बैंक ऑफ़ बड़ौदा Bank of Baroda

MANAGEMENT REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

# INDEX




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## BANK OF BARODA - SEYCHELLES BRANCH

## REPORT OF THE BRANCH MANAGEMENT FOR THE YEAR 31 DECEMBER 2019

The Management of BANK OF BARODA - SEYCHELLES BRANCH is pleased to submit the report together with the audited financial statements of BANK OF BARODA - SEYCHELLES BRANCH (hereafter called the "Branch") for the year ended December 31, 2019.

### PRINCIPAL ACTIVITY

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

### CURRENT YEAR EVENTS

The Branch has adopted the new International Financial Reporting Standard (IFRS) 16 "Leases" from 1 January 2019 which replaces the prevoius IAS 17 "Leases". A right to use asset is recognized in the books equal to the lease laibility as of 1 January 2019 amounted to SCR 2.3Mn based on the transition approach followed by the branch.

### RESULTS FOR THE YEAR

| | SCR |
|---|---|
| Profit before taxation | 39,178,402 |
| Taxation | (13,480,454) |
| **Profit for the year** | **25,697,948** |
| Retained earnings brought forward | 198,756,813 |
| **Retained earnings carried forward** | **224,454,761** |

### GOING CONCERN

The Branch management is satisfied that the Branch has adequate resources to continue its operations in the future and as such, the financial statements are prepared on the basis of a going concern.

### REPATRIATION OF PROFIT

No profit was repatriated during the year under review (2018: Nil).

### EQUIPMENT

Additions to equipment totalled SCR 234 k for the year under review and comprised mainly furniture and fittings, computers and office equipment and equipments for automatic teller machines (2018: SCR 628k).

All equipment are stated at historical cost less accumulated depreciation. The Management are of the opinion that the carrying amount of the assets approximate their fair value and do not require any adjustments for impairment.

### STATEMENT OF MANAGEMENT'S RESPONSIBILITY

The Management is responsible for the overall management of the affairs of the Branch including its operations and the making of investment decisions.

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and in compliance with the 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 Branch as a whole; and making accounting estimates that are reasonable in the circumstances. The 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.

The Management considers that they have met their aforesaid responsibilities.

BANK OF BARODA - SEYCHELLES BRANCH

REPORT OF THE BRANCH MANAGEMENT FOR THE YEAR 31 DECEMBER 2019

MANAGEMENT

The managing agents of the branch during the year were as follows:

| | Nationality |
|---|---|
| Ashok Kumar | Indian |
| C.J. Ramprasad | Indian |

AUDITORS

The retiring auditors are Pool & Patel who are eligible for re-appointment.

BRANCH MANAGEMNT APPROVAL

Ashok Kumar
Chief Executive Officer

C.J. Ramprasad
Senior Manager

Date : 20 May 2020
Victoria, Seychelles

POOL & PATEL
CHARTERED ACCOUNTANTS
MOORE
Suketu Patel FCA, Gemma W. Roberts FCCA, Christina E.A. Georges ACCA
Consultant: Bernard L. Pool FCA

**TO THE PARENT OF BANK OF BARODA - SEYCHELLES BRANCH**
**Report on the audit of the financial statements**

**Opinion**
We have audited the accompanying financial statements of Bank of Baroda – Seychelles Branch "the Branch" set out on pages 7 to 35, which comprise the statement of financial position as at December 31, 2019, the income statement, 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 accompanying financial statements of the Branch give a true and fair view of the financial position of the Branch as at December 31, 2019 and of its financial performance and its cash flows for the year then ended in accordance with the, financial reporting provisions of IFRS's; the Companies Act 1972; the Financial Institutions Act 2004, as amended and Regulations and Directives of the Central Bank of Seychelles.

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

**Emphasis of matter – Events after the reporting period**
We draw your attention to note 29 of the financial statements on concern considerations and concur with the directors of the branch's ability to continue as a going concern.

**Key audit matters**
Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of our 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

- *Impairment allowance for Financial assets based on IFRS 9:*

  Our audit considered impairment allowance for financial assets as a key audit matter. The materiality of the reported amounts for financial assets (and impairment allowance thereof), the subjectivity associated with Management's impairment estimation underpinned our basis for considering it as a key audit matter.

  The estimation of impairment allowance for financial assets involved complex manual calculations. Significant estimates and assumptions used by the Management in such calculations are disclosed in Note 4.



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**TO THE PARENT OF BANK OF BARODA - SEYCHELLES BRANCH**
**Report on the audit of the financial statements (cont...)**

**Key audit matters (cont...)**

➢ *Impairment allowance for Financial assets based on IFRS 9: (cont...)*

To assess the reasonableness of the impairment allowance, our audit procedures (among others) were designed to obtain sufficient and appropriate audit evidences, included the following:

- We evaluated design effectiveness of controls over estimation of impairment of financial assets, which included assessing the level of oversight, review and approval of impairment policies by the Board Audit Committee and Management.
- We test-checked the underlying calculations and data.
- We assessed the completeness of the underlying information in financial assets used in the impairment calculations by agreeing details to the Branch's source documents and information in information technology system(IT).
- We also considered reasonableness of macro-economic and other factors used by management in their judgemental overlays for various types of financial assets, by comparing them with publicly available data and information sources.
- We obtained an understanding and checked the Branch's business model assessment and the test on the contractual cash flows, which give rises to cash flows that are 'solely payments of principal and interest [SPPI test] performed by the Branch's Consultant.
- We performed procedures to ensure the competence, objectivity and independence of the Branch's Consultant.
- We assessed the adequacy of the related financial statement disclosures as set out in Note 6.

➢ *IT systems and controls over financial reporting:*

The Branch's key financial accounting and reporting processes are highly dependent on the automated controls over the Branch's information systems. As such that there exist a risk that gaps in the IT control environment, including automated accounting procedures, IT dependent manual controls could result in the financial accounting and reporting records being materially misstated. The IT systems and controls, as they impact the financial accounting and reporting of transactions, is a key audit matter and our audit approach could significantly differ depending on the effective operation of the Branch's IT controls.

We performed the following procedures, among others.

- Understanding and evaluation of design effectiveness of key controls implemented by Management over generation of multiple system reports and collation of required information underpinning the significant amounts in the financial statements.
- Understanding the entity level control environment over IT redundancy process.
- Examining Management's reconciliations between source systems and the general ledgers through to the spreadsheet workings.
- Test-checking;
  - source data with those of the related systems,
  - calculations to ensure accuracy of system parameters, and
  - process level maker checker mechanism in the system.

## TO THE PARENT OF BANK OF BARODA - SEYCHELLES BRANCH

**Report on the audit of the financial statements (cont...)**

**Other information**

Our opinion on the financial statements does not cover any other information and we will not express any form of assurance conclusion thereon. Management is responsible for the other information. These financial statements do not include any other information.

**Responsibilities of management and those charged with governance for the financial statements**

The Management is responsible for the preparation and fair presentation of the financial statements in accordance with financial reporting provisions of IFRS's and the Companies Act 1972 and the Financial Institutions Act 2004, as amended and Regulations and Directives of the Central Bank of Seychelles, and for such internal control as the management 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 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 Management 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 management.
- Conclude on the appropriateness of management 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

**TO THE PARENT OF BANK OF BARODA - SEYCHELLES BRANCH**
**Report on the audit of the financial statements (cont...)**

**Auditor's responsibilities for the audit of the financial statements (cont...)**

- 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.
- 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**
The Seychelles Companies Act 1972 requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

we have obtained all the information and explanations necessary for the performance of our audit, and in our opinion
(i) proper books of accounting have been kept by the Branch based on our examination of those records; and
(ii)the Company's statement of financial position and statement of comprehensive income are in agreement with the books of account and returns.

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

ICAEW membership number of the engagement partner responsible for signing this independent auditors' report is 6813446.

