfer)	9	**(7,645,110)**	(4,667,850)
Purchase of intangible assets	10	**(871,228)**	(320,350)
Proceeds from disposal of property and equipment		**-**	5,755
Addition to investment in financial assets	7(a)	**(290,362,998)**	(204,817,309)
Redemption of investment in financial assets	7(a)	**250,340,246**	242,736,184
Net cash (outflow) / inflow from investing activities		**(48,539,090)**	32,936,430
Cash flows from financing activity			
Repayment of principal portion of lease liabilities	**8(c)**	**(1,693,189)**	-
Dividends paid	14(a)	**(6,000,000)**	(6,000,000)
Net cash used in financing activity		**(7,693,189)**	(6,000,000)
Net increase in cash and cash equivalents		**1,223,279**	(9,123,360)
Movement in cash and cash equivalents			
At January 1,		**112,667,409**	117,969,851
Increase		**1,223,279**	(9,123,360)
Currency translation differences		**2,872,645**	3,820,918
At December 31,	5	**116,763,333**	112,667,409

The notes on pages 8 to 64 form an integral part of these financial statements.
Auditors' report on pages 3 to 3(e).

1. GENERAL INFORMATION

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied during the year presented, unless otherwise stated. Where necessary, comparative figures have been amended to conform with change in presentation in the current year.

These financial statements have been prepared under the historical cost convention as modified by the application of fair value measurements required or allowed by relevant accounting standards.

2.1 Basis of preparation

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

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

(b) ***Standards, Amendments to published Standards and Interpretations effective in the reporting period***

(i) ***IFRS 16 Leases***

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the Statement of Financial Position.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.1 Basis of preparation (Cont'd)

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

(i) ***IFRS 16 Leases (Cont'd)***

The Bank adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of January 01, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Bank elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at January 01, 2019. Instead, the Bank applied the standard only to contracts that were previously identified as leases under IAS 17 and IFRIC 4 at the date of initial application.

The Bank has lease contracts for its head office, various branches and ATM houses. Before the adoption of IFRS 16, the Bank classified each of those leases (as lessee) at the inception date as operating lease per note *2.8(a*) for the accounting policy prior to January 01, 2019.

Upon adoption of IFRS 16, the Bank applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to *note 2.8(b)* for the accounting policy beginning January 01, 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Bank.

The Bank recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases. The Bank does not have any short-term leases and leases of low-value assets which fall under the exemption clause of the standard.

The right-of-use assets for most leases were recognised based on the amount equal to the lease liabilities, adjusted for related prepaid and accrued lease payments previously recognised, if any. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Bank also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Estimated the lease term where the contract contained options to extend or terminate the lease.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.1 Basis of preparation (Cont'd)

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

(i) ***IFRS 16 Leases (Cont'd)***

Based on practical expedients used by the Bank, as at January 01, 2019:

- Right-of-use assets of **SR 3.9m** were recognised and presented in the Statement of Financial Position within "right-of-use assets". *(note 8(b))*
- Additional lease liabilities of **SR 3.9m** were recognised *(note 8(c))* .
- The adoption of IFRS 16 had no impact on the Bank's retained earnings and no material impact on its Tier one ratio.

The lease liabilities as at January 01, 2019 can be reconciled to the operating lease commitments at December 31, 2018 as follows:

	SR
Operating lease commitments disclosed as at 31 December 2018 *(note 26(c))*	**5,803,307**
Discounted using the lessee's incremental borrowing rate at the date of initial application and **Lease liability recognised as at January 01, 2019**	**3,927,451**

(ii) ***IFRIC 23 Uncertainty over Income Tax Treatments***

The standard explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. There are no new disclosure requirements but requirement to provide information about judgements and estimates made in preparing the financial statements. *The interpretation has no impact on the Bank's financial statements* .

(iii) ***Prepayment features with negative compensation (Amendments to IFRS 9)***

This enables entities to measure certain prepayable financial assets with negative compensation at amortised cost. These assets, which include some loan and debt securities, would otherwise have to be measured at fair value through profit or loss. To qualify for amortised cost measurement, the negative compensation must be 'reasonable compensation for early termination of the contract' and the asset must be held within a 'held to collect' business model. *The amendments have no impact on the Bank's financial statements.*

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.1 Basis of preparation (Cont'd)

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

(iv) ***Annual Improvements to IFRSs 2015 – 2017 Cycle***

IFRS 3 – clarified that obtaining control of a business that is a joint operation is a business combination achieved in stages;

IFRS 11 – clarified that party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation;

IAS 12 – clarified that income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised; and

IAS 23 – clarified that, if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.

The amendments have no impact on the Bank's financial statements.

(v) ***Long- term interests in Associates and Joint Ventures (Amendments to IAS 28)***

The amendment clarify the accounting for long-term interests in an Associate or Joint venture, which in substance form part of the net investment in the Associate or Joint venture, but to which equity accounting is not applied. Entities must account for such interests under IFRS 9 before applying the loss allocation and impairment requirements in IAS 28. *The amendments have no impact on the Bank's financial statements.*

(vi) ***Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)***

The amendment clarify that entities must calculate the current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement by using the updated assumptions from the date of the change;

Recognise any reduction in a surplus immediately in Statement of Profit or Loss, either as part of past service cost or as a gain or loss on settlement. In other words, a reduction in a surplus must be recognised in Statement of Profit or Loss even if that surplus was not previously recognised because of the impact of the asset ceiling; and

Separately recognise any changes in the asset ceiling through Other Comprehensive income.

The amendments have no impact on the Bank's financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.1 Basis of preparation (Cont'd)

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

Certain standards, amendments to published standards and interpretations have been issued that are mandatory for accounting periods beginning on or after 1 January 2020 or later periods, but which the Bank has not early adopted.

At the reporting date the following amendments were in issue but not yet effective:

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

IFRS 17 Insurance Contracts;

Definition of a Business (Amendments to IFRS 3);

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

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7).

Certain new Standards, revised IFRSs and interpretations that are not mandatorily effective for the year ended December 31, 2019 are not likely to have an impact on the Bank's financial statements. The Bank will adopt the other standards on their effective dates.

2.2 Foreign Currencies

Functional and presentation currency

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

Transactions and balances

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3 Financial instruments

(a) Initial recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date on which the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades, i.e., purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to customers when funds are transferred to the Bank.

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVTPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss.

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and fair value in net trading income.

(b) Classification and measurement

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either at amortised cost.

Financial assets measured at amortised cost

The Bank measures cash and cash equivalents, loans and advances and investment in financial assets and other assets at amortised cost only if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order 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 (SPPI) on the principal amount outstanding.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3 Financial instruments (Cont'd)

(b) Classification and measurement (Cont'd)

Financial assets measured at amortised cost (Cont'd)

Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective:

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected); and
- Other factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, the expected frequency and value and timing of sales.

The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of the financial asset to identify whether they meet the soley payment of principal and interest (SSPI) test.

Principal for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTOCI.

Financial liabilities measured at amortised cost

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issued funds, and costs that are an integral part of the Effective Interest Rate.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3 Financial instruments (Cont'd)

(b) Classification and measurement (Cont'd)

Financial guarantees, letters of credit and undrawn loan commitments

The Bank issues financial guarantees, letters of credit and loan commitments. Financial guarantees are initially recognised in the financial statements (within provisions) at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the Statement of Profit or Loss and Expected credit loss allowance.

The premium received is recognised in the Statement of Profit or Loss in fees and commission income on a straight line basis over the life of the guarantee.

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

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the Statement of Financial Position. The Bank has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

(c) Reclassification of financial assets and liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

(d) Derecognition of financial assets and liabilities

Derecognition of financial assets due to substantial modification of terms and conditions

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3 Financial instruments (Cont'd)

(d) Derecognition of financial assets and liabilities (Cont'd)

Derecognition of financial assets due to substantial modification of terms and conditions (cont'd)

- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

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

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in Statement of Profit or Loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Financial assets derecognition other than on a modification

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3 Financial instruments (Cont'd)

(d) Derecognition of financial assets and liabilities (Cont'd)

Financial assets derecognition other than on a modification (Cont'd)

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

Derecognition of financial liabilities

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

(e) *Impairment of financial assets*

(i) *Overview of the Expected Credit Losses (ECL) principles*

The Bank records an allowance for Expected Credit Loss (ECL) for all loans and other debt financial assets not held at Fair Value through Profit and Loss (FVTPL), together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit losses or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit losses (12mECL). The Bank's policies for determining if there has been a significant increase in credit risk are set out in *note 3.3.3(f)* .

