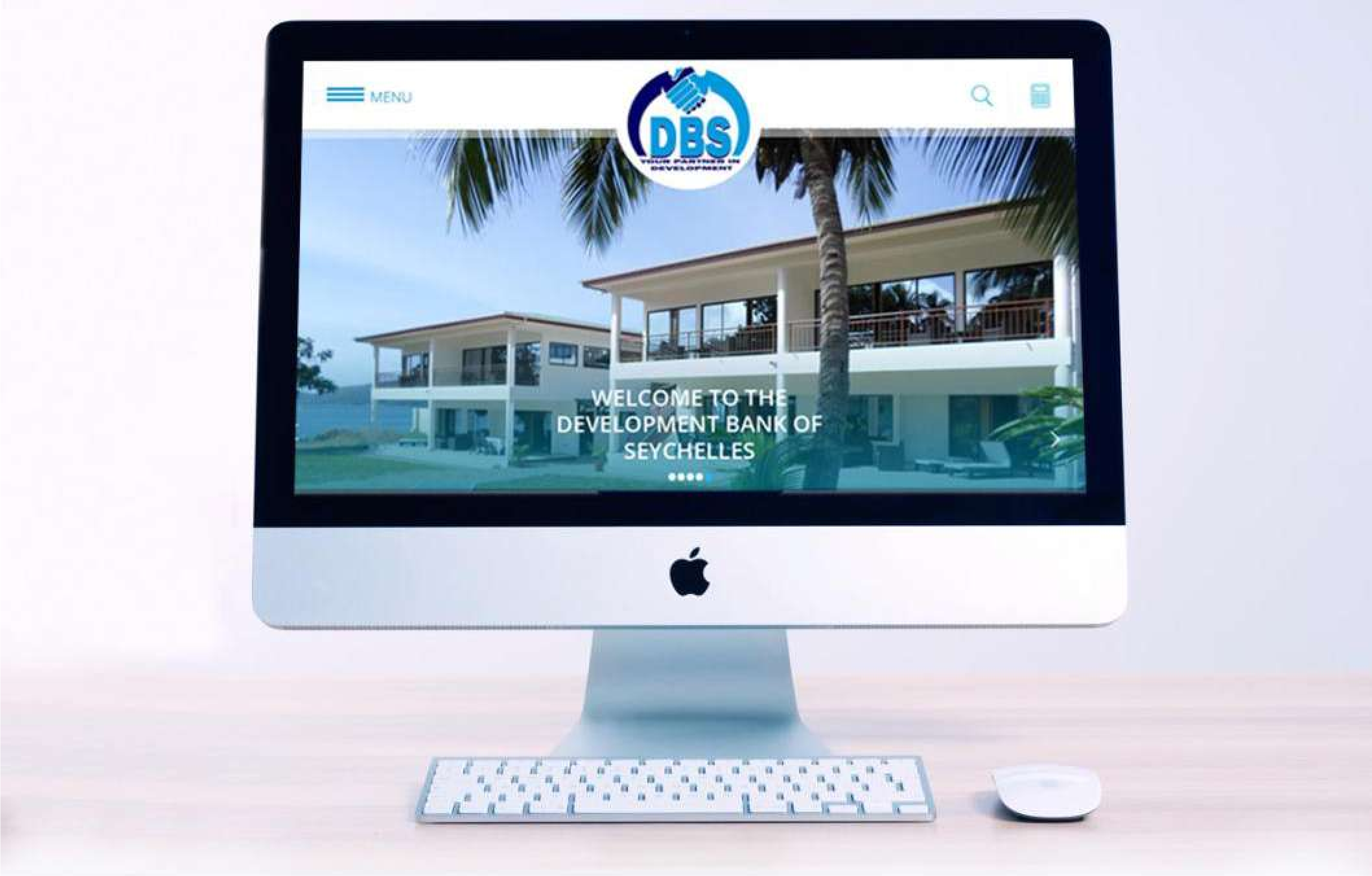
DEVELOPMENT BANK OF SEYCHELLES

2018 ANNUAL REPORT

DBS
YOUR PARTNER IN DEVELOPMENT



OUR NEW WEBSITE

www.dbs.sc

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40TH DBS
ANNIVERSARY
1978 - 2018

Development Bank Of Seychelles
Independence Avenue, Victoria
For more information please contact us on : 4294400

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HEAD OFFICE

DEVELOPMENT BANK OF SEYCHELLES
P.O. BOX 217 | INDEPENDENCE AVENUE
VICTORIA
MAHE | SEYCHELLES
+248 4294400 | devbank@dbs

PRASLIN OFFICE

DEVELOPMENT BANK OF SEYCHELLES
1ST FLOOR, PENSION FUND COMPLEX
P.O. BOX 217 GRAND ANSE
PRASLIN, SEYCHELLES
+248 4237105 | devbank@dbs

CORPORATE INFORMATION

BOARD MEMBERS	Ms. Brenda Bastienne Mr. Brian Charlette Mr. Daniel Gappy Mrs. Ina Barbé Mr. Rupert Simeon Ms. Rosanda Alcindor* Mr. Marc Naiken Mr. Roy Clarisse	Chairperson Vice-Chairperson Executive Director Non-Executive Director Non-Executive Director Non-Executive Director Non-Executive Director Non- Executive Director
BOARD COMMITTEES **Audit, Risk & Compliance Committee** **Remuneration Committee**	 Mrs. Ina Barbé Mr. Marc Naiken Mr. Brian Charlette Mr. Rupert Simeon Mr. Roy Clarisse Mrs. Rosanda Alcindor*	 Chairperson Member Member Chairperson Member Member
MANAGEMENT	Mr. Daniel Gappy Ms. Jean Preira Ms. Rana Fernandes Mrs. Agnes Poris Mrs. Jennifer Loizeau	Chief Executive Officer (CEO) Head of Finance Head of Credit Head of Collection & Recovery Head of Corporate Services
AUDITOR	Ernst & Young (Seychelles) Ltd Laximan House Castor Road, English River P.O Box 1289, Victoria Mahé, Seychelles	
REGISTERED OFFICE	Development Bank of Seychelles Independence Avenue P.O Box 217 Victoria, Mahé Seychelles Tel: +248 4294400 Fax:+248 4224274 Website: www.dbs.sc	

Brenda Bastienne

Chairperson's Report
for the year ended 31st December 2018

It gives me great pleasure to present the 2018 Chairperson's Report on Development Bank of Seychelles.

2018 was a stellar year for the Bank! We celebrated our Ruby Anniversary which marked a celebration of forty years of progress and achievements. Over the years 40 years, DBS has:

- •Accumulated Assets worth over SCR1 billion;
- •Financed over 8,000 projects worth approximately SCR2 billion;
- •Diversified its loan portfolio from 2 to 8 sectors;
- •Increased its workforce from 8 to 58 employees; and
- •Contributed over SCR250, 000 per year from 2013, to different areas of the society through its Corporate Social Responsibility Program.

Having resorted to strict measures in 2017 to increase interest rates on new loans to 11.5%, restricting annual loan budget to SCR100 million and limiting loan amounts to SCR3 million per applicant, the Bank's lending portfolio decrease in the year 2018. The Bank approved 63 loans worth SCR 36,464,876 million (cf. to 2017 where 69 loans worth SCR 45.7 million were approved).
These stricter measures and increase in interest income have resulted in the Bank outperforming the forecasted net profit by 17% to finish its Ruby Year on a record high with a recorded net profit of SCR26.4 million – the highest achieved in the past ten years!

Although there were signs of the Non-Performing Loans climbing into double digits during 2018, with continued emphasis and efforts on loan collection and recovery, DBS ended the year with Non-Performing Loans standing at 8.2%. This is slightly higher than in 2017 were the NPL ratio stood at 6.7%. The Bank continues to increase its collection and recovery efforts in 2019 and strictly follows its processes where the Bank resorts to legal action to enforce recovery. With regards to other principal financial ratios of gearing, coverage ratio and liquidity all were well within budget for the year and within the norm for the industry as set by the Central Bank of Seychelles.
In 2018, the Bank continued to support the development of small and medium enterprises and the Blue economy. Since its participation in the SME Scheme in 2014, the Bank has approved loans worth SCR625.5 million. The total value of all the loans approved by all financial institutions combined is SCR1.4 billion. Therefore, on its own, the Bank has approved 40.5% of the total number of loans since introduction of the SME Scheme corresponding to 42.9% of the monetary value of SME loans approved.

The Bank in collaboration with the World Bank and the Department of Blue Economy also entered into two agreements in relation to the management of the Blue Investment Fund. The Bank has put in place the appropriate infrastructure and mechanisms for the launching of the Fund together with the Department of the Blue Economy and has launched a call for proposal which will expire at the end of July 2019.

For the year 2018, DBS has maintained its B+ rating certified by the Association of African Development Finance Institutions (AADFI) which started with a D+ in 2010. Following, changes in the methodology in assessing the standards and good governance practices of financial development institutions and coupled with efforts by the Bank to put in place appropriate policies, there is scope for DBS to be rated higher under AADFI for the year 2019.

In 2018, the Board approved for the creation of a new department – Compliance, Risk & Legal Department – that has, as its core function, to ensure that the Bank complies with applicable laws, regulations and rules and plays an essential role in helping to preserve the integrity and reputation of the Bank.

The Central Bank of Seychelles had mandated that all financial institutions adopt IFRS effective on 1st January 2018. The previous IAS 39 classified financial assets based on the characteristics of the instrument and intent whereas the new IFRS 9 considers the business model test and contractual cash flow characteristics test. In contrast to the model under IAS 39, IFRS 9 new impairment model is more forward looking and no longer requires a credit event to have occurred before credit losses are recognised. The Bank must therefore go beyond considering historical and current information and also consider the impact of macroeconomic factors in determining expected credit loss levels. This brings a paradigm shift in determination and quantification of the credit losses. Although DBS, similar to other financial institutions, faced difficulties early in the year to recruit suitable accounting consultants for the implementation of IFR9, BDO was appointed in June, 2018 and worked with DBS, primarily the Finance Department on understanding the new methodologies. The Board approved the Policy Document in January 2019 and the overall effect to the profitability of the Bank for the year 2018 when applying the new impairment provisions was SCR1.9 million.

I am pleased to announce that Baker Tilly (Seychelles) have been appointed as our auditors for the financial year 2018 and the Bank is certain that they will help the Bank conform to the rigorous standards which are essential for the successful operation of the Bank.

The key areas of focus for the Bank in the year 2019 is to complete the modernisation of its head office building at Victoria, introduce new banking software, recruit and continuously train its members of staff to provide professional delivery of our services as is expected by our clients. This requires the Bank to invest to continually grow the Bank to keep delivering on its mandate. Underlining the Board's confidence on the progress made so far and noting the difficult times ahead in the midst of increased competition and necessary investment projects, the Board has made the necessary decision with regard to its dividend policy to reward its shareholders with a "symbolic" dividend payment by distributing a dividend of SCR 5.40 per share, amounting to SCR 2,115,705 million.