Pool · Patel
POOL & PATEL
CHARTERED ACCOUNTANTS

Date : 20 May 2020

## BANK OF BARODA - SEYCHELLES BRANCH

**Statement of Financial Position**
Financial statements are prepared in Seychelles Rupees

| | | As at 31 December | |
|---|---|---|---|
| **Assets** | **Notes** | **2019** | **2018** |
| Cash and cash equivalents | 5 | 376,601,138 | 409,130,048 |
| Loans and advances at amortised cost | 6 | 303,216,095 | 231,759,189 |
| Investments in financial assets at amortised cost | 7 | 1,040,676,720 | 920,638,396 |
| Equipment | 8 | 829,585 | 819,130 |
| Right of use asset | 9 | 460,230 | - |
| Deferred tax asset | 10 | 1,379,649 | 1,343,008 |
| Current tax asset | 10 | - | 2,534,282 |
| Other assets | 11 | 535,721 | 387,113 |
| **Total assets** | | **1,723,699,138** | **1,566,611,166** |
| **Liabilities** | | | |
| Deposits from customers | 12 | 1,411,681,093 | 1,324,304,430 |
| Short term borrowing | 13 | 41,961,300 | - |
| Lease liability | 14 | 487,303 | - |
| Retirement benefit obligations | 15 | 1,200,749 | 1,326,387 |
| Current tax liability | 10 | 1,198,235 | - |
| Other liabilities | 16 | 2,715,697 | 2,223,536 |
| **Total liabilities** | | **1,459,244,377** | **1,327,854,353** |
| Assigned Capital | 17 | 20,000,000 | 20,000,000 |
| Statutory reserve | 18 | 20,000,000 | 20,000,000 |
| Retained earnings | | 224,454,761 | 198,756,813 |
| **Equity** | | **264,454,761** | **238,756,813** |
| **Total liabilities and equity** | | **1,723,699,138** | **1,566,611,166** |
| **Contingent liabilities** | 26 | **5,749,183** | **3,823,131** |

The notes on pages 11 to 35 form an integral part of these financial statements.

These financial statements have been approved for issue by the Branch Management on 20 May 2020

Ashok Kumar
Chief Executive Officer

C J Ramprasad
Senior Manager

## BANK OF BARODA - SEYCHELLES BRANCH

### Statement of profit or loss & other comprehensive income

Financial statements are prepared in Seychelles Rupees

| | Notes | Year ended 31 December 2019 | 2018 |
|---|---|---|---|
| Interest income | 19 | 69,669,922 | 49,043,991 |
| Interest expense | 20 | (25,870,732) | (14,535,370) |
| **Net interest income** | | **43,799,190** | **34,508,621** |
| Fees and commission income | 21 | 4,001,874 | 2,675,195 |
| **Net interest, fee and commission income** | | **47,801,064** | **37,183,816** |
| Net foreign exchange gain or (loss) | | 3,018,428 | 2,140,346 |
| Other income | 22 | 332,000 | 12,933 |
| **Net Operating income** | | **51,151,492** | **39,337,095** |
| Employment costs | 23 | (5,494,900) | (5,225,762) |
| Depreciation of equipment | 8 | (223,683) | (213,713) |
| Amortisation of right to use assets | 9 | (1,840,920) | - |
| Interest cost on lease liability | 14 | (173,353) | - |
| Other operating expenses | 24 | (3,892,034) | (6,213,543) |
| **Total operating expenses** | | **(11,624,890)** | **(11,653,018)** |
| **Operating profit before impairment** | | **39,526,602** | **27,684,077** |
| Reversal/(charge) of credit impairment | 6 | (348,200) | 478,104 |
| **Profit before taxation** | | **39,178,402** | **28,162,181** |
| Tax charge | 10 | (13,480,454) | (9,579,435) |
| **Total Comprehensive Income for the Year** | | **25,697,948** | **18,582,746** |

The notes on pages 11 to 35 form an integral part of these financial statements.

## BANK OF BARODA - SEYCHELLES BRANCH

**Statement of Changes in equity**
Financial statements are prepared in Seychelles Rupees

| | Assigned Capital | Retained earnings | Statutory reserve | Total |
|---|---|---|---|---|
| **At 1 January 2017** | 20,000,000 | 160,219,577 | 20,000,000 | 200,219,577 |
| Total comprehensive income for the year | - | 20,758,454 | - | 20,758,454 |
| **Balance at 1 January 2018 as previously reported** | 20,000,000 | 180,978,031 | 20,000,000 | 220,978,031 |
| Adjustment on initial application of IFRS 9 | - | (803,964) | - | (803,964) |
| **Restated balance at 1 January 2018** | 20,000,000 | 180,174,067 | 20,000,000 | 220,174,067 |
| Total comprehensive income for the year | - | 18,582,746 | - | 18,582,746 |
| **At 31 December 2018** | 20,000,000 | 198,756,813 | 20,000,000 | 238,756,813 |
| Total comprehensive income for the year | - | 25,697,948 | - | 25,697,948 |
| **At 31 December 2019** | 20,000,000 | 224,454,761 | 20,000,000 | 264,454,761 |

Section 24 (1) of the Financial Institutions Act 2004, as amended requires that a statutory reserve is maintained by appropriation of 20% of net profits for the year, before any transfers, until such reserve is equal to the assigned capital.

The notes on pages 11 to 35 form an integral part of these financial statements.

## BANK OF BARODA - SEYCHELLES BRANCH

### Cash flow statement

Financial statements are prepared in Seychelles Rupees

| | Notes | As at 31 December 2019 | 2018 |
|---|---|---|---|
| **Cash generated from operations** | | | |
| Profit before taxation | | 39,178,402 | 28,162,181 |
| *Adjustments for non cash items:* | | | |
| Depreciation of equipment | 8 | 223,683 | 213,713 |
| Amortisation of right to use asset | 9 | 1,840,920 | - |
| Interest cost on lease liability | 14 | 173,353 | |
| Movement in allowance for credit impairment | 15 | 348,200 | (478,104) |
| Profit on sale of assets | 22 | (151,000) | - |
| Change in accrued interest | 7 | (2,924,401) | (8,097,603) |
| Retirement benefit obligations charge | 23 | 89,650 | 149,333 |
| Currency translation differences | | (3,018,428) | (2,140,346) |
| | | **35,760,379** | **17,809,174** |
| *Changes in operating assets and liabilities* | | | |
| - (Increase) / decrease in loans and advances | 6 | (71,646,331) | (14,997,131) |
| - (Increase) / decrease in other assets | 11 | (148,608) | 1,005,877 |
| - Increase in deposits | 12 | 87,376,663 | 362,562,318 |
| - Increase in due to banks | 13 | 41,961,300 | - |
| - Increase in other liabilities | 16 | 442,488 | 230,270 |
| | | **93,745,891** | **366,610,508** |
| Tax refund received | 10 | 2,725,910 | 1,835,615 |
| Tax paid | 10 | (12,510,488) | (12,578,243) |
| Retirement benefit obligations paid | 15 | (215,288) | (165,501) |
| **Net cash generated/(used) from operating activities** | | **83,746,025** | **355,702,379** |
| **Cash flows from investing activities** | | | |
| Purchase of equipment | 8 | (234,138) | (627,720) |
| Proceeds from sale of assets | | 151,000 | - |
| Addition to investments in financial assets | 7 | (2,535,228,174) | (1,525,334,992) |
| Redemption of investments in financial assets | 7 | 2,418,005,149 | 1,235,853,029 |
| **Net cash (outflow)/inflow from investing activities** | | **(117,306,163)** | **(290,109,683)** |
| **Cash flows from financing activities** | | | |
| Repayment of lease liability | 14 | (1,987,200) | - |
| **Net cash (outflow)/inflow from financing activities** | | **(1,987,200)** | - |
| **Net (decrease)/increase in cash and cash equivalents** | | **(35,547,338)** | **65,592,696** |
| **Movement in cash and cash equivalents** | | | |
| 1 January | | 409,130,048 | 341,397,006 |
| (Decrease)/Increase | | (35,547,338) | 65,592,696 |
| Currency translation differences | | 3,018,428 | 2,140,346 |
| **31 December** | 5 | **376,601,138** | **409,130,048** |

The notes on pages 11 to 35 form an integral part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019
Financial statements are prepared in Seychelles Rupees

### *1* General information

BANK OF BARODA - SEYCHELLES BRANCH (hereafter referred to as the "Branch"), is a foreign branch licensed and domiciled in Seychelles. Its head office is Bank of Baroda Limited, a Company incorporated and domiciled in India. The principal place at which business is carried out is located at Francis Trinity House, Mahé, Seychelles. The principal activities of the Bank consist of the provision of banking and financial services in Seychelles.