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

2.3 Financial instruments (Cont'd)

(e) ***Impairment of financial assets (Cont'd)***

(i) *Overview of the Expected Credit Losses (ECL) principles (Cont'd)*

The 12mECL is the portion of LTECLs that represent the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Bank's policy for grouping financial assets measured on a collective basis is explained in *note 3.3.3(b)*.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in note *3.3.3(f)* .

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3: Loans considered credit-impaired (as outlined in *note 3.3.3(a)*) The Bank records an allowance for the LTECL.

POCI Purchased or originated credit impaired (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. The ECL allowance is only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered as (partial) derecognition of the financial asset.

(ii) *The calculation of ECL*

The Bank calculates ECL based on probability of default (PD) to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

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

2.3 **Financial instruments (Cont'd)**

(e) ***Impairment of financial assets (Cont'd)***

(ii) *The calculation of ECL (Cont'd)*

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

P D The Probability of Default (PD) is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

EAD The Exposure at Default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in *note 3.3.3(d)*.

LGD The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral or credit enhancements that are integral to the loan and not required to be recognised separately, as set out in *note 2.3(f)*. It is usually expressed as a percentage of the EAD. The LGD is further explained in *note 3.3.3(e)*.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

Provisions for ECL for undrawn loan commitments are assessed as set below.

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

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

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

2.3 **Financial instruments (Cont'd)**

(e) ***Impairment of financial assets (Cont'd)***

(ii) *The calculation of ECL (Cont'd)*

Stage 3 - For loans considered credit-impaired *(as defined in note 3.3.3(a))* , the Bank recognises the lifetime expected credit losses for these loans.

POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognises the cumulative changes in lifetime ECL since initial recognition, based on a probability of default, discounted by the credit- adjusted EIR.

Loan commitments and letters of credit - When estimating LTECL for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability of default. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECL is calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within Provisions. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

Financial guarantee contracts - The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the Statement of Profit or Loss, and the ECL provision. For this purpose, the Bank estimates ECL based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability of default. The ECL related to financial guarantee contracts is recognised within provisions.

(iii) *Forward looking information*

In its ECL models, the Bank relies on a broad range of forward looking information as economic inputs, such as:

- GDP growth
- Unemployment rates
- Central Bank base rates
- House price indices

The inputs and models used for calculating ECL 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. Information of actual input used to adjust PD are included on *3.3.3(c)*.

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

2.3 Financial instruments (Cont'd)

(f) Credit enhancements: collateral valuation and financial guarantees

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, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Bank's Statement of Financial Position.

Cash flows expected from credit enhancements which are not required to be recognised separately by IFRS standards and which are considered integral to the contractual terms of a Financial Asset which is subject to ECL, are included in the measurement of those ECL. On this basis, the fair value of collateral affects the calculation of ECL. Collateral is generally assessed, at a minimum, at inception and re-assessed on practical basis by management. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

The Bank does not use active market data for valuing financial assets held as collateral. It relies on other valuation models which do not have readily determinable market values as well as real estate and data provided by third parties mortgage valuers.

Guarantees held are included in the measurement of loan ECLs when either they are specified in the contractual terms of the loan or else are integral to the loan, in that they formed part of the basis on which the loan was extended. Guarantees that are not integral to the loan's contractual terms are accounted as separate units of accounts subject to ECL.

(g) Collateral repossessed

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 recover funds from the repossessed assets, 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 Statement of Financial Position.

(h) Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. 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.

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

2.4 Cash and cash equivalents

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

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.

2.6 Property and equipment

Land and buildings are carried at revalued amounts and all other equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The next revaluation is expected to be in 2020.

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

2.6 Property and equipment (Cont'd)

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

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

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

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

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

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

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

2.7 Intangible assets - Computer Software

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

2.8 Leases

(a) Policy applicable before January 01, 2019

The determination of whether an arrangement is a lease, or contains a lease, was based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset.

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

2.8 Leases (Cont'd)

(a) Policy applicable before January 01, 2019 (Cont'd)

Leases that do not transfer to the Bank substantially all of the risks and benefits incidental to ownership of the leased items were recognised as operating leases and payments expenses in the Statement of Profit or Loss on a straight-line basis over the lease term. Contingent rental payable was recognised as an expense in the period in which it is incurred.

(b) Policy applicable effective January 01, 2019

The Bank assess at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Bank then applied the single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets which are subject to exclusion clauses. The Bank at the same time recognised lease liabilities to make lease payments and right-of-use assets

Right-of-use assets

The Bank recognised right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are subject to impairment in line with the Bank's policy as described in *note 2.9* on impairment of non-financial assets.

Lease liabilities

At the commencement date of the lease, the Bank recognised lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

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

2.9 Impairment of non-financial assets

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment losses are recognised in the Statement of Profit or Loss under Other operating expenses.

2.10 Taxation

Current tax

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

Deferred tax

Deferred tax is provided for using the liability method on all taxable temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation of equipment, provision for credit impairment on loans and advances and provision for retirement benefit obligation.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled. The tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date are used to determine deferred tax.

Current and deferred taxes are recognised as income tax benefits or expenses in the Satement of Profit or Loss except for tax related to the fair value remeasurement of debt instruments at FVTOCI which are charged or credited to Statement of Other Comprehensive Income.

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

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

2.11 Retirement benefit obligations

(a) Defined contribution plan

A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank does not have legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Bank operates a defined contribution retirement benefit plan for all qualifying employees (and their dependents). Payments to the defined contribution retirement plans are charged as an expense as they fall due.

(b) Defined benefit plan

The Bank provides for a payment of compensation to permanent employees on completion of 5 or more years. The amount provisioned every year is based on the number of years the employee has worked after the last payment date. This type of employee benefits has the characteristics of a defined benefit plan. The liability recognised in the Statement of Financial Position in respect of the defined benefit plan is the present value of the defined obligation at the reporting date less fair value of plan assets together with adjustments for unrecognised actuarial gains and losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

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

2.12 Provisions

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

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

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

2.13 Equity reserves

The reserves recorded in equity on the Bank's statement of financial position include:

- The revaluation reserve; and
- The statutory reserve which is maintained in accordance with Section 24(1) of the Financial Institutions Act 2004 as amended.

2.14 Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's Shareholders and Central Bank of Seychelles. Interim dividends are deducted from equity when they are declared and are no longer at the discretion of the Bank.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

2.15 Interest income and expense

(a) The effective interest rate (EIR) method

Under IFRS 9, interest income is recorded using the EIR method for all financial assets measured at amortised cost. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9 is also recorded using the EIR method. Interest expense is also calculated using the EIR method for all financial liabilities held at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, the EIR calculation also takes into account the effect of potentially different interest rates that may be charged at various stages of the financial asset's expected life, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations of fixed rate financial assets' or liabilities' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset or liability on the Statement of Financial Position with a corresponding increase or decrease in Interest revenue/expense calculated using the effective interest method.

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

2.15 Interest income and expense (Cont'd)

(a) The effective interest rate (EIR) method (Cont'd)

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate, but when instruments were initially recognised at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

(b) Interest and similar income/expense

Net interest income comprises interest income and interest expense calculated using both the effective interest method and other methods. These are disclosed separately on the face of the Statement of Profit or Loss for both interest income and interest expense to provide symmetrical and comparable information.

In its Interest income/expense calculated using the effective interest method, the Bank only includes interest on those financial instruments that are set out in *note 2.15(a)* above.

Interest income/expense on all trading financial assets/liabilities is recognised as a part of the fair value change in 'Net trading income'.

The Bank calculates interest income on financial assets, other than those considered credit-impaired, by applying the EIR to the gross carrying amount of the financial asset.

When a financial asset becomes credit-impaired as set out in *note 3.3.3(a*) and is therefore regarded as 'Stage 3', the Bank calculates interest income by applying the EIR to the net amortised cost of the financial asset. If the financial asset cures (as outlined in *note 3.3.3(a)*) and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets (as set out in *note 3.3.3(a)*), the Bank calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the financial asset. The credit-adjusted EIR is the interest rate that, at initial recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI financial asset.

