

**BANK OF CEYLON (SEYCHELLES)**

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CORPORATE INFORMATION

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<b>BRANCH MANAGEMENT</b>	:	L.J Dissanayake J.G.P Kumara
<b>REGISTERED OFFICE</b>	:	Oliaji Trade Centre Independence Avenue Victoria, Mahé, Seychelles
<b>PRINCIPAL PLACE OF BUSINESS</b>	:	Oliaji Trade Centre Francis Rachel Street PO Box 1599, Victoria, Mahé, Seychelles
<b>AUDITORS</b>	:	BDO Associates Chartered Accountants Seychelles

**BRANCH MANAGEMENT REPORT**

The Branch Management is pleased to submit its report together with the audited financial statements of Bank of Ceylon (Seychelles) (hereafter referred to as the "Branch") for the year ended December 31, 2017.

**PRINCIPAL ACTIVITY**

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

**RESULTS**

	SR
Profit before taxation	3,544,248
Taxation	(1,200,100)
Profit for the year	<u>2,344,148</u>
Transfer to statutory reserve	(468,830)
Revenue deficit brought forward	<u>3,465,820</u>
<b>Retained earnings carried forward</b>	<b><u><u>5,341,138</u></u></b>

**PROFIT REMITTANCE**

The Branch did not remit any profit to its Head Office during the financial year under review (2016: Nil).

**EQUIPMENT**

Additions to equipment during the year of **SR 589k** (2016: SR 78k) comprised office equipment, motor vehicle and machinery.

The Branch Manager is of the opinion that the carrying amounts of equipment approximate their fair value and therefore no adjustment for impairment is required.

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY**

Branch Management is responsible for the overall management of the affairs of the Branch including its operations and making investment decisions within the powers delegated by the Head Office. Approvals are obtained from Head Office wherever necessary.

Branch Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Companies Act, 1972, the International Financial Reporting Standards (IFRS) and the Financial Institutions Act 2004, as amended. 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; and making accounting estimates that are reasonable in the circumstances. The Branch Management have the general responsibility of safeguarding the assets, both owned by the Branch and those that are held in trust and used by the Branch.

Branch Management considers it has met its aforesaid responsibilities.

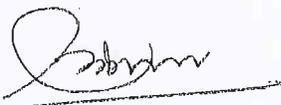
BRANCH MANAGEMENT REPORT (CONT'D)

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AUDITORS

The auditors, Messrs. BDO Associates, are eligible for re-appointment.

BRANCH MANAGEMENT APPROVAL



L.J Dissanayake  
Country Manager



J.G.P Kumara  
Deputy Country Manager

Dated: April 25, 2018  
Victoria, Seychelles

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS**

This report is made solely to the members of **BANK OF CEYLON (SEYCHELLES)** (the "Branch"), as a body, in terms of our engagement to conduct the audit on their behalf. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the 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 **BANK OF CEYLON (SEYCHELLES)** (the "Branch"), on pages 4 to 36 which comprise the Statement of Financial Position as at December 31, 2017, and the Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and 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 on pages 4 to 36 give a true and fair view of the financial position of the Branch as at December 31, 2017, 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 Companies Act, 1972.

**Basis of Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Branch 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.

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

The Branch Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and in compliance with the requirements of the Companies Act, 1972, and for such internal control as is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

**Responsibilities of Directors and Those Charged with Governance for the Financial Statements (Cont'd)**

In preparing the financial statements, the Branch Management is responsible for assessing the Branch'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 Branch or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Branch'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 Branch'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 Branch Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch'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 Branch to cease to continue as a going concern.



BANK OF CEYLON (SEYCHELLES)

3(b)

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

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

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

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

**Report on Other Legal Regulatory Requirements**

*Companies Act, 1972*

We have no relationship with, or interests, in the Branch 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.

- 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
- The explanations or information called for or given to us by the employees of the Branch were satisfactory.
- The Branch did not carry out any fiduciary duties for the period under review.

*BDO Associates*  
BDO ASSOCIATES  
Chartered Accountants

Dated: 25 APR 2018  
Victoria, Seychelles

## STATEMENTS OF FINANCIAL POSITION AS AT DECEMBER 31, 2017

	Notes	2017 SR	2016 SR
<b>ASSETS</b>			
Cash and cash equivalents	5	69,218,663	49,329,135
Loans and advances	6	106,350,148	83,172,230
Investment in financial assets	7	1,998,082	30,023,363
Equipment	8	778,104	516,450
Intangible assets	9	74,439	100,489
Deferred tax asset	10	477,193	215,955
Other assets	11	420,571	3,436,395
<b>Total assets</b>		<b>179,317,200</b>	<b>166,794,017</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Deposits	12	143,907,419	133,067,470
Current tax liability	13	1,461,338	1,455,847
Retirement benefit obligations	14	48,690	-
Other liabilities	15	3,169,825	3,884,920
<b>Total liabilities</b>		<b>148,587,272</b>	<b>138,408,237</b>
<b>EQUITY</b>			
Assigned capital	16	23,943,400	23,943,400
Statutory reserve	Page 6	1,445,390	976,560
Retained earnings		5,341,138	3,465,820
<b>Total equity</b>		<b>30,729,928</b>	<b>28,385,780</b>
<b>Total liabilities and equity</b>		<b>179,317,200</b>	<b>166,794,017</b>
<b>CONTINGENT LIABILITIES</b>			
Bills for collection		-	1,730,102
Letters of credit		21,371,817	16,200,835
Guarantees		1,741,270	1,784,700
		<b>23,113,087</b>	<b>19,715,637</b>

These financial statements have been approved for issue by Branch Management on April 25, 2018.