### 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.

The financial statements of the Branch have been prepared on a historical cost basis, except as disclosed in the accounting policies:

### *2.1* 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.

### 2.1.1 Going Concern

The Management have made an assessment of the Branch's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, they do not intend either to liquidate or to cease operations of the Branch. Therefore, the financial statements continue to be prepared on the going concern basis.

### 2.1.2 New accounting standards issued but not effective at reporting date

A number of new standards and amendments to standards which have been issued but not yet effective at the reporting date have not been applied in preparing these financial statements.

### 2.1.3 Changes in accounting policies / application of IFRS 16 - "Leases"

The Branch initially applied IFRS 16 "Leases" from 1 January 2019 using the modified retrospective approach, under which the comparative amounts are not restated and the liability is calculated as the present value of outstanding rentals discounted using the incremental borrowing rate at the date of transition, the asset is then set equal to the liability. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

On adoption of IFRS 16, the Branch recognised lease liabilities and corresponding right to use of assets in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 "Leases".
There is no finance lease existed as at the reporting period.

The Branch elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Branch relied on its assessment made applying IAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

### 2.1.4 Comparative information

The previous year figures and phrases have been reclassified whenever necessary to conform to current year presentation.

### 2.2 Financial instruments

### 2.2.1 Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets:

- measured at amortised cost,
- fair value through other comprehensive income (FVOCI)
- fair value through profit or loss (FVTPL)

## 2 Significant accounting policies (cont...)

### 2.2 Financial instruments (cont...)

### 2.2.1 Classification and measurement of financial assets and financial liabilities (cont...)

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Business model assessment

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

Solely payments of principal and interest test

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

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

The Branch holds loans and advances, maturity investments and other short term investments to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding and are categorised at amortised cost.

**(a) Financial assets measured at amortised cost**

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

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

**(b) Debt instruments measured at FVOCI**

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

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

**(c) Equity investments**

Investments in equity instruments are always measured at fair value. Equity instruments are those that meet the definition of "equity" from the perspective of the issuer as defined in IAS 32 - "Financial instrument: Recognition & measurement" .

## 2 Significant accounting policies (cont...)

## 2.2 Financial instruments/ Classification and measurement of financial assets and financial liabilities(cont...)

### (c) Equity investments (cont...)

For all other equity instruments, management has the ability to make an irrevocable election on initial recognition, on an instrument-by-instrument basis, to present changes in fair value in OCI rather than profit or loss. If this election is made, all fair value changes, excluding dividends that are a return on investment, will be included in OCI. There is no recycling of amounts from OCI to profit and loss (for example, on sale of an equity investment), nor are there any impairment requirements. However, the entity might transfer the cumulative gain or loss within equity. All the equity instrument for which the irrevocable election is not made are measured at fair value through profit or loss.

### (d) Other

All other financial assets are classified as financial assets measured at FVTPL.

## 2.2.2 Impairment of financial assets

Based on IFRS 09, the impairment is calculated with a forward-looking "Expected Credit Loss" (ECL) model and the model applies to financial assets that are not measured at FVTPL, including financing contracts, certain loan commitments and financial guarantee contracts and all other debt securities. ECL does not apply to equity investments which need to be measured at fair value.

### 2.2.2.1 Determining the stage of impairment

Under ECL model the Branch uses a dual measurement approach, under which the loss allowance is measured as either 12-month ECL or lifetime ECL. The measurement basis generally depends on whether there has been a significant increase in credit risk since initial recognition.

The Branch applies three-stage approach to measuring ECL on loans and advances and other financial assets measured at amortised cost. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

<u>Stage 1: 12 months ECL</u>
For credit exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognised.

<u>Stage 2: Lifetime ECL - not credit impaired</u>
For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

<u>Stage 3: Lifetime ECL - credit impaired</u>
Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognised as collective or individual basis and interest revenue is calculated by applying effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

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

The Branch considers that a significant increase in credit risk occurs no later than when an asset is equal or more than 30 days past due. Where there is a significant increase in credit risk the Branch uses lifetime ECL model to assess loss allowances instead of 12-month ECL model.

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

## 2 Significant accounting policies (cont...)

### 2.2 Financial instruments /Impairment of financial assets (cont...)

#### 2.2.2.2 Calculation of expected credit Loss

*Loans and advances*

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

- 'The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

- Loss Given Default (LGD) represents the Branch's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

- EAD is based on the amounts the Branch expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Branch includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

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

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band and supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- 'The 12-months ECL is equal to the discounted sum over the next 12-months of monthly PD multiply by LGD and EAD.

- Lifetime ECL is calculated using the discounted sum of monthly PD over the full remaining life multiply by LGD and EAD.

- The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.

- For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies, including contracted debt sales and price.

<u>*Incorporation of forward-looking information*</u>

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

## 2 Significant accounting policies (cont...)

### 2.2 Financial instruments /Impairment of financial assets (cont...)

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

*Modifications of financial assets*
The Branch sometimes renegotiates or otherwise the contractual cash flow of loans and advances. When this happens, the Branch assesses whether or not the terms are substantially different to the original terms, amongst others.

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

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

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

*Collateral repossessed*
The Branch'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 Branch's policy.

***Financial assets measured at amortised cost other than loans and advances***

The model of ECL applies to other financial assets measured at amortised cost as well. The Bank measures loss allowance for maturity investment at amortised cost at an amount equal to 12 Months ECL due to low credit risk at the reporting date. The Bank uses statistical model with the information from external credit agencies as inputs to the ECL calculation adjusted to reflect forward looking information and economic scenarios.

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

#### 2.2.3 *Write-off*

The gross carrying amount of a financial asset is written off when the Branch has no reasonable expectations of recovering a financial in its entirety or a portion thereof. For individual customers, the Branch has a policy of writing off the gross carrying amount when the financial asset is 365 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Branch individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Branch expects no significant recovery from the amount written off but however, financial assets that are written off could still be subject to enforcement activities in order to comply with the Branch procedures for recovery of amounts due.

#### 2.2.4 *Financial liabilities*

Financial liabilities issued by the Branch that are not designated at FVTPL are classified as financial liabilities at amortised cost and are subsequently measured at amortised cost using the EIR method.

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

## 2 Significant accounting policies (cont...)

### 2.2 Financial instruments (cont...)

#### 2.2.5 *Derecognition of financial assets other than on modification*

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.

#### 2.2.6 *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.

#### 2.2.7 *Hedge accounting*

The Branch has not applied any hedge accounting for the reporting periods covered under this financial statements.

#### 2.2.8 *Principal financial instruments*

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

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

Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets at amortised cost which results in an accounting loss being recognised in the statement of profit or loss when an asset is newly recognised.

The Branch's accounting policies in respect of the main financial instruments are set out below.