However for the financial years 2018 and 2019 the Bank did not recognise interest of all loans and advances that were 90 days past due. This has been credited to interest in suspense under other liabilities (note 16). The Bank however immediately release suspended interest once outstanding dues have been cleared.

2.16 Fees and commission

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

However, loan processing fees are recognised as income upon processing the loan.

3. FINANCIAL RISK MANAGEMENT

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

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

3.1 *Strategy in using financial instruments*

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

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

3.2 *Capital adequacy*

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

	2019	2018
	SR'000	SR'000
Capital Base:		
Tier I Capital	**141,648**	123,055
Tier II Capital	**8,150**	11,522
Total Capital Base (a)	**149,798**	134,577
Total Risk-adjusted Assets (b)	**888,862**	747,521
Capital adequacy (a/b)*100	17%	18%
Minimum requirement	12%	12%

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

3. FINANCIAL RISK MANAGEMENT (CONT'D)

3.3 *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 manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and industry concentrations, and by monitoring exposures in relation to such limits.

3.3.1 Credit risk management

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

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

3.3.2 Credit-related commitments risks

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers continuously adhering to specific credit standards.

The Bank monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of credit risk than shorter term commitments.

3. FINANCIAL RISK MANAGEMENT (CONT'D)

3.3.3 Impairment assessment

The Bank's impairment assessment and measurement approach is set out below. It should be read in conjunction with the summary of significant accounting policies *note 2.3(e)*

(a) Definition of default, impaired and cure

The Bank considers a financial instrument defaulted for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

The Bank has aligned its definition of credit impaired assets under IFRS 9 to prudent global definition of non-performing loans ('NPLs').

As a part of a qualitative assessment of whether an exposure is credit-impaired, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default;
- The borrower requesting emergency funding from the Bank;
- The borrower having past due liabilities to public creditors or employees;
- The borrower is deceased;
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral;
- A material decrease in the borrower's turnover or the loss of a major customer;
- A covenant breach not waived by the Bank; and
- The debtor (or any entity within the debtor's group) filing for bankruptcy application/protection

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months unless this was due to technical default in which case management cure it immediately. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

(b) Grouping financial assets measured on a collective basis

As explained in note 2(e)(i) dependant on the factors below, the Bank calculates the allowance for ECL either on a collective or an individual basis.

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

3.3.3 **Impairment assessment (Cont'd)**

(b) Grouping financial assets measured on a collective basis (Cont'd)

Dependant on the factors below, the Bank calculates the allowance for ECL either on a collective or an individual basis.

Asset classes where the Bank calculates ECL on an individual basis include:
- All Stage 3 assets, regardless of the class of financial assets;
- Financial Institutions and Sovereign debt

Asset classes where the Bank calculates ECL on an collective basis include:
- Stage 1& 2 Loans and advances and overdrafts

Financial Institutions and Sovereign debt includes treasury and interbank relationships (such as Due from Banks and debt instruments at amortised cost);

(c) The Bank's internal rating and Probability of Default (PD) estimation process

The bank allocates each exposure to credit risk grade based on a variety of data that is determined to be predictive of risk of default and applying experienced credit judgement.

In particular, grading of loans and advances is based on the modified Central Bank of Seychelles grading guidelines aligning to the Banks Days Past Due (DPD) as below:

CBS grading	Banks grading	DPD Date	Staging
Pass	High grading to standard grading	0 - 30	Stage 1 & 2
Special mention	Sub standard	31 - 90	Stage 2
Sub standard	Non performing loans	91 - 180	Stage 2 & 3
Doubtful	Non performing loans	181 - 365	Stage 3
Loss	Non performing loans	> 365	Stage 3

(i) *PD for Financial Institutions and Sovereign Debt*

The macro sensitive PD model developed by the Bank for the ECL computation for credit exposures to banks, Non-Financial Institutions, and sovereigns involves converting the average 12-month rating transition matrices published by S&Ps and Moody's into PIT transition matrices estimates based on variations in global GDP growth. Thereafter, a term structure of PD is generated from the transition matrices by picking up probabilities of transition from each rating grade to default. These are then calibrated to long term default rates for the segment

Grading of other financial assets is based on Moody rating where grading 1-4 is classified as high grade, 5-16 as standard grade and 17-19 as sub standard grading and 20 as non performing.

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

3.3.3 **Impairment assessment (Cont'd)**

(c) The Bank's internal rating and Probability of Default (PD) estimation process (Cont'd)

(ii) *PD for loans and advances*

The macro sensitive PD model developed by the Bank for the ECL computation involves computing the historical default rate of the Bank based on default data Loans and Overdraft products.

The variation in historical default rate under these segments is then converted into segment wise macro sensitive PD forecasts by fitting a logistic regression framework with macroeconomic independent variables.

The overdraft portfolio was modelled accordingly. Percentage change in Inflation rate for Seychelles was chosen as the macroeconomic variable due to its ease of availability as well as being statistically significant in the PD model.

(d) Exposure at default

Exposure at Default ("EAD") is the sum of outstanding principal and interest payment due at the time of default. The IFRS 9 standard requires the Bank to utilize best estimates of EAD for the computation of ECL. The EAD framework adopted by the Bank considers two separate methods dependent on the underlying financial asset; Current Exposure method for loans and advances and Credit Conversion Factor approach for revolving facilities and off balance sheet items. The Current Exposure method considers the expected outstanding exposure based on the expected future cash flows as the best estimate of EAD. The Credit Conversion factor method considers the sum of the actual outstanding exposure and expected drawdown till default as the best estimate of EAD.

(e) Loss given default (LGD)

(i) *LGD for Financial Institutions and Sovereign Debt*

Financial Institution - *Based on Basel standardized approach applicable to all banks.*

(ii) *LDG for loans and advances*

Loss Given Default (LGD) is the estimated economic loss, expressed as a percentage of exposure, which will be incurred if an obligor goes into default. Producing robust and accurate estimates of potential losses is essential for the efficient allocation of capital within the Bank. LGD under IFRS 9 for a facility is dependent upon the characteristics such as presence of collateral, recoveries, direct expenses and degree of subordination.

3. **FINANCIAL RISK MANAGEMENT (Cont'd)**

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

3.3.3 **Impairment assessment (Cont'd)**

(e) Loss given default (LGD)

(ii) *LDG for loans and advances (Cont'd)*

LGD is computed using objective methods that can be classified into two categories – explicit and implicit. Explicit methods include explicit market LGD and workout LGD, which use information exclusively from defaulted facilities. Implicit methods include implied historical LGD and implied market LGD, and use information from non-defaulted facilities.

(f) Significant increase in credit risk

The Bank continuously monitors all assets subject to ECL. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

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. When estimating ECLs on a collective basis for a group of similar assets (as set out in *note 3.3.3(b)*), the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Bank may also consider that events explained in *note 3.3.3(b)* are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

3.3.4 **Risk concentation risk and exposure to credit risk**

The Bank's concentration risk is managed by client and industry sector as shown on *3.3.4(b)* .

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

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

3. **FINANCIAL RISK MANAGEMENT (Cont'd) / Credit risk (Cont'd)**

3.3.4 ***Risk concentation and exposure to credit risk (Cont'd)***

(a) The table that follow shows the maximum exposure of financial assets to credit risk for the components of the Statement of Financial Position.