  
L.J. Dissanayake  
Country Manager

  
J.G.P. Kumara  
Deputy Country Manager

The notes set out on pages 8 to 36 form an integral part of these financial statements.  
Auditors' report on pages 3 and 3(b).

## STATEMENT OF PROFIT OR LOSS &amp; OTHER COMPREHENSIVE INCOME - YEAR ENDED DECEMBER 31, 2017

	<u>Notes</u>	<u>2017</u> SR	<u>2016</u> SR
Interest income	17	12,234,980	10,770,221
Interest expense	18	(5,395,962)	(2,995,297)
<b>Net interest income</b>		<u>6,839,018</u>	<u>7,774,924</u>
<b>Other income</b>			
Fees and commission income	19	3,085,202	2,051,455
Profit arising from dealings in foreign currencies		2,307,682	1,373,642
		<u>5,392,884</u>	<u>3,425,097</u>
<b>Operating income</b>		<u>12,231,902</u>	<u>11,200,021</u>
Employee benefit expense	20	(3,461,121)	(2,642,044)
Depreciation	8	(327,625)	(222,287)
Amortisation	9	(26,050)	(27,069)
Other operating expenses	21	(4,040,812)	(4,131,550)
		<u>(7,855,608)</u>	<u>(7,022,950)</u>
<b>Operating profit before impairment</b>		4,376,294	4,177,071
Charge for credit impairment	6(b)	(832,046)	(355,326)
<b>Profit before taxation</b>		<u>3,544,248</u>	<u>3,821,745</u>
Taxation charge	13(b)	(1,200,100)	(1,300,237)
<b>Total comprehensive income for the year</b>		<u><u>2,344,148</u></u>	<u><u>2,521,508</u></u>

The notes set out on pages 8 to 36 form an integral part of these financial statements.  
Auditors' report on pages 3 and 3(b).

## STATEMENT OF CHANGES IN EQUITY - YEAR ENDED DECEMBER 31, 2017

	Assigned capital	Retained earnings	Statutory reserve	Total
	SR	SR	SR	SR
Balance at January 1, 2017	23,943,400	3,465,820	976,560	28,385,780
Total comprehensive income for the year	-	2,344,148	-	2,344,148
Transfer to statutory reserve	-	(468,830)	468,830	-
Balance at December 31, 2017	<u>23,943,400</u>	<u>5,341,138</u>	<u>1,445,390</u>	<u>30,729,928</u>
At January 1, 2016	23,943,400	1,448,614	472,258	25,864,272
Total comprehensive income for the year	-	2,521,508	-	2,521,508
Transfer to statutory reserve	-	(504,302)	504,302	-
Balance at December 31, 2016	<u>23,943,400</u>	<u>3,465,820</u>	<u>976,560</u>	<u>28,385,780</u>

The notes set out on pages 8 to 36 form an integral part of these financial statements.  
Auditors' report on pages 3 and 3(b).

## STATEMENT OF CASH FLOWS - FOR THE YEAR ENDED DECEMBER 31, 2017

	Notes	2017 SR	2016 SR
<b>Cash flow from operating activities</b>			
Profit before taxation		3,544,248	3,821,745
<i>Adjustments for non-cash items:</i>			
Depreciation of vehicles and equipment	8	327,625	222,287
Amortisation of intangible asset	9	26,050	27,069
Net accrued interest	6, 7 & 12	3,361,135	704,189
Charge for credit impairment	6(b)	832,046	355,326
Movement in retirement benefit obligations		48,690	-
Currency translation differences		<u>(2,307,682)</u>	<u>(1,373,642)</u>
		5,832,112	3,756,974
<i>Changes in operating assets</i>			
Increase in loans and advances	6	(23,706,907)	(24,933,948)
Decrease in other assets	11	3,015,824	3,316,563
Increase in deposits	12(a)	7,037,675	37,596,424
Decrease in other liabilities		<u>(715,095)</u>	<u>(331,205)</u>
Cash (used) / generated from operations		(8,536,391)	19,404,808
Tax paid	13(a)	<u>(1,455,847)</u>	<u>(957,266)</u>
<b>Net cash (used) / generated from operating activities</b>		<u>(9,992,238)</u>	<u>18,447,542</u>
<b>Cash flows from investing activities</b>			
Purchase of equipment	8	(589,279)	(78,200)
Addition to investment in financial assets	7	(302,840,523)	(177,998,988)
Redemption of investment in financial assets	7	331,003,886	181,947,200
<b>Net cash inflow from investing activities</b>		<u>27,574,084</u>	<u>3,870,012</u>
<b>Net increase in cash and cash equivalents</b>		<u>17,581,846</u>	<u>22,317,554</u>
<b>Movement in cash and cash equivalents</b>			
At January 1,		49,329,135	25,637,939
Increase		17,581,846	22,317,554
Currency translation differences		<u>2,307,682</u>	<u>1,373,642</u>
<b>At December 31,</b>	5	<u>69,218,663</u>	<u>49,329,135</u>

The notes set out on pages 8 to 36 form an integral part of these financial statements.  
Auditors' report on pages 3 and 3(b).

## 1. GENERAL INFORMATION

**BANK OF CEYLON (SEYCHELLES)** is a foreign branch licensed and domiciled in Seychelles. Its Parent Company is Bank of Ceylon, a parastatal company incorporated and domiciled in Sri Lanka. The registered address of the Branch is Oliaji Trade Centre, Mahé, Seychelles. 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 the 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 to all the years presented, unless otherwise stated.

### (a) Basis of preparation

The financial statements of the Branch have been prepared in accordance 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 Branch's management to exercise judgment in applying the branch'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.

The financial statements of the Branch have been prepared on a historical cost basis, except that:

- (i) Relevant financial assets are stated at their fair value and;
- (ii) Relevant financial liabilities are stated at their amortised cost.