GOVERNANCE

The Bank believes that good governance is essential for achieving long term goals and to enhance value of the Bank. The Bank's corporate philosophy is to ensure fairness, transparency and integrity in the management of the Bank in order to protect the interests of our stakeholders.
There were 13 meetings held in 2018 and all directors remained committed to the work of the board. It was necessary for the Bank to meet more often in 2018 in order to usher in a number of changes to improve structure and adopt new policies for the Bank. The Board committees were equally very active. *Attendance table is on page 7.*

AUDIT, RISK & COMMITTEE

The Audit, Risk & Compliance committee consists of 3 non-executive directors and it met 2 times in 2018. Its members were:

INA BARBE - Chairperson

BRIAN CHARLETTE - Member

MARC NAIKEN - Member

The Audit and Risk Committee is a major part of the corporate governance mechanism of the Bank and its function is to oversee the organisation's audits, internal controls, accounting and financial reporting, regulatory compliance and risk management.

REMUNERATION COMMITTEE

The Committee is made up of 3 non-executive directors and met 4 times in 2018. Its members were:

- RUPERT SIMEON - Chairperson
- ROY CLARISSE - Member
- ROSANDA ALCINDOR - Member

The major function of the Committee is to assist the Board of Directors in developing and administering a fair and transparent procedure for setting policy on the overall human resources strategy of the Bank.

BOARD CHANGES

Since the last Annual General Meeting, Ms. Rosanda Alcindor has been removed as a Board director effective on the 23 August 2018 and Ms. Nicholle Belle and Mr. Ashwin Bandheri have been appointed as new Board members effective on the 25th March, 2019 and 25th April, 2019 respectively.

Other Significant events after the reporting period

The Government of Seychelles announced the transfer of responsibilities from the Small Business Financing Agency to the Bank in the Budget Speech for the year 2019. The Bank worked diligently with the Ministry of Finance and the Office of the Attorney General and a Small and Medium Enterprise Development Fund was created, and its responsibilities transferred to the Bank early in April 2019.

On the 29th April 2019, DBS issued two bonds – 6.00% Three Year and 6.5% Five Year – through the Central Bank of Seychelles which were both fully subscribed and saw the participation of both retail and institutional investors.

SUPPORTING OUR PEOPLE

The Bank acknowledges that its success relies on the efficiency of its workforce, hence, its commitment to continuously invest in the development of its employees. A series of in-house training was organised during the year 2018 in key areas such as Risk Management, Anti Money Laundering & Terrorist Financing and Blue Investment. Members of staff also attended training at institutions both local and abroad focusing on areas such as asset & liability, project management, managerial skills and development finance. Some members of staff are also enrolled on professional courses in order to attain ACCA qualifications. Some of DBS' staff are even undertaking post-graduate studies at the University of Seychelles and the Guy Morel Institute and following online graduate courses.

Being, a socially responsible organisation, DBS also strives to give back to the community through donations and sponsorship of various causes such graduation ceremonies, medical expenses for the less fortunate, sports awards and adoption of the elderly home at Grand Anse Praslin. In 2018, DBS invested SCR200, 000 in local communities through donations and sponsorship in different areas of the society.

FINAL REMARKS

In concluding this report, I wish to thank my fellow Board Directors, management and all members of staff of the Bank for their continued hard work and dedication towards the Bank.

I also wish to thank you, our valued shareholders, for your support, patience and understanding which would enable us to lead the Bank to a better place and cement our leadership for the Bank to continue to be "a partner" in the development of the Seychelles' economy. Our achievements would not have been possible without your unfailing support.

Thank you

Brenda Bastienne (Ms)
Chairperson
June 2018

Board Attendance Table

**Granted leave permission from the Board for non-attendance of 6 meetings*

NAME	ATTENDANCE
Brenda Bastienne	13/13
Brian Charlette	12/13
Rupert Simeon	13/13
Rosanda Alcindor	5/8
Ina Barbe	10/13
Roy Clarisse	12/13
Marc Naiken	4/13*
Daniel Gappy	12/13

Mission

Providing affordable financing for sustainable investments in diversified and emerging sectors of the economy

Motto

Your Partner In Development

Vision

To be amongst the leading customer-oriented development financial institutions in the region.

Values

COMPETENCE

Proficiency at all levels when serving customers.

Professionalism, efficiency, and good governance in discharging responsibilities

INTEGRITY

Highest standards and ethics at work

Accountable in all activities

CLIENT ORIENTATION

Make clients and their needs a primary focus of the Bank's actions, and develop and sustain productive client relationships.

Align the Bank's activities with new economic business environment in order to meet clients' demand whilst remaining competitive in local financial market.

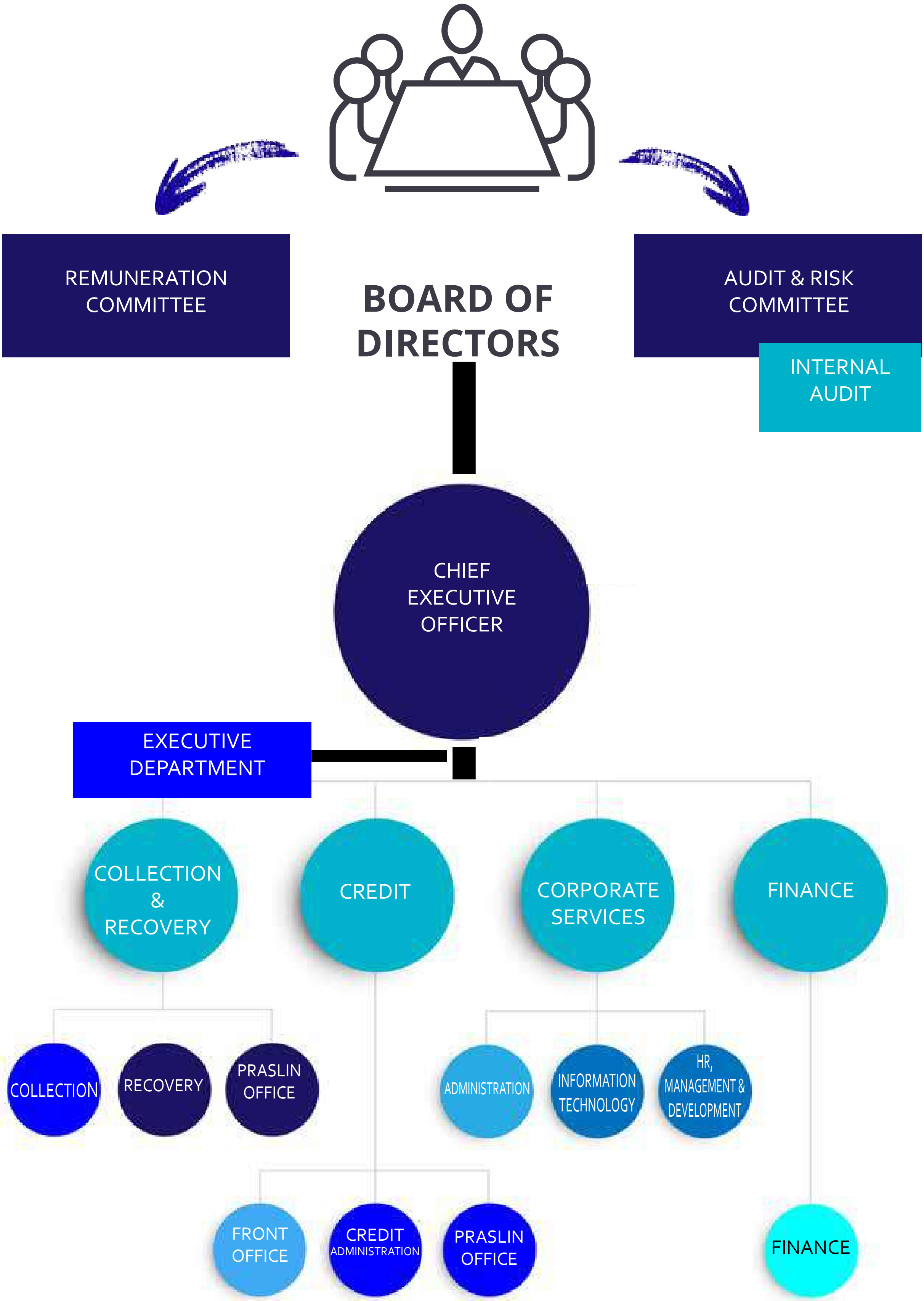
TEAMWORK

Committed to create an environment that foster teamwork, encourages equal opportunity and collaboration at all levels in the Bank

CONFIDENTIALITY

Strictest level of confidentiality in all its interactions with stakeholders

DBS ORGANISATION CHART



REVIEW OF THE BANK'S PERFORMANCE IN 2018

LOAN APPROVALS

The primary objective of the Bank is to provide access to affordable credit to the productive sectors namely; agriculture and horticulture, building and construction, fishing, manufacturing, tourism, transport, renewable energy and other services.

The Credit Department undertakes the core business activities of the Bank. In 2018, it recorded a drop in loan performance where a total of 63 projects worth SCR 36,464,876 Million was processed and approved by the Bank. This represented a decrease of 9% in terms of number of projects and 20% decrease in term of monetary value of loan approved in comparison to the statistics for the previous year.