Description	2019			2018		
	Gross exposure	**E C L**	**Net exposure**	Gross exposure	E C L	Net exposure
Cash and bank balances (note 5)	**577,281,699**	**(170,374)**	**577,111,325**	537,382,792	-	537,382,792
Loans and advances (note 6)	**848,216,357**	**(17,846,313)**	**830,370,044**	724,581,962	(14,716,853)	709,865,109
Investment in financial assets (note 7)	**350,969,475**	**(1,200,958)**	**349,768,517**	304,206,368	(12,636)	304,193,732
Other assets (excluding prepayments) (note 11)	**16,849,377**	**-**	**16,849,377**	11,085,411	-	11,085,411
Loan commitments (note 6(c)(iii))	**170,484,766**	**(1,336,974)**	**169,147,792**	175,446,765	(1,661,044)	173,785,721
Total	**1,963,801,674**	**(20,554,619)**	**1,943,247,055**	1,752,703,298	(16,390,533)	1,736,312,765

(b) Analysis of risk concentration

(i) *Loans and advances*

	2019		2018	
Corporate:	**SR**	**%**	SR	%
Housing Finance Company	**94,895,423**	**11.23%**	114,203,675	15.76%
Business and trade	**41,502,986**	**4.91%**	61,111,192	8.43%
Tourism	**9,739,568**	**1.15%**	15,965,730	2.20%
Small Business Finance Agency	**-**	**0.00%**	11,944,894	1.65%
Building and construction	**106,057,825**	**12.55%**	65,783,235	9.08%
Transport	**32,911,463**	**3.90%**	28,443,106	3.93%
Manufacturing	**11,182,164**	**1.32%**	14,365,358	1.98%
Real estate	**17,632,871**	**2.09%**	17,375,567	2.40%
Others	**14,696,925**	**1.74%**	10,070,313	1.39%
Agriculture and horticulture	**13,382,713**	**1.58%**	7,587,089	1.05%
	342,001,938	**40.48%**	346,850,159	47.87%

3. **FINANCIAL RISK MANAGEMENT (Cont'd) / Credit risk (Cont'd)**

3.3.4 ***Risk concentation and exposure to credit risk (Cont'd)***

(b) Analysis of risk concentration (Cont'd)

(i) *Loans and advances (Cont'd)*

	2019		2018	
Retail:	SR	%	SR	%
Home repair and appliances	**210,528,399**	**24.92%**	154,823,671	21.37%
Mortgage	**150,179,582**	**17.78%**	93,480,823	12.90%
Vehicle	**43,098,276**	**5.10%**	35,355,907	4.88%
Others	**2,913,055**	**0.34%**	5,833,799	0.81%
Personal	**1,249,538**	**0.15%**	2,396,061	0.33%
	407,968,850	**48.29%**	291,890,261	40.28%
Overdrafts:	**38,685,183**	**4.58%**	49,477,748	6.83%
Others:	**25,381,584**	**3.00%**	3,668,244	0.51%
Staff:				
Mortgage	**18,077,119**	**2.14%**	18,258,920	2.52%
Home repair and appliances	**12,759,423**	**1.51%**	11,167,079	1.54%
Personal	**-**	**0.00%**	13,990	0.00%
	30,836,542	**3.65%**	29,439,989	4.06%
Total loans and advances	**844,874,097**	**100%**	721,326,401	**100%**
Accrued interest	**3,342,260**		3,255,561	
Total Gross loans and advances	**848,216,357**		724,581,962	
Less: ECL allowance on loans and advances (note 6(b) & 6(d))	**(17,846,313)**		(14,716,853)	
	830,370,044		709,865,109	

(ii) *Cash and bank balances*

Cash and bank balances are held with other financial institutions and the Government of Seychelles (refer to note 5).

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

3.3.4 ***Risk concentation and exposure to credit risk (Cont'd)***

(b) Analysis of risk concentration (Cont'd)

(iii) Investment in financial assets balances are held with the Government of Seychelles (refer to note 7).

3.4 **Currency risk**

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

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

On-Statement of Financial Position (SOFP) as at December 31, 2019

	SR	Euro	US Dollars	Others	Total
	SR'000	SR'000	SR'000	SR'000	SR'000
Assets					
Cash and cash equivalents	495,420	13,440	63,516	4,906	577,282
Loans and advances	842,446	4,634	-	1,136	848,216
Investment in financial assets	350,969	-	-	-	350,969
Right-of-use assets	1,865	-	-	-	1,865
Property and equipment	57,818	-	-	-	57,818
Intangible assets	6,104	-	-	-	6,104
Other assets	7,462	-	12,130	-	19,592
Deferred tax asset	3,125	-	-	-	3,125
	1,765,209	18,074	75,646	6,042	1,864,971
Liabilities					
Deposits from customers	1,589,117	11,716	38,247	2,539	1,641,619
Retirement benefit obligations	8,854	-	-	-	8,854
Lease liabilities	2,234	-	-	-	2,234
Current tax liabilities	2,826	-	-	-	2,826
Other liabilities	21,098	-	-	-	21,098
	1,624,129	11,716	38,247	2,539	1,676,631
Net on balance sheet position	141,080	6,358	37,399	3,503	188,340
Less allowances for credit impairment					(19,218)
					169,122

3. FINANCIAL RISK MANAGEMENT (CONT'D)

3.4 Currency risk (Cont'd)

On-Statement of Financial Position (SOFP) as at December 31, 2018

	SR	Euro	US Dollars	Others	Total
	SR'000	SR'000	SR'000	SR'000	SR'000
Assets					
Cash and cash equivalents	449,257	16,758	67,175	4,193	537,383
Loans and advances	707,683	7,015	8,166	1,718	724,582
Investments	304,206	-	-	-	304,206
Property and equipment	53,478	-	-	-	53,478
Intangible assets	6,801	-	-	-	6,801
Other assets	3,882	-	9,811	-	13,693
Deferred tax asset	1,425	-	-	-	1,425
	1,526,732	23,773	85,152	5,911	1,641,568
Liabilities					
Customer deposits	1,370,960	8,496	63,013	1,724	1,444,193
Other liabilities	14,158	-	-	-	14,158
Dividend proposed	6,000	-	-	-	6,000
Current tax liabilities	1,690	-	-	-	1,690
Retirement benefit obligations	7,154	-	-	-	7,154
	1,399,962	8,496	63,013	1,724	1,473,195
Net on balance sheet position	126,770	15,277	22,139	4,187	168,373
Less allowances for credit impairment					(14,729)
					153,644

Sensitivity analysis

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

	2019	2018
	SR 000	SR 000
Impact on results	**±2,644**	±2,080

3. FINANCIAL RISK MANAGEMENT (CONT'D)

3.5 Liquidity Risk

The Bank is exposed to daily calls on its available cash resources from deposits at call and short notice or maturing deposits, loan disbursements, guarantees and from margin and other calls. The Bank maintains cash resources to meet all of these needs based on ongoing analysis of volatile funds and past experience. It also sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing that should be in place to cover withdrawals at unexpected levels of demand. Maturity profile of assets and liabilities is as follows:

At December 31, 2019	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 3 years	Over 3 years	Non-maturity items	Total
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
Assets								
Cash and cash equivalents	528,578	48,704	-	-	-	-	-	577,282
Loans and advances	42,085	638	-	12,223	113,218	680,052	-	848,216
Investment in financial assets	16,782	49,100	47,157	200,964	-	36,966	-	350,969
Right-of-use assets	-	-	-	-	-	-	1,865	1,865
Property and equipment	-	-	-	-	-	-	57,818	57,818
Intangible assets	-	-	-	-	-	-	6,104	6,104
Other assets	-	-	-	-	-	-	19,592	19,592
Deferred tax asset	-	-	-	-	-	-	3,125	3,125
	587,445	98,442	47,157	213,187	113,218	717,018	88,504	1,864,971
Liabilities								
Deposits from customers	1,314,816	75,545	55,435	81,610	78,986	35,227	-	1,641,619
Retirement benefit obligations	-	-	-	-	-	-	8,854	8,854
Lease liabilities	-	-	-	-	-	-	2,234	2,234
Current tax liabilities	2,826	-	-	-	-	-	-	2,826
Other liabilities	21,098	-	-	-	-	-	-	21,098
	1,338,740	75,545	55,435	81,610	78,986	35,227	11,088	1,676,631
Maturity gap	(751,295)	22,897	(8,278)	131,577	34,232	681,791	77,416	188,340
Less allowances for credit impairment								(19,218)
								169,122