### ***Amendments to published Standards effective in the reporting period***

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12). The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. *The amendment has no impact on the Branch's financial statements.*

Disclosure Initiative (Amendments to IAS 7). The amendments require the entity to explain changes in its liabilities arising from financing activities. This includes changes arising from cash flows and non-cash changes such as acquisitions, disposals, accretion of interest and unrealised exchange differences. A reconciliation of the opening and closing carrying amounts for each item for which cash flows have been or would be classified as financial activities is presented in the financial statements. *The amendment has no impact on the Branch's financial statements.*

**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(a) Basis of preparation (Cont'd)****Annual Improvements to IFRSs 2014 - 2016 cycle**

IFRS 12 Disclosure of Interests in other Entities. The amendments clarify that entities are not exempt from all of the disclosure requirements in IFRS 12 when entities have been classified as held for sale or as discontinued operations.

**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 January 1, 2018 or later periods, but which the Branch has not early adopted.

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

IFRS 9 Financial Instruments;

IFRS 15 Revenue from Contracts with Customers;

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

IFRS 16 Leases;

Clarifications to IFRS 15 Revenue from Contracts with Customers;

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

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4);

Annual Improvements to IFRSs 2014-2016 Cycle;

IFRIC 22 Foreign Currency Transactions and Advance Consideration;

Transfers of Investment Property (Amendments to IAS 40);

IFRS 17 Insurance Contracts;

IFRIC 23 Uncertainty over Income Tax Treatments;

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

Long- term Interests in Associates and Joint Ventures (Amendments to IAS 28);

Annual Improvements to IFRSs 2015-2017 Cycle.

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (b) Financial instruments

Financial assets and liabilities are recognised on the Branch's statement of financial position when it has become a party to the contractual provisions of the instruments. The Branch's accounting policies in respect of the main financial instruments are set out below:

#### (i) *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 Branch in the management of its short-term commitments.

#### (ii) *Loans and advances*

All loans and advances are recognised when cash is advanced to borrowers. Loans and advances originated from the Branch by providing money directly to the borrower are categorised as loans and are carried at amortised cost, which is defined as the fair value of cash consideration given to originate from these loans as is determinable by reference to market prices at origination date. Third party expenses such as legal fees incurred in securing a loan are treated as part of the cost of the transaction.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

An allowance for credit impairment is established when there is objective evidence that the Branch will not be able to collect all amounts due according to the contractual terms of the loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collaterals, discounted at the original effective interest rate of the loans.

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

The Branch follows the Financial Institutions (Credit Classification and Provisioning) Regulations 2010, as amended in 2011 issued by the Central Bank of Seychelles.

#### (iii) *Held-to-maturity financial assets*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Branch has the positive intention and ability to hold to maturity.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### (b) Financial instruments (Cont'd)

#### (iii) *Held-to-maturity financial assets (Cont'd)*

Held-to-maturity investments are carried at amortised cost using the effective yield method less any provision for impairment. The amount of impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instruments original effective interest rate.

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

The Branch derecognises a financial asset where the contractual rights to cash flows from the asset expire or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Branch derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

#### (iv) *Deposits*

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

#### (v) *Offsetting financial instruments*

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

#### (vi) *Derecognition*

The Branch derecognises a financial asset where the contractual rights to cash flows from the asset expire or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Branch derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

## NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2017

**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(c) Equipment**

Equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

	Years
Office equipment	5
Furniture and fittings	5
Motor vehicles	4

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 Statement of Profit or Loss.

**(d) 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. They are amortised over a useful life of five years.

**(e) Impairment of non-financial assets**

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(f) Retirement benefit obligations**

The Branch 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 Branch does not carry out an actuarial valuation since Management has based itself 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.

**(g) 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. The rates enacted or subsequently enacted at the date of the reporting period are used to determine deferred tax.

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

**(h) Foreign currencies****Functional and presentation currency**

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

**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)****(h) Foreign currencies (Cont'd)***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.

**(i) Acceptances**

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

**(j) Interest income and expense**

Interest income and expense are recognised in the statement of profit or loss for all interest bearing instruments on an accrual basis using the effective yield method based on actual purchase price except in the respect of loans on fixed interest rates where the interest income is recognised on receipt basis.

Interest income includes coupons earned on fixed income investment and accrued discount and premium on treasury bills and other discounted instruments. Interest income is suspended when loans are classified doubtful of collection, such as when overdue by more than six months, or, when the borrower or securities issuer defaults, if earlier than six months. Such income is excluded from interest income until received.

**(k) Fees and commission income**

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.

**(l) Provisions**

Provisions are recognised when the Branch 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.

## NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2017

**3. FINANCIAL RISK MANAGEMENT**

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

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

**(i) Strategy in using financial instruments**

The Branch accepts deposits from customers at fixed rates and at variable terms and seeks to earn above average interest margins by investing these funds in high quality assets. The Branch 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 Branch also seeks to raise its interest margin, net of provisions, through lending to commercial and retail borrowers with acceptable credit standing. Such exposures involve not just on-balance sheet loans and advances but the Branch also enters into guarantees.

**(ii) Capital adequacy**

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

	<u>2017</u>	<u>2016</u>
	SR'000	SR'000
Capital base:		
Tier I Capital	28,855	25,864
Tier II Capital	2,851	3,293
Total Capital Base (a)	<u>31,706</u>	<u>29,157</u>
Risk Weighted Assets (b)	<u>126,384</u>	<u>93,883</u>
Capital Adequacy Ratio (a/b * 100) (%)	<u>25%</u>	<u>31%</u>
Minimum Requirement (%)	<u>12%</u>	<u>12%</u>

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

## NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2017

**3. FINANCIAL RISK MANAGEMENT (CONT'D)****(iii) Credit risk**

The Branch takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Branch 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 Head Office with discretionary limits set for the Branch'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.