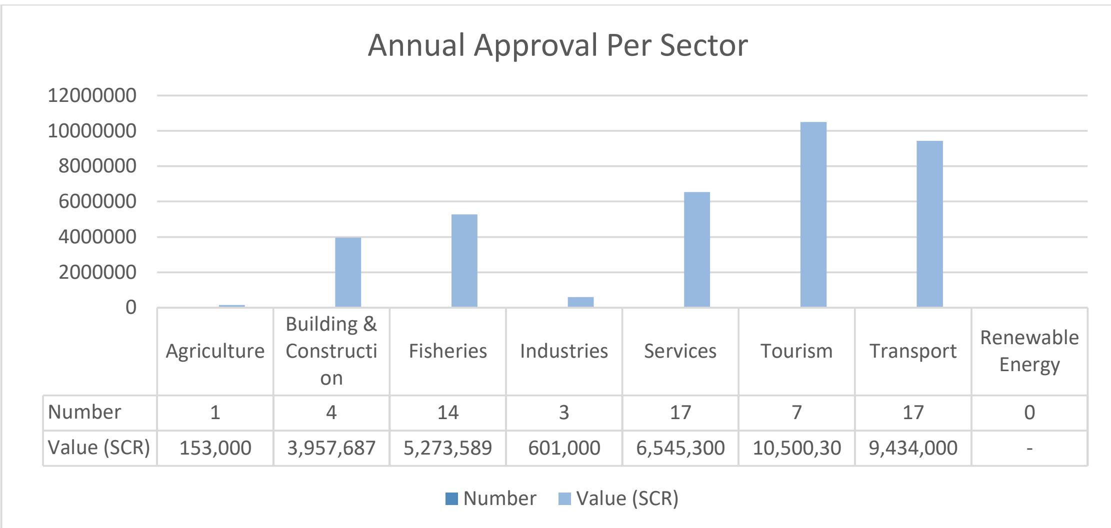
Loan approval was primarily dominated by the Tourism sector (29%) followed by Transport Sector (26%) and Service sector (18%)

The downturn in loan approval was partly as a result of the ongoing restrictions imposed on certain sectors (building and construction, Transport) and financing for specific sectors under SME Scheme only and others under DBS Scheme. The aforementioned was as a means to allow the Bank to improve on its liquidity position. In addition there was also an increase in competition from Commercial Banks. In view that Seychelles has a small market for loan products, there were fierce competition amongst Banks for creditworthy customers

In October, 2018, DBS responded to the market situation by launching marketing campaigns which lasted for three months. The Bank revised its lending policies and introduced new loans products. The revision included uplifting the current restriction on loans for financing of some of the sub-sectors under the Building & Construction Sector and embargo in the transport sector, working capital as part of a project was increased from 40% to 50% of total project cost to name but a few.

New products introduced included loans to be used as working capital on its own, start- up loans for young entrepreneurs, loans for businesses owned solely or owned 51% by women entrepreneurs.

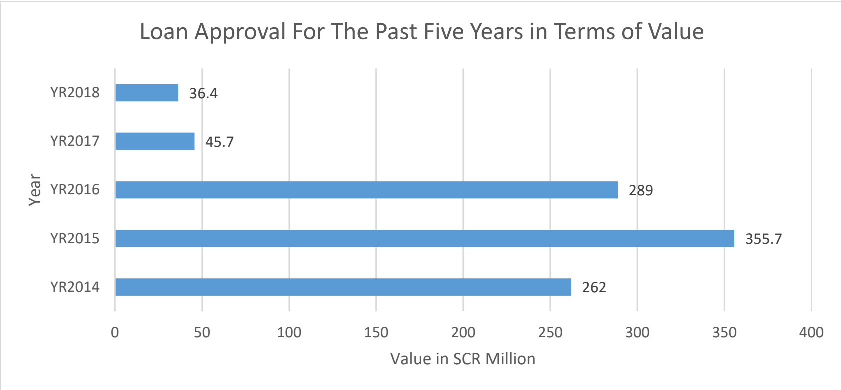
Approval by Sector in 2018



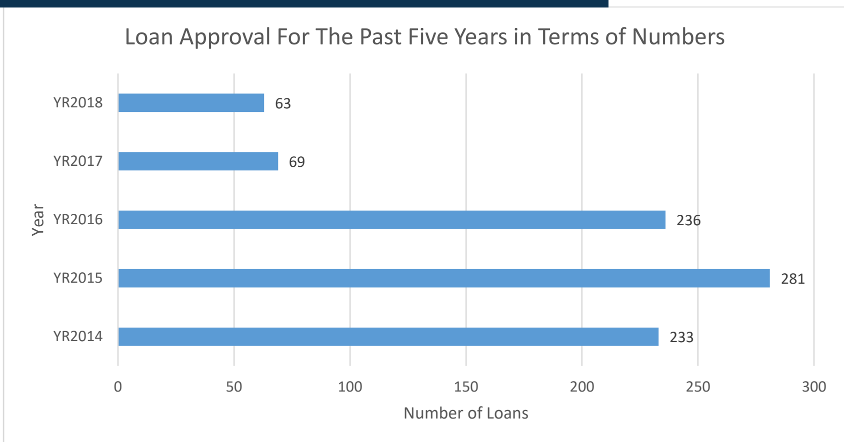
	Agriculture	Building & Construction	Fisheries	Industries	Services	Tourism	Transport	Renewable Energy
Number	1	4	14	3	17	7	17	0
Value (SCR)	153,000	3,957,687	5,273,589	601,000	6,545,300	10,500,30	9,434,000	-

The graphs below show the trend in loan approval for the past five years.

Loan approval for the period 2014 to 2018 in terms of value (SCR Million)



Loan approval for the period 2014 to 2018 in terms of numbers



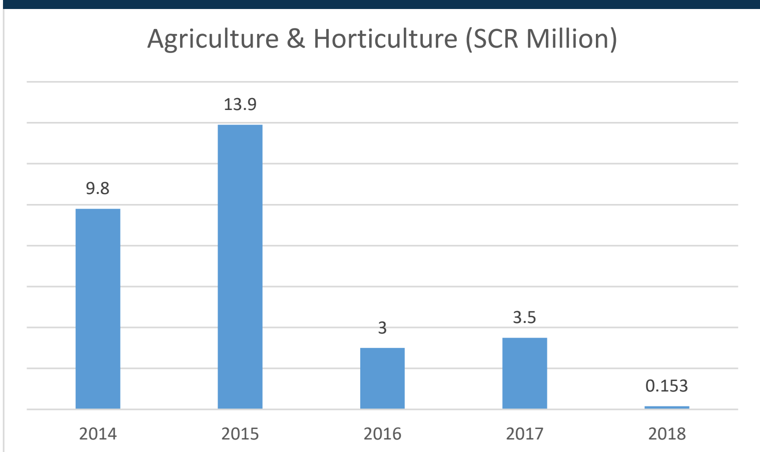
BREAKDOWN OF LOAN APPROVAL BY SECTOR

For the year 2018, an annual budget of SCR100 Million was approved to be allocated to the different economic sectors. However, given the restrictions mentioned above and fierce competition faced by the Bank, approval was contained within the budgeted amount for the year.

AGRICULTURE & HORTICULTURE

As it has been the case over the past years, operators in this sector continued to face challenges such as fierce competition from imported substitutes and scarcity of arable land. In its effort to support Government's objective of safeguarding food security of the country, DBS continued to provide financial assistance to farmers/ horticulturist to either develop, expand/ upgrade existing farm infrastructures, purchase new farm, agricultural equipment and input.

Loan approval (DBS & SME) in Agriculture & Horticulture for the period 2014 to 2017

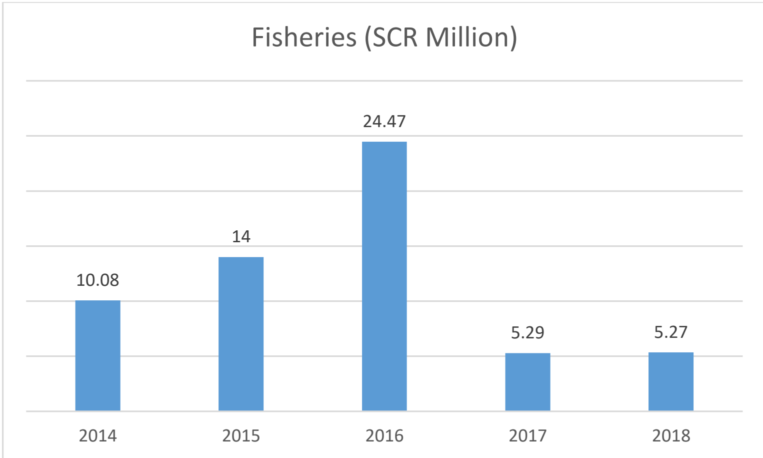


In 2018, only one loan for the value of SCR 153,000 was approved, compared to two loans worth SCR3.5 Million approved in the previous year. Our record shows that promoters tend to opt for financing under the ADF (Agricultural Development Fund), which DBS manages on behalf of the Ministry of Agriculture & Fisheries. This scheme offers softer terms and conditions to the registered farmers. The maximum loan amount on offer is SCR1 Million with an interest rate of 2.5%. In 2018, a total of 12 loans worth SCR 5,346,000 was approved under this scheme.

The normal DBS Scheme and the SME Scheme are available for promoters with bigger projects requiring funding exceeding the maximum loan amount offered under the ADF scheme.

FISHERIES

Loan approval in Fisheries Sector for the period 2014-2018



The Fisheries Sector is the second largest contributor of foreign exchange earnings in the country. Much effort is being put by the Government to promote investment in this sector as it is deemed to have vast potential. Given the nature of the profession, fishermen face many challenges such as shortages of fish during south east monsoon, unavailability of market and shortages of skilled workers. The fisheries sector continues to remain a risky sector hence, the reluctance of most financial institutions to invest in the fishing sector. Albeit, the riskiness and uncertainties of this sector, the Development Bank of Seychelles has continued to support this sector through loans for the financing of artisanal & semi industrial fishing, the purchase or construction of boats, purchase of navigational equipment and reparation of fishing boats.

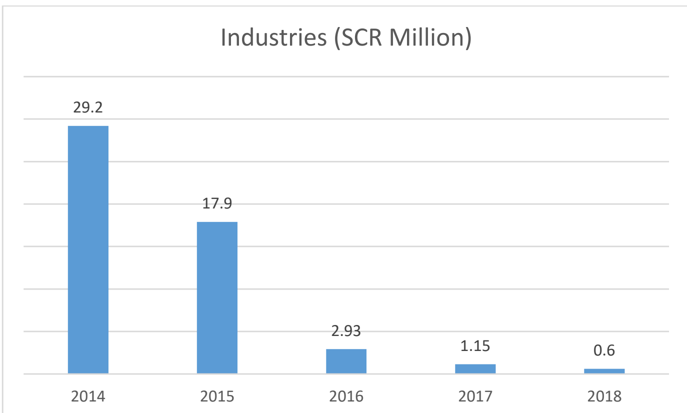
A total of 14 loans were approved in 2018 compared to 12 loans approved in 2017.

It is to be noted that the above-mentioned statistics pertaining to loan approval under the fisheries sector does not include loan approvals under the Fisheries Development Fund (FDF). The FDF is a fund from the European Union (EU) for the financing of long line fishing activities and value addition. This scheme is being managed by DBS on behalf of the Seychelles Fishing Authority (SFA).