3. FINANCIAL RISK MANAGEMENT (CONT'D)

3.5 Liquidity risk (Cont'd)

At December 31, 2018	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 3 years	Over 3 years	Non-maturity items	Total
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
Assets								
Cash and cash equivalents	499,291	-	-	-	-	-	38,092	537,383
Loans and advances	53,504	7,409	4,772	13,758	48,332	596,807	-	724,582
Investments	80,389	73,460	64,107	16,250	40,000	30,000	-	304,206
Property and equipment	-	-	-	-	-	-	53,478	53,478
Intangible assets	-	-	-	-	-	-	6,801	6,801
Other assets	-	-	-	-	-	-	13,693	13,693
Deferred tax	-	-	-	-	-	-	1,425	1,425
	633,184	80,869	68,879	30,008	88,332	626,807	113,489	1,641,568
Liabilities								
Customer deposits	1,214,767	54,841	110,706	10,502	26,700	26,677	-	1,444,193
Other liabilities	-	-	-	-	-	-	14,158	14,158
Dividend proposed	-	6,000	-	-	-	-	-	6,000
Retirement benefit obligations	-	-	-	-	-	-	7,154	7,154
Current tax liabilities	1,690	-	-	-	-	-	-	1,690
	1,216,457	60,841	110,706	10,502	26,700	26,677	21,312	1,473,195
Maturity gap	(583,273)	20,028	(41,827)	19,506	61,632	600,130	92,177	168,373
Less allowances for credit impairment								(14,729)
								153,644

3. FINANCIAL RISK MANAGEMENT (CONT'D)

3.5 Liquidity risk (Cont'd)

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

During the year 2019, the Bank has calculated its liquidity ratio as follows;

	2019	2018
	SR'000	SR'000
Liquid Assets (a)	**678,117**	576,398
Banks total Liabilities (b)	**1,677,718**	1,476,825
Liquidity Ratio (a/b)	**40%**	39%

3.6 Interest rate risk

Interest rate risk arises from changes in interest rates. The main type of interest rate risk to which the Bank is exposed is “Re-pricing Risk”, which is defined as: The risk arising from timing differences in the maturity (for fixed rates) and re-pricing (for floating rates) of bank assets, liabilities and off balance sheet exposures, which can expose a bank’s income and/or underlying economic value to unanticipated fluctuations as interest rates vary.

It is the policy of the Bank to limit exposure of its balance sheet and off balance sheet to re-pricing risk by systematically inserting a clause in its contract that allows the Bank to re-price as and when required in line with changes in interest rates, thereby mitigating the re-pricing risk.

3. FINANCIAL RISK MANAGEMENT (CONT'D)

3.6 Interest rate risk (Cont'd)

At December 31, 2019	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	Over 3 years	Non-interest items	Total
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
Assets								
Cash and cash equivalents	311,011	48,704	-	-	-	-	217,567	577,282
Loans and advances	42,085	638	-	12,223	113,218	680,052	-	848,216
Investment in financial assets	16,782	49,100	47,157	200,964	-	36,966	-	350,969
Right-of-use assets	-	-	-	-	-	-	1,865	1,865
Property and equipment	-	-	-	-	-	-	57,818	57,818
Intangible assets	-	-	-	-	-	-	6,104	6,104
Other assets	-	-	-	-	-	-	19,592	19,592
Deferred tax asset	-	-	-	-	-	-	3,125	3,125
	369,878	98,442	47,157	213,187	113,218	717,018	306,071	1,864,971
Liabilities								
Deposits from customers	897,697	75,545	55,435	81,610	78,986	35,227	417,119	1,641,619
Retirement benefit obligations	-	-	-	-	-	-	8,854	8,854
Lease liabilities	-	-	-	-	-	-	2,234	2,234
Current tax liabilities	-	-	-	-	-	-	2,826	2,826
Other liabilities	-	-	-	-	-	-	21,098	21,098
	897,697	75,545	55,435	81,610	78,986	35,227	452,131	1,676,631
Maturity gap	(527,819)	22,897	(8,278)	131,577	34,232	681,791	(146,060)	188,340
Less allowances for credit impairment								(19,218)
								169,122

3. FINANCIAL RISK MANAGEMENT (CONT'D)

3.6 Interest rate risk (Cont'd)

At December 31, 2018	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	Over 3 years	Non-interest items	Total
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
Assets								
Cash and cash equivalents	374,848	-	-	-	-	-	162,535	537,383
Loans and advances	53,504	7,409	4,772	13,758	48,332	596,807	-	724,582
Investment in financial assets	80,389	73,460	64,107	16,250	40,000	30,000	-	304,206
Property and equipment	-	-	-	-	-	-	53,478	53,478
Intangible assets	-	-	-	-	-	-	6,801	6,801
Other assets	-	-	-	-	-	-	13,693	13,693
Deferred tax asset	-	-	-	-	-	-	1,425	1,425
	508,741	80,869	68,879	30,008	88,332	626,807	237,932	1,641,568
Liabilities								
Customer deposits	863,992	54,841	110,706	10,502	26,700	26,677	350,775	1,444,193
Other liabilities	-	-	-	-	-	-	14,158	14,158
Dividend proposed	-	-	-	-	-	-	6,000	6,000
Retirement benefit obligations	-	-	-	-	-	-	7,154	7,154
Current tax liabilities	-	-	-	-	-	-	1,690	1,690
	863,992	54,841	110,706	10,502	26,700	26,677	379,777	1,473,195
Maturity gap	(355,251)	26,028	(41,827)	19,506	61,632	600,130	(141,845)	168,373
Less allowances for credit impairment								(14,729)
At December 31, 2018								153,644

3. FINANCIAL RISK MANAGEMENT (CONT'D)

3.6 Interest rate risk (Cont'd)

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

	2019	2018
	SR	SR
Increase / Decrease	**77,912**	64,869

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 *Impairment losses on financial assets*

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

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

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

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

4.1 *Impairment losses on financial assets (Cont'd)*

- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

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

(i) *Calculation of Loss allowance*

When measuring ECL the Bank uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.
Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

(ii) *Business model assessment*

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

The Bank monitors financial assets measured at amortised cost prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank’s continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

(iii) *Significant increase in credit risk*

IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank considers qualitative and quantitative reasonable and supportable forward-looking information.

4.2 *Impairment of other assets*

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

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

4.3 *Property and equipment - Useful lives and residual values*

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

4.4 *Fair value estimation*

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

4.5 *Functional Currency*

The Board of Directors have determined the Seychelles Rupees to be the functional currency of the Bank.

4.6 *Retirement benefit obligations*

The present value of the pension obligations depends on number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension 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 flows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Bank considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. The Bank has not carried out any actuarial valuation since the Directors' have based themselves on the method as prescribed by the Seychelles Employment Act and they have estimated that the amount of liability provided will not be materially different had it been computed by an external Actuary. Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 13.

4.7 *Limitation of sensitivity analysis*

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

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

5. CASH AND CASH EQUIVALENTS

	2019	2018
	SR	SR
Foreign currency notes and coins	**23,954,620**	2,889,257
Cash in hand	**23,926,351**	33,963,805
Balances with banks abroad	**62,555,064**	65,256,173
Balances with local banks		
- Seychelles rupees	**1,461,344**	1,454,292
- Foreign currencies	**4,865,954**	9,103,882
Cash and cash equivalents excluding balances with Central Bank	**116,763,333**	112,667,409
Balances with Central Bank of Seychelles	**460,518,366**	424,715,383
	577,281,699	537,382,792
Less: Allowance for expected credit loss (note 5(a), 5(b) & 6(d))	**(170,374)**	-
	577,111,325	537,382,792

(a) Allowance for expected credit loss

	Stage 1	
Internal rating grade	2019	2018
	SR	SR
Standard grade	**(170,374)**	-

(b) During the year, there were no transfers between stages (2018: none).