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

*Loans and advances*

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

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

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

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

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

2 **Significant accounting policies (cont...)**

2.2 **Financial instruments /Principal financial instruments (cont...)**

*Guarantees and other obligations on account of customers*

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to Branch's, financial institutions and others on behalf of customers to secure loans, overdrafts and other Branching facilities. Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of

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

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

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

*Investments in financial assets at amortised cost*

These investments are initially recognised at fair value plus directly attributable costs and subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses, interest income, foreign exchange gains and losses and any gain and losses on derecognition are recognised in the Statement of Profit or Loss.

*Deposits from customers*

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

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

The following table shows the measurement categories of financial instruments which are measured at amortized cost along with their carrying amounts as at 31 December 2019.

In Seychelles Rupees (000')

| | Measurement category | Gross Amount | ECL | Carrying amount 31-12-2019 | Carrying amount 31-12-2018 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and cash equivalents | Amortised cost | 376,601 | - | 376,601 | 409,130 |
| Loans and advances at amortised cost | Amortised cost | 305,132 | (1,916) | 303,216 | 231,759 |
| Investments in financial assets at amortised cost | Amortised cost | 1,042,244 | (1,568) | 1,040,677 | 920,638 |
| Other assets | Amortised cost | 536 | - | 536 | 387 |
| **Total financial assets** | | **1,724,514** | **(3,484)** | **1,721,030** | **1,561,915** |
| **Financial liabilities** | | | | | |
| Deposits from customers | Amortised cost | 1,411,681 | - | 1,411,681 | 1,324,304 |
| Other liabilities | Amortised cost | 2,654 | - | 2,654 | 2,211 |
| **Total financial liabilities** | | **1,414,335** | **-** | **1,414,335** | **1,326,516** |

2.3 *Equipment*

Equipment is 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.

## 2 *Significant accounting policies (cont…)*

### 2.3 *Equipment (cont…)*

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 equipments and Furniture and fittings | 5 |
| Automatic Teller machine(ATM) | 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 the Statement of Profit or Loss.

### 2.4 *Leases*

The Branch leases out a building typically to run its business for a period of 6 years commencing on 11th April 2014 and matured on 10th April 2020 , with an option to renew for an additional period of 6 years for which negotiation are in progress.

#### 2.4.1 *Right-of-use*

Right-of-use asset is measured at cost comprising,

-the amount of the initial measurement of lease liability

-any lease payments made at or before the commencement date less any lease incentives received

-any initial direct costs, and

-restoration costs.

and depreciated over the remaining lease term on a straight-line basis.

#### 2.4.2 *Lease liability*

Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 11.66% p.a.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

### 2.5 *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).

### 2.6 *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.

### 2.7 *Taxation*

The tax expense for the period comprises of current business, corporate social responsibility and deferred taxes.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and unused tax losses or tax credits.

2 *Significant accounting policies (cont...)*

### 2.7 *Taxation (cont...)*

The current income tax charge and deferred tax is calculated on the basis of tax rates and laws that have been enacted or substantially enacted by the reporting date.

### 2.8 *Foreign currencies*

*Functional and presentation currency*

Items included in the financial statements are measured using Seychelles Rupee (SCR), 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.

*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.

### 2.9 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.

### 2.10 *Revenue recognition*

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

#### 2.10.1 *Interest income and expense*

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

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

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

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

## 2 *Significant accounting policies (cont...)*

### 2.10.2 *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.

### 2.11 *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.

## 3 *Financial risk management*

The Branch's activities expose it to a variety of financial risks. It's overall risk management programmed focuses on the unpredictability of financial markets and seeks to minimise potential adverse effect of the Branch'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 Branch 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 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 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 Branch also enters into guarantees.

### 3.2 **Capital adequacy**

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 as follows:

| | 2019<br>SCR '000 | 2018<br>SCR '000 |
|---|---|---|
| Capital base: | | |
| Tier I Capital | 238,757 | 220,174 |
| Tier II Capital | 27,784 | 18,583 |
| Total capital base (a) | 266,541 | 238,757 |
| Risk weighted assets (b) | 384,402 | 347,358 |
| **Capital adequacy ratio (a/b) %** | 69% | 69% |
| **Minimum Requirement(%)** | 12% | 12% |

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

### 3.3 **Credit risk**

Credit risk is the risk of financial loss to the Branch if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Branch is mainly exposed to credit risk from financing activity.

3 *Financial risk management / Credit risk (cont...)*

### 3.3.1 Portfolio classification and establishing groups of assets with similar credit risk characteristics

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

The Branch classifies its portfolio of loans and advances within the following segments; retail, corporate and investment.

The Branch also complies with the Financial Institutions (Credit Classification and Provisioning) Regulations, gazetted in 2010 and amended in 2011 which require the classification of its credits into specific categories and gives guidance on the minimum provisioning required for each category.

### 3.3.2 Assessment of significant increase in credit risk

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

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

### 3.3.3 Credit quality per class of financial assets

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

### 3.3.4 Collateral and other credit enhancements

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

### 3.3.5 Exposure to 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 parent bank 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.

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

| | 2019 | 2018 |
|---|---|---|
| | **SCR** | **SCR** |
| Cash and cash equivalents | 376,601,138 | 409,130,048 |
| Loans and advances at amortised cost | 305,132,428 | 233,486,097 |
| Investments in financial assets at amortised cost | 1,042,244,299 | 922,096,873 |
| Other assets | 535,721 | 387,113 |
| **Total credit risk exposure** | **1,724,513,586** | **1,565,100,131** |

3 *Financial risk management/ Credit risk (cont...)*

### 3.3.6 Calculation of expected credit loss (ECL)

Immediately after initial recognition , an expected credit loss allowance is recognised for loans and receivable at amortised cost as previously explained under note(2.2.2).

### 3.3.7 Commitments

To meet the financial needs of customers, the Branch enters into various irrevocable commitments. Even though these obligations may not be recognised on the Statement of Financial Position, they do contain credit risk and are, therefore, part of the overall risk of the Branch. The maximum exposure to credit risk relating to the commitments is the full amount of SCR 5,749,183 (2018: SCR 3,823,131)

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

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

| Class of financial asset in SCR | Year ended 2019 | | | | Year ended 2018 |
|---|---|---|---|---|---|
| | Stage 1<br>12-month ECL | Stage 2<br>Lifetime ECL-not credit impaired | Stage 3<br>Lifetime ECL-credit impaired | Total | Total |
| *Loans and advances* | | | | | |
| Pass | 302,988,920 | - | - | 302,988,920 | 227,989,871 |
| Special Mention Grade | - | 932,746 | - | 932,746 | 4,146,072 |
| Sub Standard Grade | - | - | 1,115,343 | 1,115,343 | 1,015,850 |
| Doubtful Grade | - | - | - | - | 51,941 |
| Loss Grade | - | - | 95,419 | 95,419 | 282,363 |
| **Total amount committed (note 6)** | **302,988,920** | **932,746** | **1,210,762** | **305,132,428** | **233,486,097** |
| Cumulative allowance for credit impairment | (1,289,061) | (12,473) | (614,799) | (1,916,333) | (1,726,908) |
| **Carrying amount** | **301,699,859** | **920,273** | **595,963** | **303,216,095** | **231,759,189** |
| *Investments in financial assets at amortised cost* | | | | | |
| Gross (note 7) | 1,042,244,299 | - | - | 1,042,244,299 | 922,096,873 |
| Cumulative allowance for credit impairment | (1,567,579) | - | - | (1,567,579) | (1,458,477) |
| **Carrying amount** | **1,040,676,720** | - | - | **1,040,676,720** | **920,638,396** |
| *Commitments* | | | | | |
| Gross (note 24) | 5,749,183 | - | - | 5,749,183 | 3,823,131 |
| Cumulative allowance for credit impairment | (61,872) | - | - | (61,872) | (12,209) |
| **Carrying amount** | **5,687,311** | - | - | **5,687,311** | **3,810,922** |