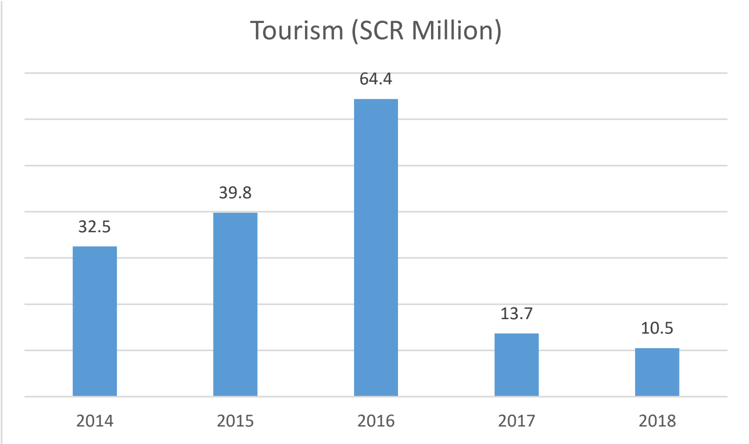
INDUSTRY

A total of 3 applicants benefitted with loans worth SCR 0.601 Million under this sector. It is to be noted that the volume of loans approved for this sector declined by 48% when compared to that of last year.

Loan approval in Industry Sector for the period 2014-2018



Loan approval in Tourism Sector for the period 2014-2018



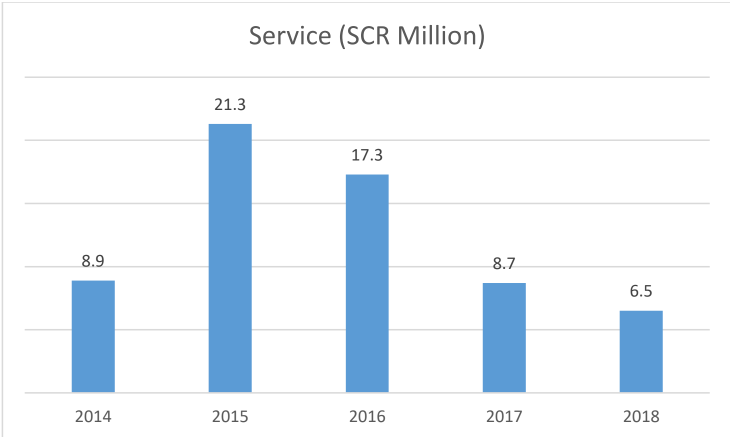
TOURISM

In 2018, loan approval in the tourism sector decreased by 24% from that of the previous year. A total of 7 loans worth SCR10.5 Million were approved in 2018. These loans consisted mostly for investment in boat charter projects and construction of self-catering apartments.

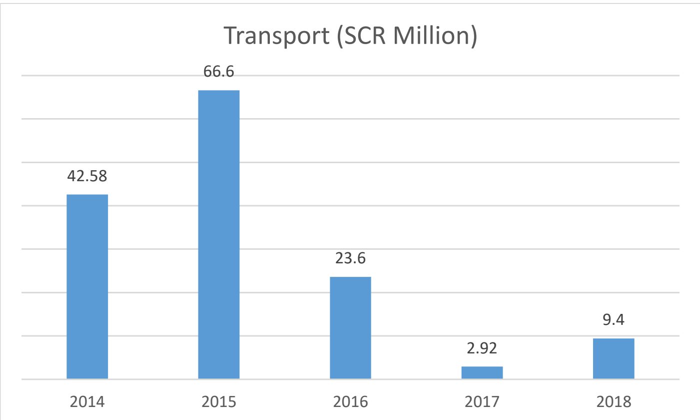
SERVICES

The service sector encompasses a broad spectrum of business activities such as hairdressing, food and take away outlets, retail and wholesale businesses, clearing services, child minding, pharmacy, motor vehicle garages, cleaning agencies, IT services to name a few. A total of 17 loans worth SCR6.5 Million were approved under this sector. When comparing statistics of 2018 with that of the previous year, a decline of at least 25% in the demand for financing in this sector has been observed.

Loan approval in Service Sector for the period 2014-2018



Loan approval in Transport Sector for the period 2014-2018



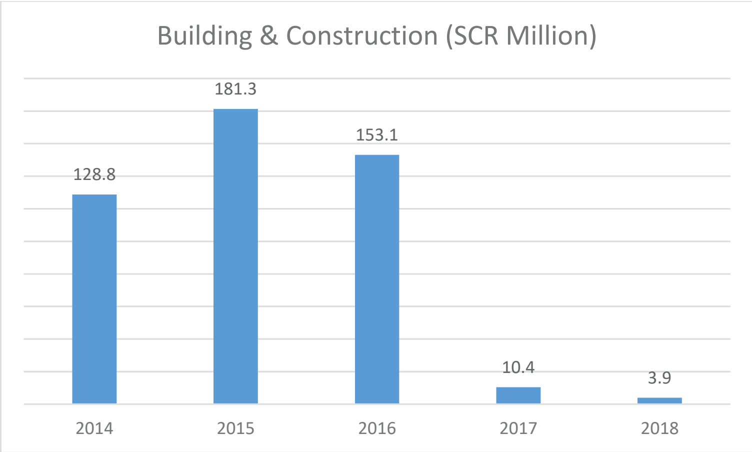
TRANSPORT

In October 2018, the Bank removed all restrictions imposed on the Transport Sector and with no limit on the quantum of the loan per client. The Bank also allowed financing of new or replacement of vehicles for existing businesses, nonetheless, priority were given to existing client of the Bank.

A total of 17 loans for the value of SCR 9.4 million were approved in 2018.

This represented a significant increase representing 223 % of the total value of loans approved in the same sector in 2017.

Loan approval in Building & Construction Sector for the period 2014-2018



BUILDING & CONSTRUCTION

Financing under this sector is normally for construction of new commercial buildings for commercial use and construction of apartments/ houses for rental purposes. DBS loan portfolio is largely dominated by this sector. In 2018, only 4 loans worth SCR 3.9 million were approved under this sector.

These loans were mainly additional loans to cater for cost overrun for existing projects financed by the Bank. This represented a decrease of 62 % of value of loans approved in 2017 for the same sector.

DISBURSEMENT

For the three years to 2018, the demand for loan disbursement followed a downward surge. The Bank budgeted loan disbursements at SCR 240 million for 2016 and 2017 respectively and SCR180 Million for 2018.

However, at the closing of each year, the total amount disbursed stood at SCR279 million and SCR199 million and SCR73 Million respectively. As at 31st December 2018, the loan commitments (undisbursed loans) stood at SCR 57.31 Million.

THE SME SCHEME

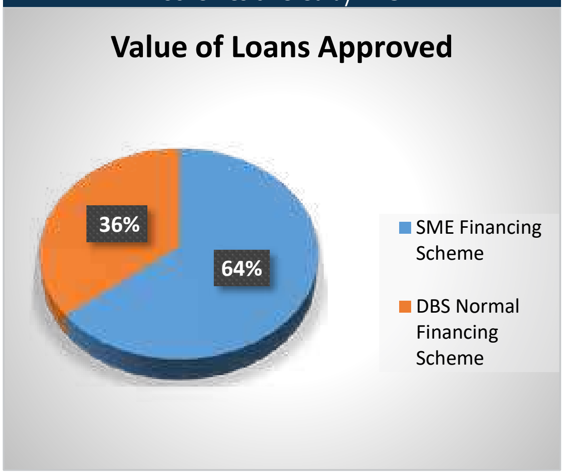
The SME Financing Incentive Scheme, was launched in 2014 by the Government and it has the aim of boosting access to finance for Small and Medium Enterprises.

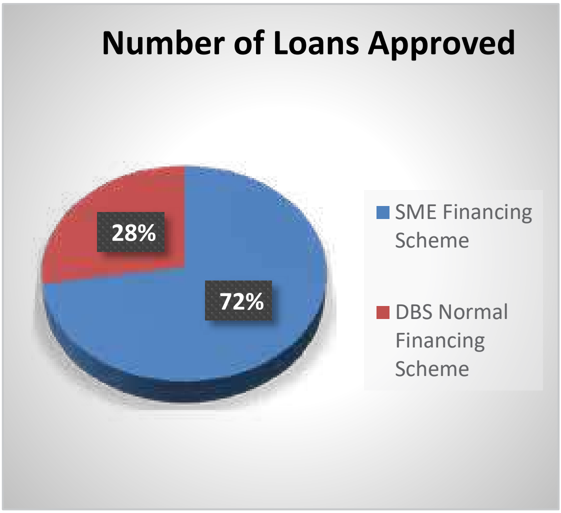
The Bank joined the scheme mid- year 2014 and until 2016, it was leading in terms of number and value of loans approved under the scheme in comparison to other local banks participating in this scheme. In 2018, the volume of loans approved by DBS under the scheme decreased significantly and this was primarily the result of a slowdown in lending activities in 2017 and 2018.

Since its introduction in 2014, a total of 1,707 loans worth SCR 1,457,525,103 has been approved by all banks taking part in the SME Financing Scheme. From the year 2014 to 2018, the Development Bank of Seychelles has approved a total of 691 loans worth SCR 625,504,703. This implies that in terms of the monetary value, DBS' contribution towards this scheme is 42.9 % and 40.5 % in terms of number of loans approved.

The graphs shows that out of the total number of loans (63), for a total value of SCR36.4 Million approved in 2018, only 42 loans (72.4 %) for a value of SCR23.4 Million (64.2 %) was approved under the SME Financing Scheme.

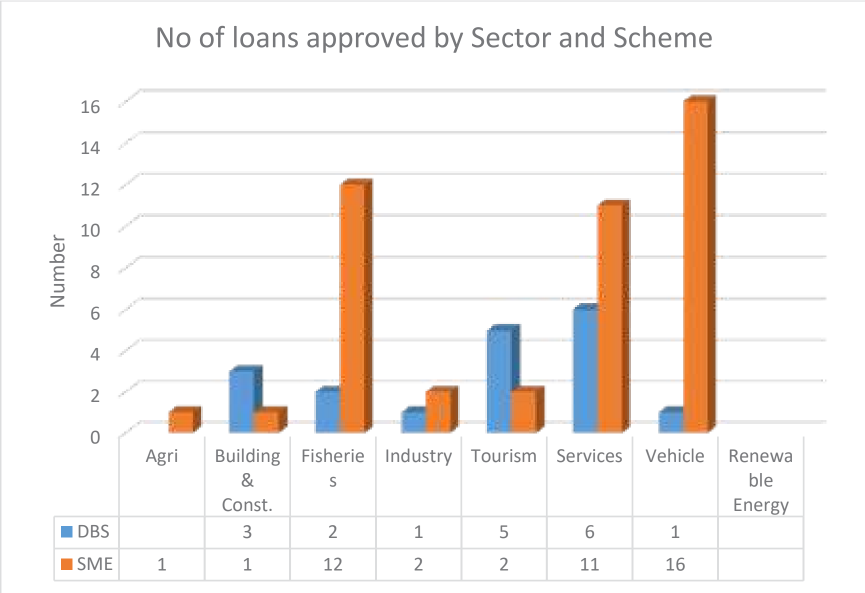
Comparison of loan approval under the leading schemes offered by DBS





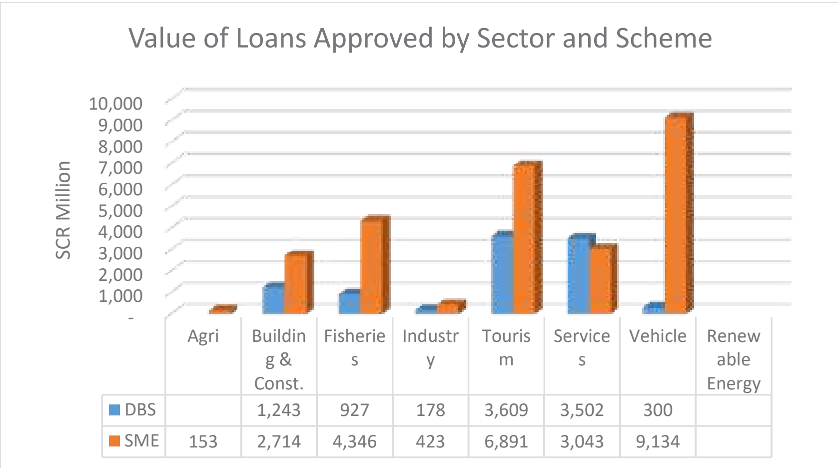
The graphs below provide statistics in relation to number and value of loans approved under the different sectors and schemes.