6. LOANS AND ADVANCES

	2019	2018
	SR	SR
Gross loans and advances (note 6(a))	**844,874,096**	721,326,401
Accrued interest	**3,342,261**	3,255,561
Gross carrying amount	**848,216,357**	724,581,962
Less: ECL allowance on loans and advances (note 6(b) & 6(d))	**(17,846,313)**	(14,716,853)
	830,370,044	709,865,109

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

(b) *Allowances for credit impairment*

	2019			2018
	Gross Amount	ECL	Net amount	Net amount
	SR	SR	SR	SR
Loans and advances (note 6)	**848,216,357**	**(17,846,313)**	830,370,044	709,865,109
Investments (note 7)	**350,969,475**	**(1,200,958)**	349,768,517	304,193,732
Bank and cash balances (note 5)	**577,281,699**	**(170,374)**	577,111,325	537,382,792
Commitments (note 6(c))	**170,484,766**	**(1,336,974)**	169,147,792	173,785,721
At December 31,	**1,946,952,297**	**(20,554,619)**	1,926,397,678	1,725,227,354

6. LOANS AND ADVANCES (CONT'D)

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

	Year ended 2019				Year ended 2018
	At amortised cost				Amortised cost
Class of financial asset	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL - not credit impaired**	**Stage 3 Lifetime ECL - credit impaired**	**Total**	**Total**
	SCR	**SCR**	**SCR**	**SCR**	SCR
(i) *Loans and advances*					
Pass	**810,589,066**	**1,051,259**	**-**	**811,640,325**	700,768,447
Special mention	**-**	**8,630,488**	**-**	**8,630,488**	11,122,407
Sub standard	**-**	**811,613**	**12,164,131**	**12,975,744**	3,723,634
Doubtful	**-**	**-**	**11,062,333**	**11,062,333**	2,439,212
Loss	**-**	**-**	**3,907,467**	**3,907,467**	6,528,262
Total amount committed	**810,589,066**	**10,493,360**	**27,133,931**	**848,216,357**	724,581,962
Allowance for credit impairment (note 6(d))	**(5,189,759)**	**(341,271)**	**(12,315,283)**	**(17,846,313)**	(14,716,853)
Carrying amount	**805,399,307**	**10,152,089**	**14,818,648**	**830,370,044**	709,865,109
(ii) *Investments in financial assets at amortised cost*	**350,969,475**	**-**	**-**	**350,969,475**	304,206,368
Allowance for credit impairment (notes 6(d) & 7(a))	**(1,200,958)**	**-**	**-**	**(1,200,958)**	(12,636)
Carrying amount	**349,768,517**	**-**	**-**	**349,768,517**	304,193,732
(ii) *Cash and cash equivalents*	**577,281,699**	**-**	**-**	**577,281,699**	112,667,409
Allowance for credit impairment (notes 5(a) & 6(d))	**(170,374)**	**-**	**-**	**(170,374)**	-
Carrying amount	**577,111,325**	**-**	**-**	**577,111,325**	112,667,409
(iii) *Commitments*	**170,484,766**	**-**	**-**	**170,484,766**	175,446,765
Allowance for credit impairment (note 6(d))	**(1,336,974)**	**-**	**-**	**(1,336,974)**	(1,661,044)
Carrying amount	**169,147,792**	**-**	**-**	**169,147,792**	173,785,721

6. LOANS AND ADVANCES (CONT'D)

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

Loss allowances	Stage 1 12-month ECL	Stage 2 Lifetime ECL - not credit impaired	Stage 3 Lifetime ECL - credit impaired	2019 Total	2018 Total
	SCR	SCR	SCR	SCR	SCR
At January 1,					
Loans and advances (note 6)	6,535,272	630,412	7,551,169	14,716,853	11,813,822
Investments in Financial assets at amortised cost (note 7(a))	12,636	-	-	12,636	60,820
Commitments (note 6(c))	1,661,044	-	-	1,661,044	576,867
Total on January 1,	8,208,952	630,412	7,551,169	16,390,533	12,451,509
Movement during the year: (Page 5)	(310,887)	(289,141)	4,764,114	4,164,086	3,939,024
At December 31,	7,898,065	341,271	12,315,283	20,554,619	16,390,533
Loans and advances (note 6)	5,189,759	341,271	12,315,283	17,846,313	14,716,853
Investments in Financial assets at amortised cost (note 7(b))	1,200,958	-	-	1,200,958	12,636
Bank and cash balances (note 5)	170,374	-	-	170,374	-
Commitments (notes 6(c) & 16)	1,336,974	-	-	1,336,974	1,661,044

(d) The credit concentration risk of loans and advances by industry sectors is shown under note 3.3.4.

7. INVESTMENTS IN FINANCIAL ASSETS AT AMORTISED COST

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

	2019	2018
	SR	SR
At January 1,	**304,206,368**	335,105,775
Additions	**290,362,998**	204,817,309
Matured	**(250,340,246)**	(242,736,184)
Accrued interest	**6,740,355**	7,019,468
	350,969,475	304,206,368
Less: Net allowance for credit impairment losses (note 6(d))	**(1,200,958)**	(12,636)
At December 31,	**349,768,517**	304,193,732
Analysed as:		
Non-current	**36,670,000**	91,715,000
Current	**313,098,517**	212,478,732
	349,768,517	304,193,732

(b) Movement in net allowance for credit impairment

	2019	**2018**
	SR	**SR**
At January 1,		
As previously reported	**12,636**	**-**
Effect of adopting IFRS 9	**-**	**60,820**
As restated	**12,636**	**60,820**
Charge / (credit) to Statement of Profit or loss	**1,188,322**	**(48,184)**
At December 31, (note 6(d))	**1,200,958**	**12,636**

(c) Investments in financial assets include the following:

	Maturity Date	2019 Interest rate	**2019**	2018
		%	**SR**	SR
Treasury bills	Feb - Dec 2020	1.25% - 7.00%	**273,727,729**	207,811,721
Treasury bonds	Mar '14 - Nov '24	5.50% - 7.00%	**36,965,544**	56,118,445
Government stock	N/a	N/a	**2,869**	2,869
Development Bank Seychelles B	Aug '20	6.00%	**40,273,333**	40,273,333
			350,969,475	304,206,368

(d) Currency and maturity profiles of Investment in financial assets are detailed under notes 3.4 & 3.5.

8. LEASES

(a) Lease contracts

The Bank has lease contracts for its Head Office, Branches and ATM houses and housing used in its operations. Leases of Head office, branches and ATM houses generally have lease terms between 2 to 6 years. The Bank's obligations under its leases are secured by the lessor's title to the leased assets.

The bank does not have any lesses which are considered to be the short-term or leases of low-value assets which fall under the exemption clause of IFRS 16.

(b) Right-of-use assets

Set out below are the carrying amounts of right-of-use assets recognised on face of the Statement of Financial Position and the movement noted during the period under review.

	2019
	SR
As at 1 January – effect of adoption of IFRS 16	**3,927,451**
Charge for the year	**(2,062,223)**
At 31 December 2019	**1,865,228**

(c) Lease liabilities

The carrying amount of lease liabilities corresponding to the above Right-of-use assets and the movements noted during the period under review were as follows:

	2019
	SR
As at 1 January – effect of adoption of IFRS 16	**3,927,451**
Finance costs	**1,472,735**
Payments	**(3,165,924)**
As at 31 December 2019	**2,234,262**

The Bank had total cash outflows for leases of **SR 3.1m**. The initial application of IFRS 16 resulted in non-cash additions to right-of-use assets and lease liabilities of **SR 3.9m** at 1 January 2019.

(d) The maturity analysis of lease liabilities are disclosed under note 3.5.

(e) The carrying amounts of Right-of-use assets are measured at cost which represents their fair value at December 31, 2019.

9. PROPERTY AND EQUIPMENT

	Leasehold land and buildings	Furniture and equipment	Motor vehicles	Computer equipment	Work in progress	Total
	SR	SR	SR	SR		SR
COST & VALUATION						
At January 1, 2018	43,469,754	8,617,010	2,011,919	15,612,159	5,826,576	75,537,418
Additions	-	406,721	-	3,556,004	1,025,475	4,988,200
Transfer to intangible assets (note 10)	-	-	-	-	(320,350)	(320,350)
Disposals	-	-	-	(1,259,708)	-	(1,259,708)
At December 31, 2018	43,469,754	9,023,731	2,011,919	17,908,455	6,531,701	78,945,560
Additions	**209,079**	**585,715**	**1,239,323**	**1,611,680**	**3,999,313**	**7,645,110**
At December 31, 2019	**43,678,833**	**9,609,446**	**3,251,242**	**19,520,135**	**10,531,014**	**86,590,670**
ACCUMULATED DEPRECIATION						
At January 1, 2018	3,293,073	6,178,638	1,151,386	12,956,200	-	23,579,297
Charge for the year	1,155,242	403,096	376,903	1,213,064	-	3,148,305
Disposals	-	-	-	(1,259,708)	-	(1,259,708)
At December 31, 2018	4,448,315	6,581,734	1,528,289	12,909,556	-	25,467,894
Charge for the year	**1,161,222**	**412,297**	**264,557**	**1,466,610**	**-**	**3,304,686**
At December 31, 2019	**5,609,537**	**6,994,031**	**1,792,846**	**14,376,166**	**-**	**28,772,580**
NET BOOK VALUE						
At December 31, 2019	**38,069,296**	**2,615,415**	**1,458,396**	**5,143,969**	**10,531,014**	**57,818,090**
At December 31, 2018	39,021,439	2,441,997	483,630	4,998,899	6,531,701	53,477,666

9. PROPERTY AND EQUIPMENT (CONT'D)

(a) The Bank's land and buildings were last revalued at December 31, 2015 by Nigel Antoine Roucou & Co, Quantity Surveyor and Property Consultant, an independent professionally qualified valuer, and they have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The present market value was determined on an open-market basis by reference to market evidence of transaction prices for similar properties. The next revaluation is expected to be in 2020.