3 *Financial risk management / credit risk (cont...)*

### 3.3.8 Credit quality and provisioning requirements

*Credit quality of loans and advances*

| | 2019 | 2018 |
|---|---|---|
| | **SCR** | **SCR** |
| Neither past due nor impaired | 302,988,922 | 226,868,096 |
| Past due but not impaired | 932,744 | - |
| Impaired | 1,210,762 | 6,618,001 |
| Gross loans and advances | **305,132,428** | **233,486,097** |
| *Less: Allowances for credit impairment* | (1,916,333) | (1,726,908) |
| **Fair value of collaterals of past due but not impaired** | **303,216,095** | **231,759,189** |

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

### 3.4 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.

*Concentration of assets and liabilities by currency*

| At 31 December 2019 (SCR '000) | SCR | Euro | USD | Others | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 198,794 | 84,610 | 81,780 | 11,417 | 376,601 |
| Loans and advances at amortised cost | 261,666 | - | 43,467 | - | 305,132 |
| Investments in financial assets at amortised cost | 332,566 | - | 647,647 | 62,031 | 1,042,244 |
| Equipment | 830 | - | - | - | 830 |
| Right to use asset | 460 | - | - | - | 460 |
| Deferred tax asset | 1,380 | - | - | - | 1,380 |
| Other assets | 346 | - | 190 | - | 536 |
| | **796,042** | **84,610** | **773,083** | **73,448** | **1,727,183** |
| Less allowances for credit impairment | | | | | (3,484) |
| | | | | | **1,723,699** |
| **Liabilities** | | | | | |
| Deposits from customers | 541,997 | 80,286 | 718,893 | 70,505 | 1,411,681 |
| Due to Banks | - | - | 41,961 | - | 41,961 |
| Lease liability | 487 | - | - | - | 487 |
| Retirement benefit obligations | 1,201 | - | - | - | 1,201 |
| Current tax liability | 1,198 | - | - | - | 1,198 |
| Other liabilities | 1,397 | 6 | 1,210 | 104 | 2,716 |
| | **546,280** | **80,292** | **762,063** | **70,609** | **1,459,244** |
| **Net on balance sheet position** | 249,762 | 4,319 | 11,020 | 2,839 | 264,455 |
| **Off balance sheet position** | | | | | |
| Bills and guarantees | 285 | - | 5,362 | 102 | 5,749 |
| Less allowances for credit impairment | - | - | - | - | 62 |
| **Net Off balance sheet position** | - | - | - | - | **5,811** |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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### 3 *Financial risk management / Currency risk (cont...)*

*Concentration of assets and liabilities by currency*

| At 31 December 2018 (SCR '000) | SCR | Euro | USD | Others | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 173,280 | 75,326 | 148,621 | 11,903 | 409,130 |
| Loans and advances at amortised cost | 230,366 | 1,750 | 1,370 | - | 233,486 |
| Investments in financial assets at amortised cost | 394,223 | - | 464,619 | 63,255 | 922,097 |
| Equipment | 819 | - | - | - | 819 |
| Right to use asset | - | - | - | - | - |
| Current tax asset | 2,534 | - | - | - | 2,534 |
| Deferred tax asset | 1,343 | - | - | - | 1,343 |
| Other assets | 387 | - | - | - | 387 |
| | **802,952** | **77,076** | **614,610** | **75,158** | **1,569,796** |
| Less allowances for credit impairment | | | | | (3,185) |
| | | | | | **1,566,611** |
| **Liabilities** | | | | | |
| Deposits from customers | 575,202 | 75,755 | 598,149 | 75,198 | 1,324,304 |
| Retirement benefit obligations | 1326 | - | - | - | 1,326 |
| Other liabilities | 2,224 | - | - | - | 2,224 |
| | **578,752** | **75,755** | **598,149** | **75,198** | **1,327,854** |
| **Net on balance sheet position** | **224,200** | **1,321** | **16,461** | **(40)** | **238,757** |
| **Off balance sheet position** | | | | | |
| Bills and guarantees | 2,475 | - | 1,249 | 99 | 3,823 |
| Less allowances for credit impairment | | | | | (12) |
| **Net Off balance sheet position** | - | - | - | - | **3,811** |

*Sensitivity analysis*

If exchange rates had been 1% higher/lower and all other variables were held constant as at year- end, the Branch's results would have been increased/decreased as follows:

| | 2019 | 2018 |
|---|---|---|
| | **SCR '000** | **SCR '000** |
| Impact on results | ± 30 | ± 21 |

As stipulated in the Financial Institutions (Foreign Currency Exposure) Regulations, 2009, commercial banks are required to have a total "Long Position(LP) and Short Position(SP)" as a percentage of capital of not more than 30%.The LP and SP ratio of the branch was 5.1% and 0% respectively. (2018: 7.2% and 0%).

### 3.5 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.

The Branch also complies with the Central Bank of Seychelles' requirement for 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 89% (2018: 91%).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019
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3 *Financial risk management / liquidity risk (cont...)*

3.5 Liquidity risk (cont...)

| As at 31 December 2019 (SCR '000) | Up to 1 month | 1 - 3 months | 3 - 6 months | 6 - 12 months | 1 - 3 years | > 3 years | Non-maturity items | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and cash equivalents | 376,601 | - | - | - | - | - | - | 376,601 |
| Loans and advances at amortised cost | 93,567 | 596 | 563 | 9,991 | 71,218 | 129,197 | - | 305,132 |
| Investments in financial assets at amortised | 48,639 | 778,692 | 48,685 | 166,229 | - | - | - | 1,042,244 |
| Equipment | - | - | - | - | - | - | 830 | 830 |
| Right to use asset | - | - | - | - | - | - | 460 | 460 |
| Deferred tax asset | - | - | - | - | - | - | 1,380 | 1,380 |
| Other assets | - | - | - | - | - | - | 536 | 536 |
| | 518,807 | 779,288 | 49,248 | 176,220 | 71,218 | 129,197 | 3,205 | 1,727,183 |
| Less allowances for credit impairment | | | | | | | | (3,484) |
| | | | | | | | | 1,723,699 |
| **Liabilities** | | | | | | | | |
| Deposits from customers | 600,387 | 396,686 | 102,697 | 306,298 | 4,771 | 842 | - | 1,411,681 |
| Due to Banks | 41,961 | - | - | - | - | - | - | 41,961 |
| Lease liability | - | - | - | - | - | - | 487 | 487 |
| Retirement benefit obligations | - | - | - | - | - | - | 1,201 | 1,201 |
| Current tax liability | - | - | - | - | - | - | 1,198 | 1,198 |
| Other liabilities | - | - | - | - | - | - | 2,716 | 2,716 |
| | 642,349 | 396,686 | 102,697 | 306,298 | 4,771 | 842 | 5,602 | 1,459,245 |
| **Maturity gap** | (123,542) | 382,602 | (53,449) | (130,078) | 66,447 | 128,355 | (2,397) | 264,454 |

| As at 31 December 2018 (SCR '000) | Up to 1 month | 1 - 3 months | 3 - 6 months | 6 - 12 months | 1 - 3 years | > 3 years | Non-maturity items | Total |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Cash and cash equivalents | 409,130 | - | - | - | - | - | - | 409,130 |
| Loans and advances at amortised cost | 41,803 | 546 | 512 | 4,223 | 71,804 | 114,598 | - | 233,486 |
| Investments in financial assets at amortised | 53,443 | 446,822 | 95,400 | 24,852 | 4,000 | 297,580 | - | 922,097 |
| Equipment | - | - | - | - | - | - | 819 | 819 |
| Right to use asset | - | - | - | - | - | - | - | - |
| Current tax asset | - | - | - | - | - | - | 2,534 | 2,534 |
| Deferred tax asset | - | - | - | - | - | - | 1,343 | 1,343 |
| Other assets | - | - | - | - | - | - | 387 | 387 |
| | 504,376 | 447,368 | 95,912 | 29,075 | 75,804 | 412,178 | 5,083 | 1,569,796 |
| Less allowances for credit impairment | | | | | | | | (3,185) |
| | | | | | | | | 1,566,611 |
| **Liabilities** | | | | | | | | |
| Deposits from customers | 685,669 | 419,219 | 30,379 | 184,603 | 3,911 | 523 | - | 1,324,304 |
| Lease liability | - | - | - | - | - | - | - | - |
| Retirement benefit obligations | - | - | - | - | - | - | 1,326 | 1,326 |
| Other liabilities | - | - | - | - | - | - | 2,224 | 2,224 |
| | 685,669 | 419,219 | 30,379 | 184,603 | 3,911 | 523 | 3,550 | 1,327,854 |
| **Maturity gap** | (181,293) | 28,149 | 65,533 | (155,528) | 71,893 | 411,655 | 1,533 | 238,757 |