Breakdown of statistics in relation to number of loans approved by sector and schemes



	Agri	Building & Const.	Fisheries	Industry	Tourism	Services	Vehicle	Renewable Energy
DBS		3	2	1	5	6	1	
SME	1	1	12	2	2	11	16	

Breakdown of statistics in relation to value of loans approved by sector and schemes



	Agri	Building & Const.	Fisheries	Industry	Tourism	Services	Vehicle	Renewable Energy
DBS		1,243	927	178	3,609	3,502	300	
SME	153	2,714	4,346	423	6,891	3,043	9,134	

THE BLUE INVESTMENT FUND

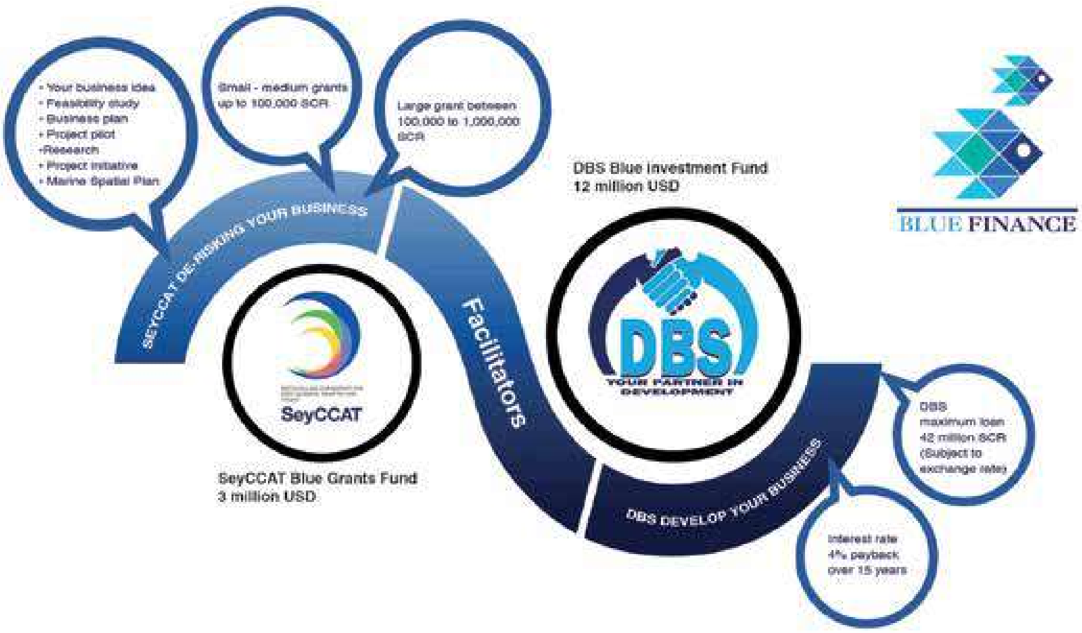
During the year 2018, the Bank worked closely with the World Bank, the Ministry of Finance, Trade, Investment & Economic Planning and The Department for Blue Economy to put in place the necessary infrastructures for the Blue Investment Fund. The Blue Investment Fund is another fund which has been added to DBS' existing 'funds under management' portfolio.

The Bank signed the following agreements on the 9th of October 2018;
1. The Project Agreement between Seychelles – Third South West Indian Ocean Fisheries Governance and Shared Growth Project – SWIOFISH3, International Bank for Reconstruction and Development and Development Bank of Seychelles
2. The Subsidiary Agreement between The Republic of Seychelles represented by The Ministry of Finance, Trade, Investment & Economic Planning and Development Bank (for administration of the Blue Investment Funds to be capitalized with proceeds of the Blue Bond in support of the Third South West Indian Ocean Fisheries Governance and Shared Growth Project)

The Blue Investment Fund is intended to support diversification and expansion of fisheries value chains in Seychelles. It has been designed to allow investments solely in value chains that are supported by managed fisheries, or investments in pre- and post-production components of the value chains that will add value without creating additional pressure on vulnerable fish populations. This will allow for continued economic growth in the sector, while the main challenges facing the sector are being addressed through strengthening of policy and improved fisheries management.

The Blue Investment Fund has been designed around key principles for selecting eligible activities and evaluating proposals, which are, then, further defined on the basis of information from commissioned studies.

The Blue investment fund was officially launched by the Vice President of Seychelles Mr. Vincent Meriton, during the Our Ocean Conference held in Bali, Indonesia from the 29th to 30th of October 2018. The first call for proposal is expected to be launched during the second quarter of 2019.

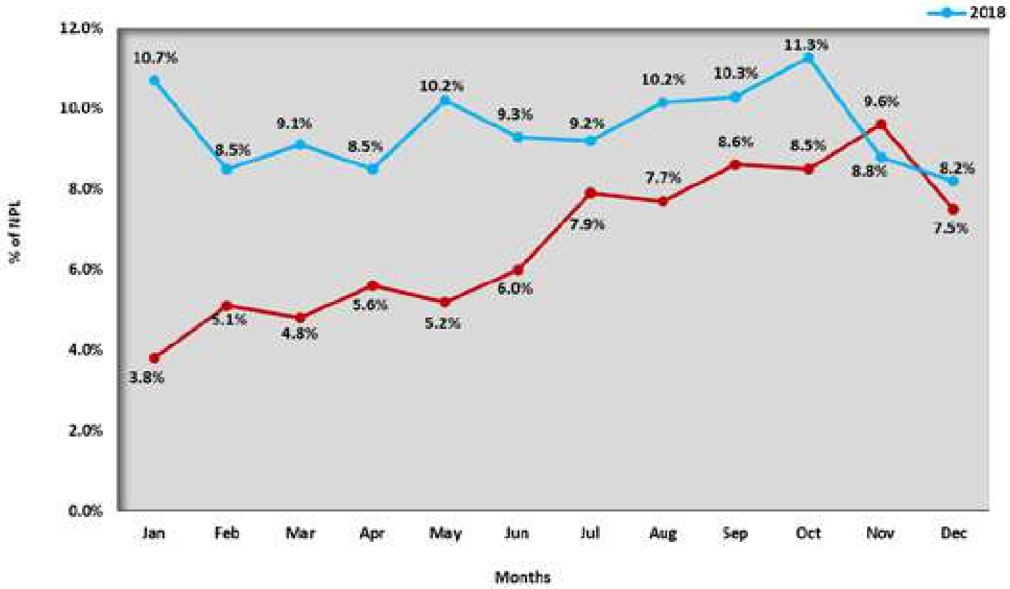


COLLECTION & RECOVERY

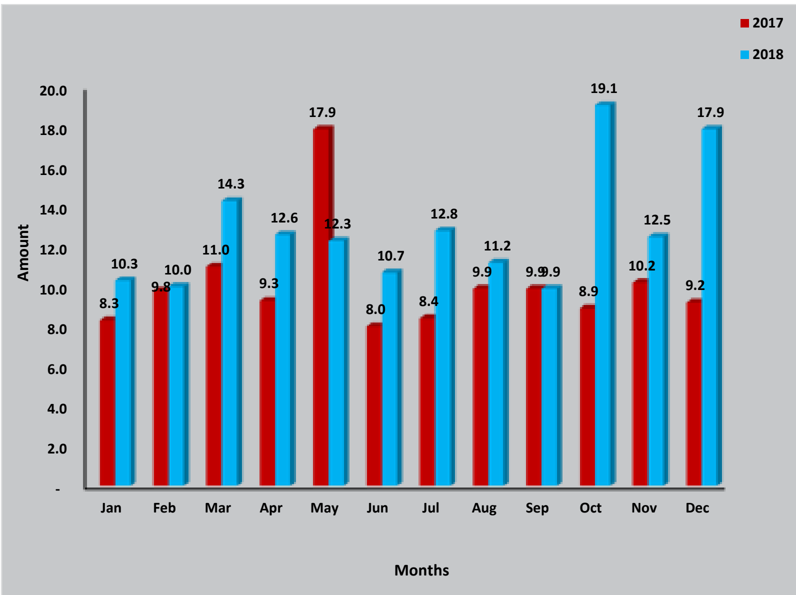
Albeit intensified efforts by the Department of Recovery & Collection to recover and collect maximum debts, the annual average non-performing loans (NPL) rose from 6.72 % in year 2017 to 9.52 % in the year 2018. This was partly due to the slowdown in credit activities in the year 2018 which as a result had a negative impact on the Non-Performing Loan ratio.

Trend in Non-Performing Loans in 2017 & 2018

The graph shows the trends in NPL in 2018 in comparison to the trend in 2017.



Loan repayment collected in 2017 and 2018



LOAN COLLECTION

The bank recorded a total repayment of SR 153.6 million for the year 2018 and this represent an increase of 27% compared to the previous year. It is to be noted that DBS collected a total of SCR 120.8 million in 2017.