*Credit related commitments*

The main purpose of these instruments is to ensure that funds are available to a customer as and when required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Branch 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 Branch to pay a third party, on behalf of its customers to pay 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.

*Credit quality per class of financial assets*

The table below shows the percentage of the Branch's financial assets relating to loans and advances that are passed due and have therefore been impaired using the rating categories as taken from the Central Bank Directive:

	2017		2016	
	Loans and advances %	Impairment provision %	Loans and advances %	Impairment provision %
Pass	90.29	55.01	90.16	81.59
Special mention	3.74	1.06	8.93	0.54
Substandard	4.96	4.72	0.54	10.76
Doubtful	0.28	5.35	0.16	3.07
Loss	0.73	33.86	0.21	4.04
	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

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

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

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue and if there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of contract. The Branch addresses impairment assessment in two areas:

##### *Individually assessed allowances*

The Branch determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support, the realisable value of collateral and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention. As a result thereof, the Branch has made specific provision amounting to **SR 799,000** as at December 31, 2017 (2016: SR 171,478).

##### *Collectively assessed allowances*

Allowances are assessed collectively for losses on loans and advances that are not individually significant and for individually significant loans and advances where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information; historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by the credit management to ensure alignment with the Branch's overall policy.

#### (iv) Currency risk

Currency risk is defined as the risk that movements in foreign exchange rates adversely affect the value of the Branch'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.

## NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2017

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

## (iv) Currency risk (cont'd)

Concentration of assets and liabilities by currencyAt December 31, 2017

	SR	Euro	USD	GBP	Others	Total
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
<b>Assets</b>						
Cash and cash equivalents	34,632	4,901	27,366	863	1,457	69,219
Loans and advances	81,356	5,245	21,524	-	-	108,125
Held-to-maturity assets	1,998	-	-	-	-	1,998
Equipment	778	-	-	-	-	778
Intangible assets	74	-	-	-	-	74
Deferred tax assets	477	-	-	-	-	477
Other assets	421	-	-	-	-	421
	<u>119,736</u>	<u>10,146</u>	<u>48,890</u>	<u>863</u>	<u>1,457</u>	<u>181,092</u>
Less allowances for credit impairment						<u>(1,775)</u>
						<u>179,317</u>
<b>Liabilities</b>						
Deposits from customers	82,924	8,490	51,214	1,279	-	143,907
Current tax liability	1,461	-	-	-	-	1,461
Retirement benefit obligation	49	-	-	-	-	49
Other liabilities	3,170	-	-	-	-	3,170
	<u>87,604</u>	<u>8,490</u>	<u>51,214</u>	<u>1,279</u>	<u>-</u>	<u>148,587</u>
Net on balance sheet position	<u>32,132</u>	<u>1,656</u>	<u>(2,324)</u>	<u>(416)</u>	<u>1,457</u>	<u>32,505</u>
Less allowance for credit impairment						<u>(1,775)</u>
						<u>30,730</u>
<b>Off balance sheet position</b>						
Bills for collection	-	-	-	-	-	-
Letters of credit	21,372	-	-	-	-	21,372
Guarantees	1,604	-	137	-	-	1,741

## NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2017

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

## (iv) Currency risk (cont'd)

	SR	Euro	USD	GBP	Others	Total
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
<u>At December 31, 2016</u>						
Assets						
Cash and cash equivalents	17,572	2,420	27,721	1,262	354	49,329
Loans and advances	52,762	5,613	25,740	-	-	84,115
Held-to-maturity assets	30,023	-	-	-	-	30,023
Equipment	516	-	-	-	-	516
Intangible assets	100	-	-	-	-	100
Deferred tax assets	216	-	-	-	-	216
Other assets	245	-	3,193	-	-	3,438
	<u>101,434</u>	<u>8,033</u>	<u>56,654</u>	<u>1,262</u>	<u>354</u>	<u>167,737</u>
Less allowances for credit impairment						(943)
						<u>166,794</u>
<u>At December 31, 2016</u>						
Liabilities						
Deposits from customers	71,417	7,936	52,602	1,112	-	133,067
Current tax liability	1,456	-	-	-	-	1,456
Other liabilities	911	-	1,915	-	1,059	3,885
	<u>73,784</u>	<u>7,936</u>	<u>54,517</u>	<u>1,112</u>	<u>1,059</u>	<u>138,408</u>
Net on balance sheet position	<u>27,650</u>	<u>97</u>	<u>2,137</u>	<u>150</u>	<u>(705)</u>	<u>29,329</u>
Less allowance for credit impairment						(943)
						<u>28,386</u>
Off balance sheet position						
Letters of credit	1,730	-	-	-	-	1,730
Bills for collection	16,201	-	-	-	-	16,201
Guarantees	1,785	-	-	-	-	1,785

Sensitivity analysis

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

	2017	2016
	SR'000	SR'000
Impact on results	<u>± 115</u>	<u>± 69</u>

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

#### (iv) Currency risk (cont'd)

##### Regulatory compliance

As stipulated in the Financial Institutions (Foreign Currency Exposure) Regulations 2009, commercial banks are required to have a total "Long Position and Short Position" as a percentage of capital of not more than 30%.

#### (v) Liquidity risk

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

On the other hand, the Branch also complies with the Central Bank of Seychelles' requirement for all commercial banks to maintain liquid assets in an amount which shall not, as a daily average each month, be less than 20% of the Branch's total liabilities under the Financial Institutions (Liquidity Risk Management) Regulations 2009, as amended in 2012. The liquidity ratio of the branch was **26.18%** (2016: 31.96%).

## NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2017

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

## (v) Liquidity risk (cont'd)

<u>At December 31, 2017</u>	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 3 years	Over 3 years	Non Maturing items	Total
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
<b>Assets</b>								
Cash and cash equivalents	55,569	-	-	13,650	-	-	-	69,219
Loans and advances	31	125	796	19,882	18,644	68,647	-	108,125
Financial assets	1,998	-	-	-	-	-	-	1,998
Equipment	-	-	-	-	-	-	778	778
Intangible assets	-	-	-	-	-	-	74	74
Deferred tax	-	-	-	-	-	-	477	477
Other assets	-	-	-	-	421	-	-	421
	<u>57,598</u>	<u>125</u>	<u>796</u>	<u>33,532</u>	<u>19,065</u>	<u>68,647</u>	<u>1,329</u>	<u>181,092</u>
Less allowances for credit impairment								(1,775)
								<u>179,317</u>
<b>Liabilities</b>								
Deposits from customers	51,794	52,714	1,390	3,616	34,393	-	-	143,907
Current tax liability	-	-	-	-	-	-	1,461	1,461
Retirement benefit obligation	-	-	-	-	-	-	49	49
Other liabilities	-	-	3,112	58	-	-	-	3,170
	<u>51,794</u>	<u>52,714</u>	<u>4,502</u>	<u>3,674</u>	<u>34,393</u>	<u>-</u>	<u>1,510</u>	<u>148,587</u>
Maturity gap	<u>5,804</u>	<u>(52,589)</u>	<u>(3,706)</u>	<u>29,858</u>	<u>(15,328)</u>	<u>68,647</u>	<u>(181)</u>	32,505
Less allowances for credit impairment								(1,775)
								<u>30,730</u>

## NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2017

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

## (v) Liquidity risk (cont'd)

<u>At December 31, 2016</u>	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 3 years	Over 3 years	Non Maturing items	Total
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
<b>Assets</b>								
Cash and cash equivalents	45,702	3,627	-	-	-	-	-	49,329
Loans and advances	8,279	209	926	12,478	20,908	41,315	-	84,115
Financial assets	30,023	-	-	-	-	-	-	30,023
Equipment	-	-	-	-	-	-	516	516
Intangible assets	-	-	-	-	-	-	100	100
Deferred tax	-	-	-	-	-	-	216	216
Other assets	2,980	226	-	232	-	-	-	3,438
	<u>86,984</u>	<u>4,062</u>	<u>926</u>	<u>12,710</u>	<u>20,908</u>	<u>41,315</u>	<u>832</u>	<u>167,737</u>
Less allowances for credit impairment								(943)
								<u>166,794</u>
<b>Liabilities</b>								
Deposits from customers	76,018	19	3,514	30,516	23,000	-	-	133,067
Current tax liability	-	1,456	-	-	-	-	-	1,456
Other liabilities	1,893	1,142	-	850	-	-	-	3,885
	<u>77,911</u>	<u>2,617</u>	<u>3,514</u>	<u>31,366</u>	<u>23,000</u>	<u>-</u>	<u>-</u>	<u>138,408</u>
Maturity gap	<u>9,073</u>	<u>1,445</u>	<u>(2,588)</u>	<u>(18,656)</u>	<u>(2,092)</u>	<u>41,315</u>	<u>832</u>	29,329
Less allowances for credit impairment								(943)
								<u>28,386</u>

## NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2017

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

## (vi) Interest rate risk

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

## Interest sensitivity of assets and liabilities - repricing analysis

<u>At December 31, 2017</u>	Up to 1 month SR'000	1 - 3 months SR'000	3 - 6 months SR'000	6 - 12 months SR'000	1 - 3 years SR'000	Over 3 years SR'000	Non Interest Bearing SR'000	Total SR'000
<b>Assets</b>								
Cash and cash equivalents	-	13,650	-	-	-	-	55,569	69,219
Loans and advances	31	125	796	19,882	18,644	68,647	-	108,125
Financial assets	1,998	-	-	-	-	-	-	1,998
Equipment	-	-	-	-	-	-	778	778
Intangible assets	-	-	-	-	-	-	74	74
Deferred tax	-	-	-	-	-	-	477	477
Other assets	-	-	-	-	-	-	-	-
	<u>2,029</u>	<u>13,775</u>	<u>796</u>	<u>19,882</u>	<u>18,644</u>	<u>68,647</u>	<u>56,898</u>	<u>180,671</u>
Less allowances for credit impairment								(1,775)
								<u>178,896</u>
<b>Liabilities</b>								
Deposits from customers	51,794	52,714	1,390	38,009	-	-	-	143,907
Current tax liability	-	-	-	-	-	-	1,461	1,461
Retirement benefit obligation	-	-	-	-	-	-	49	49
Other liabilities	-	-	-	-	-	-	-	-
	<u>51,794</u>	<u>52,714</u>	<u>1,390</u>	<u>38,009</u>	<u>-</u>	<u>-</u>	<u>1,510</u>	<u>145,417</u>
Interest sensitivity gap	<u>(49,765)</u>	<u>(38,939)</u>	<u>(594)</u>	<u>(18,127)</u>	<u>18,644</u>	<u>68,647</u>	<u>55,388</u>	<u>35,254</u>
Less allowances for credit impairment								(1,775)
								<u>33,479</u>

## NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2017

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

## (vi) Interest rate risk (Cont'd)

<u>At December 31, 2016</u>	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 3 years	Over 3 years	Non Interest Bearing	Total
	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
<b>Assets</b>								
Cash and cash equivalents	-	3,627	-	-	-	-	45,702	49,329
Loans and advances	-	1,152	1,270	1,534	20,901	40,371	18,887	84,115
Financial assets	30,023	-	-	-	-	-	-	30,023
Equipment	-	-	-	-	-	-	516	516
Intangible assets	-	-	-	-	-	-	100	100
Deferred tax	-	-	-	-	-	-	216	216
Other assets	2,981	226	-	231	-	-	-	3,438
	<u>33,004</u>	<u>5,005</u>	<u>1,270</u>	<u>1,765</u>	<u>20,901</u>	<u>40,371</u>	<u>65,421</u>	<u>167,737</u>
Less allowances for credit impairment								(943)
								<u>166,794</u>
<b>Liabilities</b>								
Deposits from customers	-	46,884	-	34,030	23,000	-	29,153	133,067
Current tax liability	-	-	-	-	-	-	1,456	1,456
Other liabilities	-	-	-	-	-	-	3,885	3,885
	<u>-</u>	<u>46,884</u>	<u>-</u>	<u>34,030</u>	<u>23,000</u>	<u>-</u>	<u>34,494</u>	<u>138,408</u>
Interest sensitivity gap	<u>33,004</u>	<u>(41,879)</u>	<u>1,270</u>	<u>(32,265)</u>	<u>(2,099)</u>	<u>40,371</u>	<u>30,927</u>	29,329
Less allowances for credit impairment								(943)
								<u>28,386</u>

**3. FINANCIAL RISK MANAGEMENT (CONT'D)****(vi) Interest rate risk (Cont'd)***Sensitivity analysis*

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

	<u>2017</u>	<u>2016</u>
	SR'000	SR'000
Impact on results	<u>±342</u>	<u>±389</u>

**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

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

Critical accounting estimates and assumptions

The Branch 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.

**(a) Impairment of loans and advances**

The Branch reviews its loans and advances portfolio on a regular basis to assess whether any allowance for credit impairment losses for loans and advances should be recognised in the statement of comprehensive income. In particular, judgement is made about the amount and timing of future cash flows when determining the level of allowance required. The allowance for credit impairment losses is based on the best estimates available. However, the actual amount of impairment may differ from amount provided resulting in higher or lower charges to the Statement of Profit or Loss and Other Comprehensive Income.

**(b) Impairment of other assets**

At each financial reporting year end, Branch'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.

**(c) Functional currency**

The Branch Management has determined Seychelles Rupees to be the functional currency of the Branch.

**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)****(d) *Held-to-maturity investments***

The Branch follows the guidance of International Accounting Standards (IAS) 39 - "Recognition and Measurement" on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Branch evaluates its intention and ability to hold such investments to maturity.

If the Branch fails to keep these investments to maturity other than for specific circumstances explained in IAS 39, it will be required to reclassify the whole class as available-for-sale. The investments would therefore be measured at fair value and not at amortised cost.

**(e) *Equipment*****Useful lives and residual values**

Determining the carrying amounts of 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 equipment.

**(f) *Retirement benefit obligations***

The cost of defined benefit pension plans has been determined using the method as per the Seychelles Employment Act and Management has estimated that the amount of liability provided will not be materially different had it been computed by an external Actuary.

**(g) *Limitation of sensitivity analysis***

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

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

## NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2017

## 5. CASH AND CASH EQUIVALENTS

	2017	2016
	SR	SR
Cash in hand		
- Local notes and coins	807,834	1,809,133
- Foreign currency notes and coins	2,137,995	1,818,164
Balance with Central Bank of Seychelles	42,496,398	23,990,567
Balances with local bank	3,301,989	3,367,416
Balances with overseas banks	20,474,447	18,343,855
	<u>69,218,663</u>	<u>49,329,135</u>

## 6. LOANS AND ADVANCES

	2017	2016
	SR	SR
Gross loans and advances (note 6 (a))	107,344,133	83,637,226
Accrued interest	781,015	477,958
	<u>108,125,148</u>	<u>84,115,184</u>
Less: Allowance for credit impairment (note 6 (b))	(1,775,000)	(942,954)
	<u>106,350,148</u>	<u>83,172,230</u>

(a) The currency profile and maturity terms of loans and advances are detailed under notes 3(iv) & (v).

(b) Movement in allowance for credit impairment is as shown below:

	2017		2016	
	General	Specific	Total	Total
At January 1,	771,476	171,478	942,954	587,628
Charge for the year	204,524	627,522	832,046	355,326
At December 31,	<u>976,000</u>	<u>799,000</u>	<u>1,775,000</u>	<u>942,954</u>

(c) Credit concentration of risk by industry sectors

	2017	2016
	SR '000	SR '000
Agriculture	4,840	4,648
Construction	8,053	16,370
Fishing	10,750	11,707
Mortgage	4,910	1,281
Personal	31,183	15,315
Tourism	4,727	5,279
Transport	11,186	2,614
Other	32,476	26,901
	<u>108,125</u>	<u>84,115</u>

## NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2017

**6. LOANS AND ADVANCES (CONT'D)**

- (d) At December 31, 2017, SR 33m of loans and advances (2016: SR 7.5m) were past due but not impaired and aged between 31 and 90 days.
- (e) The fair values of loans and advances approximate their amortised cost.

**7. INVESTMENT IN HELD-TO-MATURITY FINANCIAL ASSETS**

Held-to-maturity financial assets include the following:

	Interest rate	2017	2016
	%	SR	SR
Deposit Auction Arrangement (DAA)	3% - 4.5%	-	30,023,363
Treasury bills	6.5% - 7.5%	1,998,082	-
		<u>1,998,082</u>	<u>30,023,363</u>

**(a) Movement during the year**

	2017	2016
	SR	SR
At January 1	30,023,363	33,948,212
Additions during the year	302,840,523	177,998,988
Matured during the year	(331,003,886)	(181,947,200)
Interest accrued	138,082	23,363
<b>At December 31</b>	<u>1,998,082</u>	<u>30,023,363</u>

- (b) The Branch Management has estimated that the carrying amount of the investment in financial assets approximate its fair value.

## NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2017

## 8. EQUIPMENT

COST	& Office Equipment	Motor Vehicle	Machinery & Equipment	Total
	SR	SR	SR	SR
At January 1, 2016	517,091	494,835	60,441	1,072,367
Additions during the period	22,382	39,300	16,518	78,200
At December 31, 2016	<b>539,473</b>	<b>534,135</b>	<b>76,959</b>	<b>1,150,567</b>
Additions during the year	170,321	280,811	138,147	589,279
At December 31, 2017	<b>709,794</b>	<b>814,946</b>	<b>215,106</b>	<b>1,739,846</b>
<b>ACCUMULATED DEPRECIATION</b>				
At January 1, 2016	149,302	247,418	15,110	411,830
Charge for the period	90,372	123,709	8,206	222,287
At December 31, 2016	<b>239,674</b>	<b>371,127</b>	<b>23,316</b>	<b>634,117</b>
Charge for the year	138,935	161,773	26,917	327,625
At December 31, 2017	<b>378,609</b>	<b>532,900</b>	<b>50,233</b>	<b>961,742</b>
<b>NET BOOK VALUE</b>				
At December 31, 2017	<b>331,185</b>	<b>282,046</b>	<b>164,873</b>	<b>778,104</b>
At December 31, 2016	299,799	163,008	53,643	516,450

## 9. INTANGIBLE ASSET

Computer software	2017	2016
	SR	SR
<b>COST</b>		
At January 1 & December 31,	<b>130,250</b>	130,250
<b>AMORTISATION</b>		
At January 1,	29,761	2,692
Amortisation for the year	26,050	27,069
At December 31,	<b>55,811</b>	29,761
Net book value at December 31,	<b>74,439</b>	100,489

## NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2017

**10. DEFERRED TAX ASSET**

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

	2017	2016
	SR	SR
Deferred tax on impairment losses (note 10(c))	601,818	311,175
Deferred tax on accelerated capital allowances (note 10(c))	(124,625)	(95,220)
<b>Net deferred tax asset</b>	<b>477,193</b>	<b>215,955</b>

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

	2017	2016
	SR	SR
At January 1,	215,955	66,282
Credit to Statement of Profit or Loss (note 13(b))	261,238	149,673
<b>At December 31,</b>	<b>477,193</b>	<b>215,955</b>

- (c) The movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same fiscal authority on the Branch are as follows:

**Deferred tax asset**

	Provisions	
	2017	2016
	SR	SR
At January 1,	311,175	193,917
Credit to Statement of Profit or Loss	290,643	117,258
<b>At December 31,</b>	<b>601,818</b>	<b>311,175</b>

**Deferred tax liability**

	Accelerated capital allowance	
	2017	2016
	SR	SR
At January 1,	(95,220)	(127,635)
(Charge) / Credit to Statement of Profit or Loss	(29,405)	32,415
<b>At December 31,</b>	<b>(124,625)</b>	<b>(95,220)</b>

## NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2017

**11. OTHER ASSETS**

	2017	2016
	SR	SR
Export bills purchased	-	3,191,317
Rental advance	217,813	225,813
Others	202,758	19,265
	<u>420,571</u>	<u>3,436,395</u>

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

**12. DEPOSITS**

	2017	2016
	SR	SR
Current accounts	21,876,806	27,659,514
Time deposits	92,113,389	57,048,388
Savings deposits	24,621,367	46,865,985
Interest accrued	5,295,857	1,493,583
	<u>143,907,419</u>	<u>133,067,470</u>

(a) Movements in deposits is as follows:

	2017	2016
	SR	SR
At January 1,	133,067,470	94,743,494
Net movements during the year	7,037,675	37,596,424
Net movements in accrued interest	3,802,274	727,552
<b>At December 31,</b>	<u>143,907,419</u>	<u>133,067,470</u>

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

**13. CURRENT TAX LIABILITY/ EXPENSE**

	2017	2016
	SR	SR
(a) <b>Liability</b>		
At January 1,	1,455,847	963,203
Charge for the year (note 13 (c))	1,461,338	1,455,847
Over provision for previous year	-	(5,937)
Tax paid during the year	(1,455,847)	(957,266)
<b>Tax payable</b>	<u>1,461,338</u>	<u>1,455,847</u>

## NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2017

**13. CURRENT TAX LIABILITY/ EXPENSE (CONT'D)****(b) Tax expense**

Current tax based on profit for the year (note 13(a))	(1,461,338)	(1,455,847)
Over provision for previous year	-	5,937
Deferred tax credit (note 10(b))	261,238	149,673
<b>Charge to Statement of Profit or Loss</b>	<b>(1,200,100)</b>	<b>(1,300,237)</b>

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

	2017	2016
	SR	SR
Profit before tax	3,544,248	3,821,745
Tax calculated at tax rates (note 13 (d))	1,089,602	1,181,176
Adjustments for Items not allowable for tax	348,344	242,256
Surplus of capital allowances over depreciation	23,392	32,415
	<b>1,461,338</b>	<b>1,455,847</b>

(d) Applicable tax rates are as follows:

<u>Taxable income threshold</u>	<u>2017 &amp; 2016</u>
	<u>Tax rates - %</u>
≤ SR. 1,000,000	25
> SR. 1,000,000	33

**14. RETIREMENT BENEFIT OBLIGATIONS***Length of service compensation*

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

	2017	2016
	SR	SR
Charge for the year and At 31 December	<b>48,690</b>	-

No provision for retirement benefit obligation for 2016 financial year was accrued. The provision for 2016 was considered immaterial.