### 3 *Financial risk management (cont...)*

#### 3.6 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.

If interest rates had been 1% higher/lower and all other variables were held constant as at year-end, the Branch's results would have been increased/decreased as follows:

| | 2019 | 2018 |
|---|---|---|
| | **SCR '000** | **SCR '000** |
| Impact on results | ±438 | ±345 |

### 4 *Critical accounting estimates and judgements*

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

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 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 as follows:

#### *4.1* Impairment losses on financial assets

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

The Branch'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 Branch'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 ECL basis and the qualitative assessment;

- The segmentation of financial assets when their ECL is assessed on a collective basis;

- Development of ECL models, including the various formulas and the choice of inputs;

- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs; and

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

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

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

#### 4.2 Calculation of loss allowance

When measuring ECL the Branch uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

4 *Critical accounting estimates and judgements (cont...)*

**4.3 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.

**4.4 Business model assessment**

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Branch 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 Branch 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 Branch'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.

**4.5 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 Branch considers qualitative and quantitative reasonable and supportable forward-looking information.

**4.6 Useful lives and residual values of equipment**

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 Branch and the relevant industry in which it operates in order to best determine the useful lives and residual values of equipment.

**4.7 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.

**4.8 Fair value estimation**

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from for example, a stock exchange and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Branch is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily quoted equity investments classified as trading securities.

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

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

**4.9 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 FOR THE YEAR ENDED 31 DECEMBER 2019

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### 5 *Cash and cash equivalents*

| | 2019 | 2018 |
|---|---|---|
| Cash in hand | 14,501,541 | 23,619,054 |
| Standing deposit facility | 133,842,105 | 108,809,524 |
| Balance with Central Bank of Seychelles | 110,449,773 | 104,387,647 |
| Balances with associated companies | 65,563,473 | 152,323,453 |
| Balances with local banks | 52,244,246 | 19,990,370 |
| **At 31 December** | **376,601,138** | **409,130,048** |

### 6 *Loans and advances at amortised cost*

| | 2019 | 2018 |
|---|---|---|
| Gross loans and advances | 305,132,428 | 233,486,097 |
| Less: Allowance for credit impairment (note 6.3) | (1,916,333) | (1,726,908) |
| Net loans and advances | **303,216,095** | **231,759,189** |

*6.1* The currency profile and maturity terms of loans and advances are detailed under notes 3.4 & 3.5respectively.

*6.2* Credit concentration of risk by industry sectors

| | 2019 | 2018 |
|---|---|---|
| Government of Seychelles | 94,388,438 | 94,402,638 |
| Building and construction | 11,539,715 | 5,426,000 |
| Trading | 22,752,260 | 20,663,000 |
| Individuals and households | 46,638,010 | 24,775,000 |
| Other | 129,814,005 | 88,219,459 |
| **At 31 December** | **305,132,428** | **233,486,097** |

*6.3* Movement in net allowance for credit impairment is given below:

| | 2019 | 2018 |
|---|---|---|
| At January 1, | 1,726,908 | 2,566,504 |
| Charge/(reversal) to statement of profit or loss | 189,425 | (839,596) |
| **At 31 December** | **1,916,333** | **1,726,908** |

*6.4* 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 | Total-2019 | Total-2018 |
|---|---|---|---|---|---|
| Loans and advances (note 6.3) | 1,121,772 | 27,592 | 577,544 | **1,726,908** | 2,566,504 |
| Investments in financial assets (note 7.2) | 1,458,477 | - | - | **1,458,477** | 1,089,639 |
| Commitments (note 16) | 12,209 | - | - | **12,209** | 19,555 |
| At January 1, | 2,592,458 | 27,592 | 577,544 | **3,197,594** | 3,675,698 |
| *Loans and advances* | 167,289 | (15,119) | 37,265 | **189,435** | (839,596) |
| *Investments in financial assets* | 109,102 | - | - | **109,102** | 368,838 |
| *Commitments* | 49,663 | - | - | **49,663** | (7,346) |
| ***Total charge/(reversal) for the year*** | 326,054 | (15,119) | 37,265 | **348,200** | (478,104) |
| Loans and advances (note 6.3) | 1,289,061 | 12,473 | 614,799 | **1,916,333** | 1,726,908 |
| Investments in financial assets (note 7.2) | 1,567,579 | - | - | **1,567,579** | 1,458,477 |
| Commitments (note 16) | 61,872 | - | - | **61,872** | 12,209 |
| ***Loss allowance as at December 31*** | 2,918,512 | 12,473 | 614,799 | **3,545,784** | 3,197,594 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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### 7 Investments in financial assets at amortised cost

7.1 The movement in financial assets at amortised cost is as summarised below:

| | 2019 | 2018 |
|---|---|---|
| At January 1 | 922,096,873 | 624,517,307 |
| Additions during the year | 2,535,228,174 | 1,525,334,992 |
| Matured during the year | (2,426,102,752) | (1,235,853,029) |
| Interest accrued | 11,022,004 | 8,097,603 |
| **At December 31** | **1,042,244,299** | **922,096,873** |
| Less: Net allowance for credit impairment losses (note 6.4) | (1,567,579) | (1,458,477) |
| **At December 31,** | **1,040,676,720** | **920,638,396** |

7.2 Movement in net allowance for credit impairment

| | 2019 | 2018 |
|---|---|---|
| At January 1, | 1,458,477 | 1,089,639 |
| Credit to statement of profit or loss | 109,102 | 368,838 |
| **At 31 December** | **1,567,579** | **1,458,477** |

7.3 Investments in financial assets at amortised cost include the following:

| | Tennor | Interest rate | 2019 | 2018 |
|---|---|---|---|---|
| Treasury bills | 90-365 days | 5.1% - 6.2% | 327,931,895 | 383,265,270 |
| Treasury bonds | | | - | 4,000,000 |
| Placements with associated companies | 90-365 days | 1% - 3.77% | 703,290,400 | 526,734,000 |
| Accrued interests | | | 11,022,004 | 8,097,603 |
| | | | **1,042,244,299** | **922,096,873** |