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

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

(c) Significant unobservable valuation input

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

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

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

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

10. INTANGIBLE ASSETS

	Computer software	
	2019	2018
COST	**SR**	SR
At January 1,	**21,526,175**	21,205,825
Transfer from property and equipment (note 9)	**-**	320,350
Additions	**871,228**	-
At December 31,	**22,397,403**	21,526,175
AMORTISATION		
At January 1,	**14,724,874**	13,311,677
Charge for the year	**1,568,522**	1,413,197
At December 31,	**16,293,396**	14,724,874
Net book value		
At December 31,	**6,104,007**	6,801,301

The intangible assets comprises computer software and licenses.

11. OTHER ASSETS

	2019	2018
	SR	SR
Visa Collateral	**11,835,068**	9,811,392
ATM Offus transaction account	**1,713,929**	1,056,796
Others	**3,300,380**	217,223
	16,849,377	11,085,411
Prepayments	**2,742,181**	2,607,382
	19,591,558	13,692,793

(a) The carrying amounts of 'other assets' approximate their fair values and the currencies in which they are denominated are shown in note 3.4.

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

(c) The ATM Offus account relates to receivable amount from Absa Bank (Seychelles) Limited with respect to ATM and POS transactions.

12. DEPOSITS FROM CUSTOMERS

	2019	2018
	SR	SR
Current accounts	**417,119,194**	350,775,439
Savings deposits	**715,176,824**	627,742,821
Time deposits	**499,089,621**	455,627,581
Accrued interest	**10,233,604**	10,046,835
	1,641,619,243	1,444,192,676

(a) Movements in deposits is as follows:

	2019	2018
	SR	SR
At January 1,	**1,444,192,676**	1,277,440,759
Net movements during the year	**197,239,798**	165,527,059
Net movements in accrued interest	**186,769**	1,224,858
At December 31,	**1,641,619,243**	1,444,192,676

(b) The currencies and maturities profiles of deposits from banks and customers are shown under notes 3.4 and 3.5 respectively.

13. RETIREMENT BENEFIT OBLIGATIONS

Length of service compensation

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

	2019	2018
	SR	SR
At January 1,	**7,153,856**	6,995,850
Paid during the year	**(1,648,560)**	(2,282,985)
Charge to Statement of Profit or Loss	**3,349,177**	2,440,991
At December 31,	**8,854,473**	7,153,856

14. DIVIDENDS

A final dividend declared for the year ended December 2018 amounting to SR **6m (SR 10 per share)** was paid during the year under review. A proposed dividend of SR 6m was disapproved by the Central Bank of Seychelles hence no dividend was accrued for the year ended December 31, 2019.

(a) PROPOSED AND PAID

	2019	2018
	SR	SR
At January 1,	**6,000,000**	6,000,000
Dividend proposed	**-**	6,000,000
Paid during the year (Page 7)	**(6,000,000)**	(6,000,000)
Payable at December 31,	**-**	6,000,000

15. CURRENT TAX LIABILITY/ EXPENSE

(a) Statement of financial position

	2019	2018
	SR	SR
At January 1,	**1,690,124**	1,386,437
Charge for the year (note 15 (c))	**9,384,859**	7,514,609
Tax paid during the year	**(8,248,496)**	(7,210,922)
At December 31,	**2,826,487**	1,690,124

(b) Statement of profit or loss

	2019	2018
	SR	SR
Current tax based on profit for the year (note 15(a))	**9,384,859**	7,514,609
Deferred tax credit (note 17(b))	**(1,699,792)**	(220,659)
	7,685,067	7,293,950

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

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

	2019	2018
	SR	SR
Profit before tax	**23,162,300**	20,291,896
Tax calculated at tax rates (note 15 (d))	**7,563,559**	6,616,326
Adjustments for Items not allowable for tax	**1,784,265**	1,550,259
Surplus of capital allowances over depreciation	**37,035**	(651,976)
	9,384,859	7,514,609

(d) Applicable tax rates are as follows:

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

16. OTHER LIABILITIES

	2019	2018
	SR	SR
Accruals	**548,000**	346,843
Provision for bonus	**3,987,272**	3,004,355
ATM and POS settlement	**12,166,776**	4,208,644
Other payables	**3,058,828**	4,936,838
Allowance for credit losses on loan commitments (note 6(d))	**1,336,974**	1,661,044
	21,097,850	14,157,724

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

(b) The ATM and POS account relates to payable amount to Absa Bank (Seychelles) Limited with respect to ATM and POS transactions.

17. DEFERRED TAXES

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

	2019	2018
	SR	SR
Deferred tax liability (note 17 (c(i))	**6,702,011**	6,344,670
Deferred tax asset (note 17 (c(ii))	**(9,826,781)**	(7,769,648)
Deferred tax asset	**(3,124,770)**	(1,424,978)

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

	2019	2018
	SR	SR
At January 1,		
As previously reported	**(1,424,978)**	215,262
Effect of adopting IFRS 9 (note 30)	**-**	(777,091)
As restated	**(1,424,978)**	(561,829)
Credit for the year (note 15(b))	**(1,699,792)**	(220,659)
-Deferred tax to other comprehensive income	**-**	(642,490)
At December 31,	**(3,124,770)**	(1,424,978)
Charge / (Credit) for the year is analysed as follows:		
- Statement of profit or loss	**(1,699,792)**	(220,659)
Other comprehensive income		
- Deferred tax to other comprehensive income	**-**	(642,490)
	(1,699,792)	(863,149)

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

(i) **Deferred tax liabilities**

	Accelerated capital allowances	**Revaluation of assets**	**Total**
	SR	**SR**	**SR**
At January 1, 2018	5,053,310	642,490	5,695,800
Charged to statement of profit or loss	1,291,360	-	1,291,360
Charged to other comprehensive income	-	(642,490)	(642,490)
At December 31, 2018	**6,344,670**	**-**	**6,344,670**
Charged to statement of profit or loss	**357,341**	-	**357,341**
At December 31, 2019	**6,702,011**	**-**	**6,702,011**

17. DEFERRED TAXES (CONT'D)

(ii) **Deferred tax assets**

	Lease liabilities	**Provisions**	**Total**
		SR	SR
At January 1, 2018			
- As previously reported	-	5,480,538	5,480,538
- Effect of adopting IFRS 9 (note 30)	-	777,091	777,091
As restated	-	6,257,629	6,257,629
Credit to Statement of Profit or Loss	-	1,512,019	1,512,019
At December 31, 2018	**-**	**7,769,648**	**7,769,648**
Credit to Statement of Profit or Loss	**121,781**	**1,935,352**	**2,057,133**
At December 31, 2019	**121,781**	**9,705,000**	**9,826,781**

18. SHARE CAPITAL

	2019 & 2018
	SR
Issued and fully paid up	
At December 31,	**60,000,000**

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

19. STATUTORY RESERVE

	2019	2018
	SR	SR
At January 1,	**27,520,694**	24,921,105
Transfer during the year (page 5)	**3,095,447**	2,599,589
At December 31,	**30,616,141**	27,520,694

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

20. INTEREST INCOME

	2019	2018
	SR	SR
Investment in financial assets	**18,096,586**	20,277,943
Loans and advances	**85,986,861**	73,100,806
Cash and short term funds	**14,990,057**	6,637,237
	119,073,504	100,015,986