## NOTES TO THE FINANCIAL STATEMENTS -YEAR ENDED DECEMBER 31, 2017

**15. OTHER LIABILITIES**

	<u>2017</u>	<u>2016</u>
	SR	SR
Amount payable to Head Office (notes (a), (b) and (22))	-	1,058,586
Import letter of credit deposits	2,181,953	1,908,900
Other liabilities	987,872	917,434
	<u>3,169,825</u>	<u>3,884,920</u>

(a) Amount payable to Head Office is unsecured, non-interest bearing and with no fixed repayment terms.

(b) The carrying amount of 'amount payable to head office' has been assumed to approximate its amortised cost and the currency in which it is denominated is shown in note 3(iv).

**16. ASSIGNED CAPITAL**

	<u>2017 &amp; 2016</u>
	SR
<u>Issued and fully paid up</u>	
At December 31,	<u>23,943,400</u>

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.

**17. INTEREST INCOME**

	<u>2017</u>	<u>2016</u>
	SR	SR
Bills discounted	53,215	571,525
Investment in financial assets	262,748	406,204
Loans and advances	11,505,384	9,595,126
Interest on DAA	275,551	71,903
Treasury bills	138,082	125,463
	<u>12,234,980</u>	<u>10,770,221</u>

**18. INTEREST EXPENSE**

	<u>2017</u>	<u>2016</u>
	SR	SR
Customer deposits	5,394,523	2,350,963
Interest paid to Head Office	1,439	644,334
	<u>5,395,962</u>	<u>2,995,297</u>

## NOTES TO THE FINANCIAL STATEMENTS -YEAR ENDED DECEMBER 31, 2017

**19. FEE AND COMMISSION INCOME**

	2017	2016
	SR	SR
Loan processing fees	997,918	364,649
Swift charges	141,134	551,953
Commission on Import bills	376,206	386,750
Commission on Letter of Credit Export	583,324	332,160
Other income	986,620	415,943
	<u>3,085,202</u>	<u>2,051,455</u>

**20. EMPLOYEE BENEFIT EXPENSE**

	2017	2016
	SR	SR
Salaries and wages	3,120,485	2,465,515
Leave encashment	50,983	91,385
Other staff costs	240,963	85,144
Movement in retirement benefit obligations (note 14)	48,690	-
	<u>3,461,121</u>	<u>2,642,044</u>

**21. OTHER EXPENSES**

	2017	2016
	SR	SR
Rental of premises	1,824,572	2,092,906
Penalties	-	320,000
Licences	250,000	250,000
Electricity expenses	137,237	116,129
Sundry charges	126,868	152,102
Telephone charges	338,299	240,637
Auditors' remuneration	106,950	113,275
Administrative charges	1,256,886	846,501
	<u>4,040,812</u>	<u>4,131,550</u>

**22. CAPITAL COMMITMENTS**

There were no capital commitments as at December 31, 2017 (2016 : Nil).

**23. CONTINGENT LIABILITIES**

	2017	2016
	SR	SR
Bills for collection	-	1,730,102
Letters of credit	21,371,817	16,200,835
Guarantees	1,741,270	1,784,700
	<u>23,113,087</u>	<u>19,715,637</u>

## NOTES TO THE FINANCIAL STATEMENTS -YEAR ENDED DECEMBER 31, 2017

**23. CONTINGENT LIABILITIES (CONT'D)**

To meet the financial needs of customers, the Branch enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, bills for collection and letters of credit. Even though the obligations may not be recognised on the Statement of Financial Position, they do contain credit risk and are therefore part of the overall risk of the Bank.

**24 RELATED PARTIES**

	<u>2017</u>	<u>2016</u>
	SR'000	SR'000
<b>Head Office:</b>		
<i>Account Balances</i>		
-Amount payable (note 15)	-	1,059
-Money market placement	<b>13,650</b>	-
	<b>13,650</b>	<b>1,059</b>
<i>Transaction balances</i>		
-Interest income from investment in financial assets (note 17)	<b>263</b>	406
-Interest expense from investment in financial assets (note 18)	<b>1</b>	644

- (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 2017, the Bank has not recorded any impairment related to related parties (2016: Nil). The Bank is a branch of the Bank of Ceylon incorporated in Sri Lanka.

- (c) Key management personnel

The Bank considers only the Executive Directors as its key management personnel. As defined by IAS 24:- Related Party Disclosures which have been disclosed in the Group Annual Report are therefore not applicable to the Branch.

## NOTES TO THE FINANCIAL STATEMENTS -YEAR ENDED DECEMBER 31, 2017

## 25. FINANCIAL SUMMARY

	Year 2017	Year 2016	Year 2015	Period 2014
	SR'000	SR'000	SR'000	SR'000
Profit/(loss) before tax	3,544	3,822	3,258	(440)
Taxation	(1,200)	(1,300)	(897)	-
Transfer to statutory reserve	(469)	(505)	(472)	-
Profit/(loss) for the year	1,875	2,017	1,889	(440)
Retained earnings / (revenue deficit) brought forward	3,466	1,449	(440)	-
<b>Retained earnings / (revenue deficit) carried forward</b>	<b>5,341</b>	<b>3,466</b>	<b>1,449</b>	<b>(440)</b>
<b>EQUITY</b>				
Assigned Capital	23,943	23,943	23,943	23,943
Statutory reserve	1,446	977	473	-
Retained earnings/(revenue deficit)	5,341	3,466	1,449	(440)
	<b>30,730</b>	<b>28,386</b>	<b>25,865</b>	<b>23,503</b>