7.4 Currency and maturity profiles of investments in financial assets at amortised cost are detailed in notes 3.4 & 3.5.

### 8 *Equipment*

| | Equipments and Furnitures | ATM | Motor vehicles | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2018 | 4,307,428 | 602,541 | 351,601 | 5,261,570 |
| Additions | 246,523 | 37,197 | 344,000 | 627,720 |
| **At 31 December 2018** | **4,553,951** | **639,738** | **695,601** | **5,889,290** |
| Addition | 108,957 | 125,181 | - | 234,138 |
| Disposals | - | - | (351,601) | (351,601) |
| **At 31 December 2019** | **4,662,908** | **764,919** | **344,000** | **5,771,827** |
| **Accumulated depreciation** | | | | |
| At 1 January 2018 | 3,902,305 | 602,541 | 351,601 | 4,856,447 |
| Charge for the year | 150,816 | 12,730 | 50,167 | 213,713 |
| **At 31 December 2018** | **4,053,121** | **615,271** | **401,768** | **5,070,160** |
| Disposals | - | - | (351,601) | (351,601) |
| Charge for the year | 122,818 | 22,710 | 78,155 | 223,683 |
| **At 31 December 2019** | **4,175,939** | **637,981** | **128,322** | **4,942,242** |
| **Net book value** | | | | |
| **At 31 December 2019** | **486,969** | **126,938** | **215,678** | **829,585** |
| **At 31 December 2018** | 500,830 | 24,467 | 293,833 | 819,130 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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### 9 *Right of use asset*

| | 2019 | 2018 |
|---|---|---|
| **Cost** | | |
| At 1 January | 2,301,150 | - |
| Additions | - | |
| **At 31 December** | **2,301,150** | - |
| | | |
| **Accumulated amortisation** | | |
| At 1 January | - | - |
| Charge for the year | 1,840,920 | - |
| **At 31 December** | **1,840,920** | - |
| **Net book value as at 31 December** | **460,230** | - |

### 10 *Taxation*

| | Statement of financial position | | Statement of income | |
|---|---|---|---|---|
| **10.1 Current tax** | **2019** | **2018** | **2019** | **2018** |
| Balance due from prior year | 2,534,282 | 1,164,781 | - | - |
| Paid for the year | 11,851,380 | 12,108,684 | - | - |
| Refund received during the year | (2,725,910) | (1,835,615) | - | - |
| Provision for the year | (12,857,987) | (8,903,568) | (12,857,987) | (8,903,568) |
| **Total** | **(1,198,235)** | **2,534,282** | **(12,857,987)** | **(8,903,568)** |
| **10.2 Corporate social responsibility tax** | | | **(659,108)** | **(469,559)** |
| **10.3 Deferred tax asset** | | | | |
| Provision for credit losses | 1,170,109 | 1,055,206 | 114,903 | (157,763) |
| Retirement benefit obligations | 396,247 | 437,708 | (41,461) | (5,335) |
| | **1,566,356** | **1,492,914** | **73,442** | **(163,098)** |
| **10.4 Deferred tax liabilities** | | | | |
| Deferred due to accelerated tax depreciation | **(186,707)** | **(149,906)** | **(36,801)** | **(43,210)** |
| **Net deferred tax** | **1,379,649** | **1,343,008** | **36,641** | **(206,308)** |
| **Total income tax expense** | | | **(13,480,454)** | **(9,579,435)** |

Applicable tax rates are as follows:

| Taxable income threshold | Tax rates - % |
|---|---|
| ≤ R. 1,000,000 | 25 |
| > R. 1,000,000 | 33 |

### 11 *Other assets*

| | 2019 | 2018 |
|---|---|---|
| Clearing account | 291,589 | 178,880 |
| Advances and deposits | 244,132 | 208,233 |
| | **535,721** | **387,113** |

The carrying amounts of 'other assets' approximate their amortised cost and therefore no impairment is required.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Financial statements are prepared in Seychelles Rupees

### 12 *Deposits from customers*

| | 2019 | 2018 |
|---|---|---|
| Current accounts | 399,855,026 | 504,033,935 |
| Time deposits | 816,418,451 | 645,458,675 |
| Savings deposits | 190,256,937 | 170,537,717 |
| Interest accrued | 5,150,679 | 4,274,103 |
| | **1,411,681,093** | **1,324,304,430** |

Interest payable on term deposits becomes due either on the maturity of the deposits or as agreed per the deposit certificates.

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

### 13 *Short term borrowing*

| | 2019 | 2018 |
|---|---|---|
| Short term borrowing from BOB Mauritius | **41,961,300** | **-** |

### 14 *Lease liability*

| | 2019 | 2018 |
|---|---|---|
| At January 1 | 2,301,150 | - |
| Interest cost | 173,353 | - |
| Payments made | (1,987,200) | - |
| **At December 31** | **487,303** | **-** |

#### *14.1* Minimum lease payments payable on lease commitment is as follows

| | Future minimum lease payments | Interest cost | Present value of minimum lease payments 31-12-2019 | Present value of minimum lease payments 31-12-2018 |
|---|---|---|---|---|
| Within 1 year | 496,800 | (9,497) | 487,303 | 1,813,847 |
| Later than 1 year | - | - | - | 487,303 |
| **At 31 December** | **496,800** | **(9,497)** | **487,303** | **2,301,150** |

#### *14.2* Amounts recognised in the statement of profit or loss

| | 2019 | 2018 |
|---|---|---|
| Amortisation charge of right to use asset | 1,840,920 | - |
| Interest cost | 173,353 | - |
| | **2,014,273** | **-** |

### 15 *Retirement benefit obligations*

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

| | 2019 | 2018 |
|---|---|---|
| **At 1 January** | 1,326,387 | 1,342,555 |
| Charge for the year (note 23) | 89,650 | 149,333 |
| Paid during the year | (215,288) | (165,501) |
| **At 31 December** | **1,200,749** | **1,326,387** |

### 16 *Other liabilities*

| | 2019 | 2018 |
|---|---|---|
| Margin on guarantees | 75,000 | 75,000 |
| Bills payable and other accrued expenses | 2,578,825 | 2,136,327 |
| Allowance for credit losses on commitments (note 6.4) | 61,872 | 12,209 |
| | **2,715,697** | **2,223,536** |

Bills payables include cheque payables and clearing accounts. Accrued expenses include accrued expenses relating to rent, utilities, audit fees and other communication expenses.

### 17 *Assigned capital*

| | 2019 | 2018 |
|---|---|---|
| Issued and fully paid | **20,000,000** | 20,000,000 |

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

### 18 *Statutory reserve*

| | 2019 | 2018 |
|---|---|---|
| At January 1, and December 31, | **20,000,000** | 20,000,000 |

Section 24 (1) of the Financial Institutions Act 2004, as amended requires that a Statutory Reserve Fund be maintained from an appropriation of 20% of net profits for the year before any transfers until such reserve is equal to the Assigned Capital. The Branch's statutory reserve is equal to R 20m, hence no transfer has been made for the current year.

### 19 *Interest income*

| | 2019 | 2018 |
|---|---|---|
| Placements with central bank | 7,794,671 | 4,285,167 |
| Placements with associated companies | 19,792,357 | 5,419,475 |
| Investments in financial assets | 18,778,917 | 18,494,963 |
| Loans and advances | 23,303,977 | 20,844,386 |
| | **69,669,922** | **49,043,991** |

### 20 *Interest expense*

| | 2019 | 2018 |
|---|---|---|
| Time deposits | 21,757,674 | 11,100,933 |
| Savings deposits | 4,084,906 | 3,423,693 |
| Other | 28,152 | 10,744 |
| | **25,870,732** | **14,535,370** |

### 21 *Fee income and commission*

| | 2019 | 2018 |
|---|---|---|
| Incidental charges | 867,364 | 323,501 |
| Foreign currency transaction | 742,236 | 741,316 |
| Other fee income and commissions | 2,392,274 | 1,610,378 |
| | **4,001,874** | **2,675,195** |

### 22 *Other income*

| | 2019 | 2018 |
|---|---|---|
| Profit on sale of vehicles | 151,000 | - |
| Recovery of bad debt written off | 181,000 | 12,933 |
| | **332,000** | **12,933** |

### 23 *Employment costs*

| | 2019 | 2018 |
|---|---|---|
| Salaries and wages | 4,493,052 | 4,254,909 |
| Movement in retirement benefit obligations (note 15) | 89,650 | 149,333 |
| Staff rent | 404,082 | 393,000 |
| Other staff costs | 508,116 | 428,520 |
| | **5,494,900** | **5,225,762** |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Financial statements are prepared in Seychelles Rupees

### 24 *Other operating expenses*

| | 2019 | 2018 |
|---|---|---|
| Rental of premises (note 24.1) | - | 1,987,200 |
| Auditors' remuneration | 209,331 | 120,000 |
| Licenses | 750,000 | 750,000 |
| Bad debts | 83,574 | 197,628 |
| Repair and maintenance | 426,237 | 403,299 |
| Other administrative charges | 2,422,892 | 2,755,416 |
| | **3,892,034** | **6,213,543** |

24.1 The rent expenses for the period 2019 have been recognized as a right of use asset based on modified retrospective approach followed by the management as explained in note 2.1.3

### 25 *Capital commitments*

There were no capital commitments as at December 31, 2019 (2018 : Nil).