AFTERCARE SERVICES

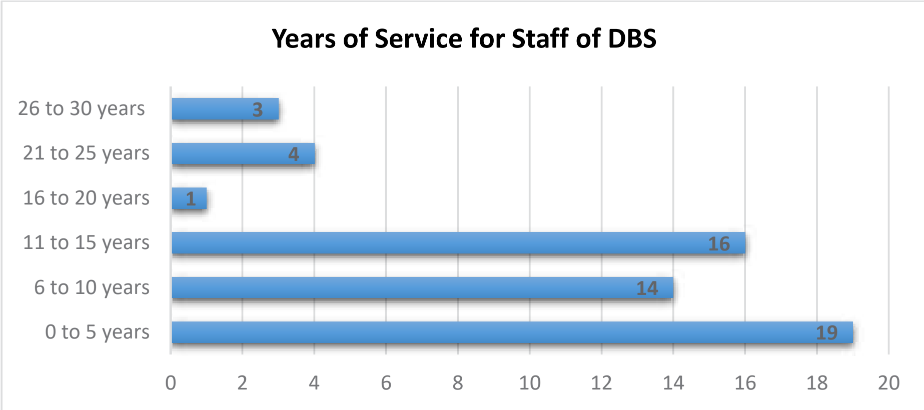
The Bank conducted regular site visits on Mahé, Praslin and La Digue in order to interact with the clients in their working environment. The site visits also gives the Bank the opportunity to view the assets financed in order to assess their state and value. Some of the site visits were performed together with the CEO, Head of Department and Recovery Manager. Regular site visits is one of the strategies which the Bank practices in order to keep close monitoring of businesses whilst at the same time, maintaining a close working relationship with its clients.

HUMAN RESOURCES

In 2018, the Corporate Service Department started the project to renovate the DBS' Building, in order to create a more conducive working environment for its employees. In the process, a majority of the employees had to be re-allocated in offices at Providence Industrial Estate and Unity House, Victoria. The renovation project is expected to be completed in 2019 and once completed, it is expected that it will impact positively on the organization as productivity will be improved and health and safety issues will be addressed.

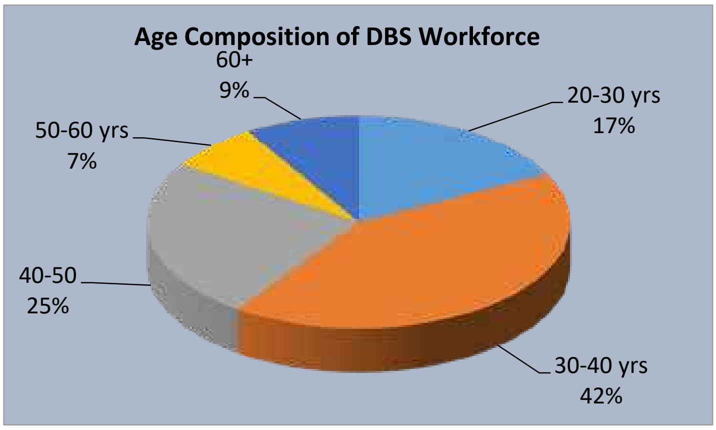
During 2017, DBS' workforce increase from 56 employees (as at December 2017) to 58 employees (at the end of December 2018). The employee turnover rate rose from 4% to 5%. DBS remains an employer which values its members of staff and does its utmost to retain its workforce.

Graph indicating years of service of DBS staff



Forty two percent of DBS workforce has been in employment with the organization for 10 years or more. There is a good distribution of young and experienced members of staff in DBS workforce.
Gender-wise, the Bank's workforce is dominated by the female in comparison to male counterparts.

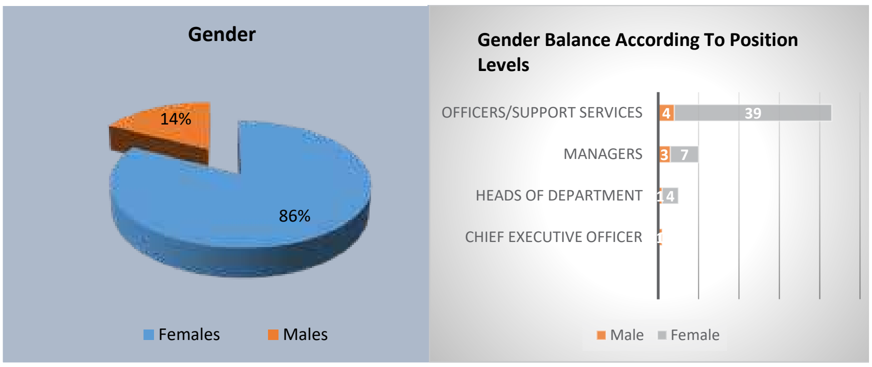
Age composition of DBS workforce



The female domination of DBS' workforce is reflected in positions of leadership within the organisation.
At board level, there are five male and two female board members. The Chairperson is female and vice-chairman is male. The management team, on the other hand consists of the CEO who is male and five Heads of Department who are female.

The graphs give an indication of the gender balance in DBS.

DBS workforce by gender and Number of women in leadership positions in DBS



Training offered to DBS staff in 2018

Number of staff attended in-house training	58
Number of staff attending training at local institutions	14
Number of Staff attended training abroad	11
Number of Staff attending training online	4
Number of Staff attended overseas meeting/forum	4

TRAINING

DBS' member of staff underwent a series of training in the year 2018. The training were conducted in-house, at local educational institutions, online and overseas.

STAFF WELFARE

DBS encourages a healthy work –life balance for its employees. Social activities and sport activities are encouraged. DBS often organized activities outside of working hours through its social club and sport club. It is recognized that these activities promotes teamwork, friendship, unity and harmony amongst members of staff within the organization. In 2018, the Bank organized a cocktail as to commemorate its 40th Anniversary, a 'Hawaiian night, creole night, happy hours, hike/picnic on Ste. Anne Island and Christmas party for its staff. These activities gave the management team a chance to interact with their staff in a less formal environment.

PUBLIC RELATIONS & MARKETING

The Bank's marketing activities for the year 2018 concentrated towards creating more visibility for the Bank. The Bank celebrated its 40th anniversary in 2018 and as one of its activities to commemorate this occasion, it launched its 40th Anniversary newsletter. The newsletter was circulated to Government offices, existing clients and to the general public. The newsletter illustrates the achievements of the Bank through interviews with past and existing staff and CEO's of the Bank. It also contained information about the different loan schemes and the success stories. DBS also participated in the Business Information Fairs on Mahé and Praslin organized by the Central Bank. The fair was a platform for financial institutions, public services providers and other finance related businesses to reach their clients in an informal atmosphere and maximize their visibility. Brochures, newsletters and other promotional materials were handed out to the public during the fairs.

CORPORATE SOCIAL RESPONSIBILITY

During the year 2018, DBS gave back to the community through various donations in different areas of the society. These include education, sports, environment and culture. The employees of the Bank also makes their contributions to society by volunteering their time to participate in national activities such as Tree Planting on the International Day of Forestry and Eco Healing Marathon. The Bank also remained committed in supporting various organizations and events such as the Sports Award Ceremony and Graduation Ceremonies.

The Grand Anse Praslin Elderly Home was adopted by the Bank on its' 40th Anniversary. The residents of the 'home' received tokens from the Bank on holidays and on special occasions. In addition, the elderly home also benefited with a refurbished kitchen through a donation made by the Bank. The Bank has adopted the 'home' for a period of 2 years.

OPERATING & FINANCIAL REVIEW

FINANCIAL REVIEW

Key Performance Indicators

Risk weighted Capital
> 6%
2018: 29.07%
2017: 23.3%

Cost to income
<80%
2018: 72%
2017: 81%

Interest margin
>4%
2018: 4.76%
2017: 4.2%

Liquidity ratio
>1%
2018: 1.17 times
2017: 1.17 times

Core capital
> 12%
2018: 25.72%
2017: 25.5%

Return of Equity
>3%
2018: 7.65%
2017: 5.0%

Return on Capital Employed
>1%
2018: 2.56%
2017: 1.49%

Gearing ratio
>3%
2018: 1.98 times
2017: 2.4 times

Non-Performing Loan
<15%
2018: 8.01%
2017: 7.30%

Return On Assets
>1%
2018: 2.51%
2017: 1.46%

Net Profit Margin
>15%
2018: 29%
2017: 20%

Admistration cost as a % of average total assets
<4%
2018: 2.66%
2017: 2.61%

DBS assesses its financial performance using the above KPI's, some of which form part of Central Bank of Seychelles' guidelines, the prudential guideline of the Association of African Development Finance Institution (AADFI), the DBS Decree and Creditor's financial covenants. The Management ensures that they are on track with the execution of its strategy to ensure sustainable returns and at the same time, remain relevant with its role and function as per the Decree.

Summary of income and expenses for the last five years

The financial statements from 2014 to 2018 were prepared in accordance with the requirement of the DBS Decree 1977, International Financial Reporting Standards (IFRS), the Financial Institution Act 2004, as amended, the Financial Institution (Application of Act) regulations, 2010 and the regulations and directives of Central Bank of Seychelles.

Financial Statement from 2014 - 2018

For the year ended 31st December	2014 SCR m	2015 SCR m	2016 SCR m	2017 SCR m	2018 SCR m
Operating income	42.42	49.37	65.69	81.71	93.31
Interest expenses	(13.28)	(14.09)	(28.90)	(37.82)	(40.34)
Operating expenses	(19.62)	(25.47)	(26.63)	(24.37)	(26.65)
Profit/(loss) on exchange	0.46	(0.20)	(1.53)	1.36	0.17
Allowance for credit impairment	8.23	7.05	(2.91)	(3.35)	1.70
Depreciation of property and equipment / amortization of intangible assets	(2.60)	(2.15)	(1.22)	(1.72)	(1.74)
Profit / (Loss) for the year	**15.61**	**14.50**	**4.50**	**15.82**	**26.45**

Profitability

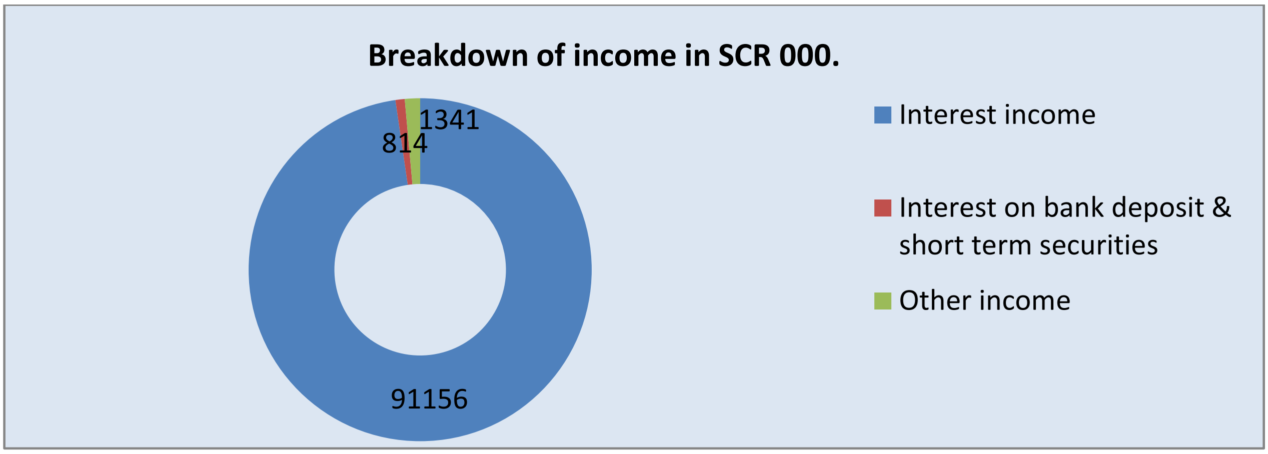
In 2018, DBS achieved a positive profit of SR 26.446 million which was a remarkable increase of 67% compared to the previous year. This was mainly due to 14% increase in interest income. As can be seen from the above table, 2018 was the best year in terms of profit achieved.