21. INTEREST EXPENSE

	2019	2018
	SR	SR
Customer deposits	**41,161,589**	35,147,096

22. FEE INCOME AND COMMISSIONS

	2019	2018
	SR	SR
Account maintenance	**3,677,350**	3,645,308
Processing charges	**3,274,860**	2,820,914
Commissions from Visa	**3,328,201**	2,974,238
Standing instructions	**1,361,053**	1,852,245
Commission from agency work and sale of foreign currency	**1,001,605**	1,210,196
Transaction charges	**779,192**	943,011
Loan documentation	**501,231**	737,809
Referred cheque charges	**599,900**	709,250
Unauthorized overdraft charges	**146,682**	148,950
SMS alert charges	**401,052**	339,629
Mortgage agreement charges	**329,336**	304,999
Cheque books	**262,879**	258,079
Other related income	**232,151**	292,162
	15,895,492	16,236,790

23. SUNDRY INCOME

	2019	2018
	SR	SR
Recovery of bad debts written off	**318,325**	1,094,539
Profit on disposal	**-**	5,754
Miscellaneous income	**-**	79,611
	318,325	1,179,904

24. EMPLOYEE BENEFIT EXPENSE

	2019	2018
	SR	SR
Wages and salaries	**27,842,309**	24,974,792
Directors' fees (note 24(a))	**384,000**	175,346
Movement in retirement benefit obligations (note 13)	**3,349,177**	2,440,991
Pension costs	**636,849**	479,536
Other staff costs	**1,853,013**	1,816,371
	34,065,348	29,887,036

24. EMPLOYEE BENEFIT EXPENSE (CONT'D)

(a) *Directors' remuneration*

	2019	2018
	SR	SR
Directors' fees		
Esther Boniface	**72,000**	35,840
Robert Morgan	**72,000**	35,840
Patrick Payet	**96,000**	53,760
Sandy Mothee	**72,000**	35,840
Jamshed Pardiwalla	**72,000**	14,066
	384,000	175,346

25. OTHER EXPENSES

	2019	2018
	SR	SR
Premises cost	**2,455,031**	4,979,933
Computer maintenance expenses	**5,270,458**	5,524,309
Card expenses	**5,900,964**	5,346,171
Finance costs on lease liabilities (note 8(c))	**1,472,735**	-
Security services	**1,871,972**	1,610,520
Legal and professional charges	**1,813,807**	1,788,319
Stationery and postage expenses	**1,317,831**	1,142,138
Telecommunication	**2,201,371**	1,987,024
Licenses, insurance and subscription	**1,826,058**	1,338,572
Others	**1,511,592**	1,399,438
CSR tax	**617,676**	600,726
Tourism marketing tax	**617,676**	600,726
Fuel, conveyance and vehicles maintenance	**489,446**	388,604
Advertising and promotion expenses	**539,420**	447,590
AGM expenses	**280,410**	111,985
Auditors' remuneration	**161,000**	161,000
	28,347,447	27,427,055

26. COMMITMENTS

(a) Capital commitments

	2019	2018
	SR	SR
Approved and contracted for:		
Property and equipment	**3,903,412**	4,175,785
Intangible assets	**1,054,676**	500,000
	4,958,088	4,675,785

(b) Loan commitments

	2019	2018
	SR	SR
Loan commitments	**170,484,766**	175,446,765

(c) Operating lease commitments

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

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

	2018
	SR
Within one year	3,165,924
Later than one year and not later than five years	2,637,383
	5,803,307

27. RELATED PARTY TRANSACTIONS AND BALANCES

(a) In the normal course of its operations, the Bank enters into transactions with related parties. Related parties includes other entities with common control and key management personnel, consisting of members of the Board of Directors.

	Balance	Transactions
	Loans and advances	**Interest Income**
	SR'000	**SR'000**
December 31, 2019		
Key Management	**71**	**6**
Directors	**1,471**	**124**
December 31, 2018		
Key Management	138	6
Directors	1,573	124

27. RELATED PARTIES (CONT'D)

	Relationship	Balance Deposits	Transaction Interest Expense
		SR'000	SR'000
December 31, 2019			
Parastatals	Common Control	**520,217**	**8,039**
Government organisations and agencies other than parastatals	Common Control	**90,371**	**-**
December 31, 2018			
Parastatals	Common Control	376,429	8,840
Government organisations and agencies	Common Control	69,606	-

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

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

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

For the year ended 2019, the Bank has not recorded any impairment related to related parties (2018: Nil).

(c) Loan and advances to key management personnel are approved and disburded as per the Authority's loan policy. As at December 31, 2019 loans and advance to Key Management amounted to **SR 71k** (2018: SR 138k). There were no loans and advances issued in 2019 (2018: nil). The Bank charges an interest rate of 4% . Loans advanced to Directors amounted to SR 1.5m (2018: SR 1.6m).

(d) Key management personnel

	Relationship	2019	2018
		SR	SR
Salary and short term employment benefits	Key management	**2,070,133**	2,159,586
Directors remuneration	Directors	**384,000**	175,346
Gratuity compensation	Key management	**149,404**	149,404

28. EVENTS AFTER REPORTING DATE

(a) *Effects of COVID-19 pandemic*

The COVID-19 - pandemic outbreak is having serious disruptions in Seychelles and the world at large. Several countries have closed their borders, grounded flights and discouraged people from travelling abroad. Locally, companies have since decreased whilst some have significantly curtailed operations as they are already in 'dire straits'.

The following economic and financial measures have been taken at all levels:

(i) A supplementary budget of SR 1.5bn has been approved by the Government aimed, at providing targeted accompanying measures to those highly impacted by the novel;

(ii) Businesses that can justify a 25% drop in turnover will be able to apply for the “Financial Assistance for Job Retention” Scheme so as to be in a position to pay salaries of their employees up to a maximum of SR 30k for up to 6 months;

(iii) Emergency lending facility of SR 500m bearing no interest has been made available by the Central Bank of Seychelles to banks which shall use same to on-lend to ailing small and medium sized enterprises through the Relief Loan Scheme at a low interest rate of 1.5% with the guarantee of the State amounting to 70% of the loan facility; and

(iv) Central Bank of Seychelles has reviewed its benchmark interest rate by 1% and disapproved dividends resulting into bank's savings increase.

To this end, the Directors together with the Management of the Bank have assessed the bank's ability to continue as a going concern and are confident that they will continue to have the financial and otherwise support from their Shareholders and they are of the opinion that the going concern basis of preparation of these financial statements remains appropriate in the foresseable future.

(b) Losses of correspondent Bank

In addition to losing one of its correspondent bank for US Dollar, the Industrial and Commercial Bank of China (Asia) Limited (ICBC) in March 2018, SCB lost another correspondent bank for US Dollar and Euro, Societe Generale Global Transactions Banking of Paris. The notification letter received from Paris on January 22, 2020 stated that all the services associated to the accounts and the application contracts as well as clearing systems representation agreements will therefore be terminated effective June 30, 2020.

The Bank continues to work on establishing new correspondent banking relationships for both outward and inward USD & Euro and the Directors together with Management are confident that this will be addressed in the near future.

29. FINANCIAL SUMMARY

	2019	2018	2017*	2016*	2015*
	SR'000	SR'000	SR'000	SR'000	SR'000
Profit before taxation	**23,162**	20,292	19,139	22,478	17,933
Tax expense	**(7,685)**	(7,294)	(5,805)	(1,821)	(5,891)
Profit for the year	**15,477**	12,998	13,334	20,657	12,042
Transfer to statutory reserve	**(3,095)**	(2,600)	(2,667)	(4,130)	(2,409)
Dividends	**-**	(6,000)	(6,000)	(6,000)	(12,000)
Retained earning brought forward	**38,649**	-	31,162	20,635	23,002
Retained earning brought forward-restated (note 30)	**-**	34,251	-	-	-
Retained earnings carried forward	**51,031**	38,649	35,829	31,162	20,635
EQUITY					
Share capital	**60,000**	60,000	60,000	60,000	60,000
Statutory reserve	**30,616**	27,521	24,921	22,254	18,123
Revaluation reserve	**27,474**	27,474	26,831	26,189	26,189
Retained earnings	**51,031**	38,649	35,829	31,162	20,635
	169,121	153,644	147,581	139,605	124,947

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

30. EFFECT OF IMPLEMENTATION OF IFRS 9

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

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