### 26 *Contingent liabilities*

| | 2019 | 2018 |
|---|---|---|
| Bills and guarantees | **5,749,183** | **3,823,131** |

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 . 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 Branch.

### 27 *Related party transactions*

The Bank is a branch of Bank of Baroda(BOB)

| | 2019 | 2018 |
|---|---|---|
| **Year end balances with associated companies** | | |
| *Nostro balances with:* | | |
| BOB Mumbai (INR) | 186,190 | 112,255 |
| BOB London (GBP) | 8,089,395 | 10,795,623 |
| BOB Brussels (EUR) | 34,310,431 | 56,535,916 |
| BOB New York (USD) | 22,936,580 | 84,836,657 |
| BOB Port Louis (MUR) | 40,877 | 43,002 |
| | **65,563,472** | **152,323,453** |
| *Placements with:* | | |
| BOB Mauritius (USD) | 296,526,520 | 179,251,200 |
| BOB Gift City (USD) | 138,472,290 | - |
| BOB London (USD) | - | 19,311,600 |
| BOB Singapore (USD) | 146,864,550 | 91,026,000 |
| BOB Uganda (USD) | 59,445,175 | 116,233,200 |
| BOB Brussels (GBP) | 61,981,865 | 120,912,000 |
| | **703,290,400** | **526,734,000** |
| *Short term borrowings:* | | |
| BOB Mauritius (USD) | 41,961,300 | - |
| **Transactions with associated companies** | | |
| Income from placements with associated companies | 19,792,357 | 5,419,475 |

27.1 Transactions with related parties are made at normal market prices. Outstanding balances at the year-end are unsecured. There has been no guarantees provided or received for any related party payables or receivables.

27.2 <u>*Key management personnel*</u>

| | 2019 | 2018 |
|---|---|---|
| Salaries and related expenses | 1,561,984 | 1,309,757 |

## BANK OF BARODA - SEYCHELLES BRANCH

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019
Financial statements are prepared in Seychelles Rupees

#### 28 *Fair Value of Financial Instruments*

28.1 The following table provides an analysis of assets and liabilities measured at fair value and amortised cost as at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. These amounts were based on the values recognised in the statement of financial position:

| As at 31 December 2019 (SCR '000) | Level 1 Quoted prices in active market | Level 2 Significant observable input | Level 3 Significant unobservable input | Total Fair Value | Total Carrying Amount |
|---|---|---|---|---|---|
| **Financial assets measured at amortised cost** | | | | | |
| Cash and cash equivalents | - | 376,601 | - | **376,601** | **376,601** |
| Loans and advances at amortised cost | - | - | 303,216 | **303,216** | **303,216** |
| Investments in financial assets at amortised cost | - | - | 1,040,677 | **1,040,677** | **1,040,677** |
| Other assets | - | - | 536 | **536** | **536** |
| **Total financial assets measured at amortised cost** | **-** | **376,601** | **1,344,429** | **1,721,030** | **1,721,030** |
| **Financial liabilities measured at amortised cost** | | | | | |
| Deposits from customers | - | - | 1,411,681 | **1,411,681** | **1,411,681** |
| Due to Banks | - | - | 41,961 | **41,961** | **41,961** |
| Other liabilities | - | - | 2,716 | **2,716** | **2,716** |
| **Total financial liabilities measured at amortised cost** | **-** | **-** | **1,456,358** | **1,456,358** | **1,456,358** |

| As at 31 December 2018 (SCR '000) | Level 1 Quoted prices in active market | Level 2 Significant observable input | Level 3 Significant unobservable input | Total Fair Value | Total Carrying Amount |
|---|---|---|---|---|---|
| **Financial assets measured at amortised cost** | | | | | |
| Cash and cash equivalents | - | 409,130 | - | **409,130** | **409,130** |
| Loans and advances at amortised cost | - | - | 231,759 | **231,759** | **231,759** |
| Investments in financial assets at amortised cost | - | - | 920,638 | **920,638** | **920,638** |
| Other assets | - | - | 387 | **387** | **387** |
| **Total financial assets measured at amortised cost** | **-** | **409,130** | **1,152,785** | **1,561,915** | **1,561,915** |
| **Financial liabilities measured at amortised cost** | | | | | |
| Deposits from customers | - | - | 1,324,304 | 1,324,304 | **1,324,304** |
| Other liabilities | - | - | 2,224 | 2,224 | **2,224** |
| **Total financial liabilities measured at amortised cost** | **-** | **-** | **1,326,528** | **1,326,528** | **1,326,528** |

28.2 Methodologies and assumptions used to determine fair value of financial instruments which are not already recorded at fair value in the Statement of Financial Position are as follows.

*Fixed rate financial instruments*

The fair value of fixed rate financial assets and liabilities carried at amortised cost (eg. fixed rate loan contracts, due to customers, subordinate liabilities) are estimated based on the Discounted Cash Flow approach. This approach employs the current market interest rates of similar financial instruments as a significant unobservable input in measuring the fair value and hence it is categorised under Level 3 in the fair value hierarchy.

***Sensitivity of significant unobservable inputs used to measure fair value of fixed rate financial instruments.***

A significant increase/(decrease) in the market interest rate would result in lower/(higher) fair value being disclosed.

*Assets for which fair value approximates carrying value*

For financial assets and liabilities with short term maturities or with short term re-pricing intervals, it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings deposits which do not have a specific maturity.

Financial statements are prepared in Seychelles Rupees in SCR '000

### 29 *Events after the reporting period*

In view of the global coronavirus pandemic in 2020, uncertainty remains as to the branch's going concern due to many businesses having reduced or suspended their operations. The economic impact is yet to be assessed.

The requirement, in accordance with IAS 10 "Events after the Reporting Period", is to account for the significant changes in business and economic conditions as non-adjusting event.

With the current situation of many discontinuation of businesses and volatility in international markets, interest income and other investment income of the branch might be affected in the next financial periods.

## FIVE YEAR FINANCIAL SUMMARY

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| **Statement of financial position** | | | | | |
| Assigned capital | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 |
| Authorised | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 |
| Issued and fully paid | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 |
| Statutory reserve | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 |
| Retained earnings | 224,455 | 198,757 | 180,978 | 160,220 | 131,194 |
| Net assets employed | 264,455 | 238,757 | 220,978 | 200,220 | 171,194 |
| **Statement of income** | | | | | |
| Profit (loss) before taxation | 39,178 | 28,162 | 31,105 | 43,029 | 41,368 |
| Taxation | (13,480) | (9,579) | (10,346) | (14,004) | (13,433) |
| Profit (loss) after taxation | 25,698 | 18,583 | 20,759 | 29,025 | 27,935 |
| Retained earnings 1 January | 198,757 | 180,978 | 160,220 | 131,194 | 103,259 |
| Effect of adopting IFRS 9 | - | (804) | - | - | - |
| Restated retained earnings - 31 December | 224,455 | 198,757 | 180,979 | 160,219 | 131,194 |