Income

Operating income in 2018 increased by SR 11.6 million which represents an increase of 14% from the previous year's performance. DBS was charging interest rate between 7.5% and 12% for DBS loans and 5% to 7% for SME loans throughout the year.

The graph below shows the breakdown of operating income.

Breakdown of Income in Seychelles Rupees



The major activity of DBS is financing development projects. Therefore, its main income is generated from interest on loans. For 2018, interest income was SCR 91.156 million (2017: SCR 78.701 million) which represents an increase of 16% compared to previous year and 98% of the total operating income for the year 2018.

DBS invested excess cash in short term fixed deposit with the Commercial or short term securities with the Central Bank of Seychelles. Interest on Bank deposits and short term securities were very minimal at SR 0.814 million (2017: SCR 1.02 million) which represented 1% of the total operating income. This was mainly attributable to the very low interest that the Bank received on its deposits with the Commercial Banks.

Other income is mainly fees that DBS charges for its services. This includes management fees for the funds that the Bank manages on behalf of Government and other Agencies, application fees, re-scheduling fees, capitalization fees etc. The Other income represented 1% of the total income for 2018.

In 2018, DBS also made a very small gain on foreign exchange transaction of SCR 0.17 million (2017: SCR 1.36 million)

Expenses

Interest expenses were SCR 40.34 million in 2018 (2017: SCR 37.82 million). This represented a 7% increase compared to previous year. The increase is mainly due to the fact that DBS took a new line of credit with Barclays Bank for SCR 50 million. Furthermore, DBS saw an increase in borrowing rates for two of its existing line of credits. Borrowing rates can be found at Note 11 of the Audited account.

Operating expenses of SCR 26.65 million which include staff costs, administrative expenses and other costs were up by 9% compared to previous years (2017: SCR 24.37 million). In 2018, DBS employed more staff than in 2017 which contributed to the increase in staff costs in terms of salaries, employees' benefits and other administration costs.

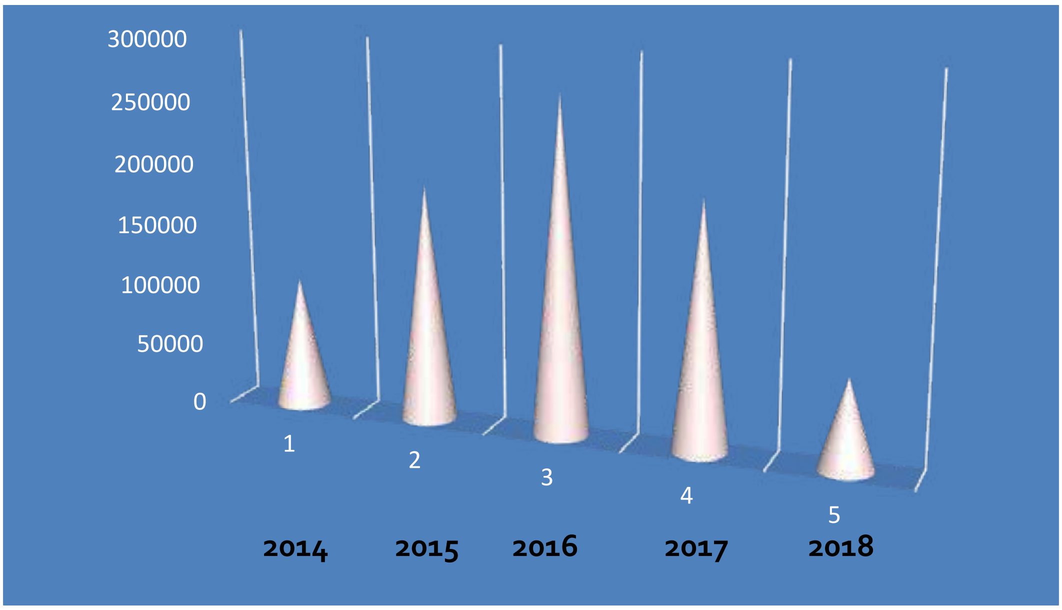
Provisions for credit impairment net of bad debts recovered of SCR 1.7 million (write back provision) showed decrease in provision compared to 2017 figures. It is to be noted that DBS adopted the IFRS9 accounting standard during 2018. More information on the adoption of IFRS 9 standard could be found at notes 2 and 4 of the audited account found on page ...

The depreciation and amortization is as per DBS current policy and showed an increase of 4% compared to previous year.

Financial Position

During the year 2018, DBS maintained the embargo on building and vehicle financing which resulted in low demand for loans, hence, the loan approval budget of SR 100 million was not achieved. Low approval contributed to a lower request for disbursements for 2018 of only SCR 73.67 million (2017: SR199.5 million). This represents 63% decrease compared to the previous year.

Loans Disbursement for 2014-2018



The loans commitment as at the end of 2018 was SCR 57.3 million (2017: SCR 95.24 million).

The graph shows the level of disbursement for the last five years.

DBS was able to use cash inflows from loan repayment of SCR 153.69 million (2017: SCR 120.82 million) and Debt capital raised solely from Barclays Bank (SCR 50 million) to invest in loan financing. The Bank were able to meet all its financial obligation including SCR 50 million which matured during 2018. This shows that the liquidity position was very healthy.
DBS also achieved a very high profits compared to the previous 5 years.

Funding
DBS raised funds through borrowings in order to provide financing to the productive sectors of the economy. The Bank normally looks for concessionary lines of credit and bonds issuance on the local market or from overseas credit provider to on-lend at affordable rate of interest. For 2018, the Bank managed to raise SCR 50 million from Barclays Bank.

Summary Statements of Financial Position for the last five years

For the year ended 31st December	2014 SCR m	2015 SCR m	2016 SCR m	2017 SCR m	2018 SCR m
Assets					
Cash and Bank Balances	116.58	126.83	133.05	158.99	134.03
Other assets	25.50	25.08	16.05	20.37	24.88
Loans and advances	407.55	531.47	747.52	885.15	870.99
Tangible & Intangible assets	16.40	14.78	18.60	18.54	22.16
Total Assets	**566.03**	**698.16**	**915.22**	**1,083.05**	**1,052.06**
Liabilities					
Other liabilities	6.74	7.27	8.02	8.89	10.48
Borrowings & DBS Bonds	270.07	384.31	594.28	747.67	685.44
Funds Under Management	9.57	12.44	12.46	10.21	10.49
	286.38	**404.02**	**614.75**	**766.77**	**706.41**
Equity					
Share capital	39.20	39.20	39.20	39.20	39.20
Reserves	56.75	56.75	58.56	58.56	63.39
Retained earnings	183.70	198.19	202.70	218.52	243.06
	279.64	294.14	300.47	316.29	345.65
Total Liability and equity	**566.03**	**698.16**	**915.22**	**1,083.05**	**1,052.06**

Total assets of SCR 1.052 billion shows a decrease of 3% (2017: 1.083 billion). The decrease is mainly attributable to decrease of 2% in both cash reserves and lending. As mentioned earlier, in 2018, there were dropped in loan approval and disbursements. Furthermore, due to tough competitions on the market, DBS saw some of its clients moving away from DBS. Lump sum repayments were made, hence, the reduction in total loans and advances.

Total liabilities of SCR 706.41 shows a decrease of 8% (2017: SCR 766.77). The decrease is attributable to the decrease in borrowings given than DBS managed to meet all obligation on time and also did not take new borrowings except for the Barclays loan as mentioned above. The funds under management, which are basically funds that the bank managed on behalf of the Government and other agencies have increased slightly given that DBS acquired a new fund to manage (USD 300,000) on behalf of Green Climate fund.

On equity side, there were no increase in share capital and contingencies reserve. However, the revaluation reserve increased by 28%. The retained earnings increase by 10% as a result of the good profit made in 2018, despite the fact that the Bank adjusted its opening retained earnings in 201, in order to cater for loan loss provision adjustment of SCR 1.9 million which is in accordance with IFRS9 accounting standard, being adopted for the first time.

DEVELOPMENT BANK OF SEYCHELLES

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

DEVELOPMENT BANK OF SEYCHELLES

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

CONTENTS

CORPORATE INFORMATION

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

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITIES

The principal activities of the Bank are:

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

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

RESULTS

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

EQUIPMENT

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

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

DIRECTORS' AND THEIR INTEREST IN THE BANK

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

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

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

STATEMENT OF MANAGEMENTS' RESPONSIBILITIES

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

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

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

GOING CONCERN

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

AUDITORS

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

BOARD APPROVAL

Brenda Bastienne Chairperson	**Brian Charlette** Vice-Chairperson	**Daniel Gappy** Member	**Ina Barbe** Member
Marc Naiken Member	**Roy Clarisse** Member	**Rupert Simeon** Member	**Nicholle Belle** Member

Dated: April 23, 2019
Victoria, Seychelles

BAKER TILLY
Assurance • Advisory • Taxation

202 Allied Plaza,
Francis Rachel Street,
P.O. Box 285, Mahé, Seychelles
T: +248 4321306 | F: +248 4321307
E-mail: seychelles@jfc.global

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

DEVELOPMENT BANK OF SEYCHELLES

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

Report on the Audit of the Financial Statements

Opinion

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

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

Basis of Opinion

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

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

BAKER TILLY
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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

DEVELOPMENT BANK OF SEYCHELLES

Report on the Audit of the Financial Statements *Continued*

Other information

The Bank Management is responsible for the other information.

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

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

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

Responsibilities of the Board for the Financial Statements

The Board is responsible for the preparation of the financial statements in accordance with International Financial Reporting Standards ('IFRS'), Development Bank of Seychelles Decree 1977, the Financial Institutions Act 2004, as amended, the Financial Institutions (Application of Act) Regulations, 2010 and the regulations and directives of Central Bank of Seychelles and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

BAKER TILLY
Assurance • Advisory • Taxation

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

DEVELOPMENT BANK OF SEYCHELLES

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

DEVELOPMENT BANK OF SEYCHELLES

Report on Other Legal Regulatory Requirements

Financial Institutions Act 2004, as amended

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

(i) In our opinion, the financial statements have been prepared on a basis consistent with that of the preceding year and are complete, fair and properly drawn up and comply with the Financial Institutions Act, 2004 as amended and Regulations and Directives of the Central Bank of Seychelles.

(ii) The explanations or information called for or given to us by the management and employees of the Bank were satisfactory.

(iii) The Bank did not carry out any fiduciary duties for the year under review.

Other matter

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

Baker Tilly

BAKER TILLY
Chartered Accountants

BAKER TILLY ★ P.O. Box 285 Seychelles ★ CHARTERED ACCOUNTANTS

Victoria, Seychelles
Dated: April 23, 2019

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2018

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

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

Brenda Bastienne Chairperson	**Brian Charlette** Vice-Chairperson	**Daniel Gappy** Member	**Ina Barbe** Member
Marc Naiken Member	**Roy Clarisse** Member	**Rupert Simeon** Member	**Nicholle Belle** Member

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

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

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

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

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

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

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

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

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

(*) Significant non-cash transactions

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

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

1. GENERAL INFORMATION

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

New and amended standards

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

Changes in accounting policies

IFRS 9 Financial Instruments

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

2.1 Basis of preparation *Continued*

***IFRS 9 Financial Instruments** Continued*

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

2.1 Basis of preparation *Continued*

IFRS 9 Financial Instruments *Continued*

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

(i) Classification of financial assets and financial liabilities

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

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

2.1 Basis of preparation *Continued*

IFRS 9 Financial Instruments *Continued*

Business model assessment:

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

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

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

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

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

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

Reclassifications:

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

Derecognition:

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

2.1 Basis of preparation *Continued*

IFRS 9 Financial Instruments *Continued*

(ii) Impairment

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

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

No impairment loss is recognised on equity investments.

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

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

Measurement of ECL

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

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

Restructured financial assets

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

2.1 Basis of preparation *Continued*

IFRS 9 Financial Instruments *Continued*

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

Credit-impaired financial assets

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

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

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

Purchased or originated credit impaired assets (POCI)

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

Revolving facilities

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

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

Write-off

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

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

2.1 **Basis of preparation** *Continued*

IFRS 9 Financial Instruments *Continued*

(iii) **Financial guarantees and loan commitments**

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

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

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

(iv) **Derivatives and hedging**

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

The Bank does not have any hedging activities.

(v) **Foreign currencies**

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

(vi) **Loans and advances**

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

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

(vii) **Investment in financial assets**

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

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

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

2.1 **Basis of preparation** *Continued*

IFRS 9 Financial Instruments *Continued*

(vii) **Investment in financial assets** *Continued*

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

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

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

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

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

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

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

2.1 **Basis of preparation** *Continued*

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

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

Amendments to IAS 40 Transfers of Investment Property

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

2.1 Basis of preparation *Continued*

Standards, amendments and interpretations in issue but not yet effective

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

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

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

IFRS 16 Leases

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

2.1 Basis of preparation *Continued*

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

Amendments to IFRS 9 Prepayment Features with Negative Compensation

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

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

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

2.2 Foreign currency translation

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

Transactions and balances

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

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

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

2.3 Financial instruments - initial recognition and subsequent measurement

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

2.3.1 *Recognition and measurement*

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

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

2.3.2 ***Held-to-maturity financial assets***

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

2.3.3 ***Loans and advances***

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

2.3.4 ***Borrowings***

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

2.3.5 ***Bonds***

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

2.3.5 ***Other Liabilities***

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

2.4 Derecognition of financial assets and financial liabilities

2.4.1 ***Financial assets***

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

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

2.4 **Derecognition of financial assets and financial liabilities** Continued

2.4.1 ***Financial assets*** Continued

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

2.4.2 ***Financial liabilities***

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

2.5 **Fair value**

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

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

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

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

2.6 **Impairment of assets**

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

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

Financial assets carried at amortised cost

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

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

2.7 **Offsetting financial instruments**

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

2.8 **Property, Equipment and depreciation**

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

2.8 Property, Equipment and depreciation *Continued*

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

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

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

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

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

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

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

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

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

2.9 **Intangible assets**

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

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

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

2.10 **Compensation benefit obligations**

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

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

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

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

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

2.11 **Taxation**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

2.12 Recognition of income and expenses

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

2.12.1 Interest income and expense

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

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

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

2.12.2 Other income

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

2.13 Cash and cash equivalents

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

2.14 Leases

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

2.14 Leases *Continued*

Bank as a lessee

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

Bank as a lessor

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

2.16 Going concern

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

2.16 Contingent Liabilities

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

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *Continued*

3. FINANCIAL RISK MANAGEMENT *Continued*

3.1 Financial risk factors *Continued*

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

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

(ii) ***Capital adequacy***

Capital includes share capital, contingent reserve and retained earnings.

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

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

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

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

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

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

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

(iii) ***Credit risk***

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

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

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

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

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

	Gross maximum exposure	
	2018	2017
	SR	SR
Cash and cash equivalents	**134,033,347**	158,987,407
Loans and advances to customers	**870,992,059**	885,154,986
Held-to-maturity financial assets	**-**	-
Other assets	**24,882,331**	20,374,661
Total credit risk exposure	**1,029,907,737**	1,064,517,054

Collateral and other credit enhancements

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

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

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

(iii) ***Credit risk*** *Continued*

Collateral and other credit enhancements *Continued*

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

Commitments

To meet the financial needs of customers, the Bank enters into various irrevocable commitments. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are, therefore, part of the overall risk of the Bank. The table below shows the Bank's maximum credit risk exposure for commitments. The maximum exposure to credit risk relating to a loan commitment is the full amount of the commitment. The maximum risk exposure is greater than the amount recognised as a liability in the statement of financial position.

	Gross maximum exposure	
	2018	2017
	SR	SR
Undrawn commitments to lend	**57,309,685**	118,713,770

Credit quality per class of financial assets

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

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

Impaired exposures under the ECL model consist of:

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

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

(iii) ***Credit risk*** *Continued*

Assessment of significant increase in credit risk

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

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

Establishing groups of assets with similar credit risk characteristics:

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

Portfolio classification

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

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

Calculation of Expected Credit Loss (ECL)

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

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

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

(iii) ***Credit risk*** *Continued*

Calculation of Expected Credit Loss (ECL) Continued

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

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

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

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

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

- The 12-months ECL is equal to the discounted sum over the next 12-months of monthly PD multiply by LGD and EAD.
- Lifetime ECL is calculated using the discounted sum of monthly PD over the full remaining life multiply by LGD and EAD.

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

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies, including contracted debt sales and price.

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

(iii) ***Credit risk*** *Continued*

Collateral repossessed

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

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

Write-off Policy

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

Modifications of financial assets

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

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

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

(iii) ***Credit risk*** *Continued*

Incorporation of forward-looking information

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

The assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change etc. – are monitored and reviewed on a quarterly basis.

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

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Collateral and other credit enhancements

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

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

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

(iii) ***Credit risk*** *Continued*

Collateral and other credit enhancements *Continued*

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

	Gross Exposure	Impairment allowance	Carrying amount	Fair value of Collateral held
	SR	SR	SR	SR
Credit impaired assets				
Agriculture	4,765,493	(158,024)	4,607,469	19,507,536
Building & Construction	7,820,288	(1,395,962)	6,424,326	5,223,290
Ex Staff Loan	-	-	-	-
Fisheries	6,035,826	(1,006,421)	5,029,405	10,521,132
Industry/Manufacturing	6,801,014	(1,137,541)	5,663,473	9,193,129
Service/Trade	16,571,533	(2,281,771)	14,289,762	17,658,603
Staff Loan	-	-	-	-
Tourism	3,455,467	(194,733)	3,260,734	19,282,469
Transport	24,183,808	(6,563,334)	17,620,474	20,925,587
Total credit impaired assets	69,633,429	(12,737,786)	56,895,643	102,311,746

Risk concentration

Concentration of risk is managed by segment.

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

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

	2018	2017
	SR' 000	SR' 000
Segment		
Agriculture	30,558,119	32,570,119
Building & Construction	416,382,216	377,288,990
Fisheries	36,577,248	36,657,511
Industry / manufacturing	45,290,070	44,896,389
Tourism	178,867,360	188,105,486
Transport	55,471,926	76,790,186
Service / trade	108,592,915	129,469,006
Staff Loan	21,806,605	21,312,213
Ex Staff loan	1,280,870	1,718,925
Total	894,827,329	908,808,825
Allowance for impairment	(16,701,579)	(16,185,016)
Carrying amount	878,125,750	892,623,809
Contingent liabilities and credit related commitments	190,579	272,770

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

(iii) ***Credit risk*** *Continued*

Credit exposure

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

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

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

Maximum exposure to credit risk

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

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

(a) ***Currency risk***

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

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

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

(a) ***Currency risk*** *Continued*

Concentration of assets and liabilities by currency:

At December 31, 2018

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

At December 31, 2017

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

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

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

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

(b) ***Interest rate risk***

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

Interest sensitivity of assets and liabilities - repricing analysis

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

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

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

(c) ***Liquidity Risk***

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

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

3.1 **Financial risk factors** *Continued*

(d) ***Liquidity risk*** *Continued*

At December 31, 2018

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

At December 31, 2017

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

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

3.1 **Financial risk factors** *Continued*

(d) ***Liquidity risk*** *Continued*

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

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

(e) ***Fair values***

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

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

		Fair value measurement using		
Fair value measurement hierarchy for assets as at 31 December 2018:	**Date of valuation**	**Quoted prices in active market (Level 1)**	**Significant observable input (Level 2)**	**Significant observable input (Level 3)**
		SR' 000	**SR' 000**	**SR' 000**
Assets measured at fair value				
Recurring measurement				
Land and buildings	12/31/2018	-	-	**20,600**
Fair value measurement hierarchy for assets as at 31 December 2017:				
Assets measured at fair value				
Recurring measurement				
Land and buildings	12/6/2016	-	-	17,525

Additional fair value information in respect of land and buildings is disclosed in Note 9.

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

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

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

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

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

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

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

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

Assessment of Significant Increase in Credit Risk:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS *Continued*

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

Definition of default:

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

Expected Life:

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

Governance:

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

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

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

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

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS *Continued*

4.2 *Revaluation of properties*

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

4.3 *Going concern*

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

4.4 *Long term employee benefits*

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

4.5 *Limitation of sensitivity analysis*

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

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

5. CASH AND CASH EQUIVALENTS

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

The Bank's risk management committee monitors the rating of counterparties regularly and at the reporting date does not expect any losses from non-performance by counterparties. For all financial assets to which the impairment requirements have not been applied, the carrying amount represents the maximum exposure to credit loss.

6. LOANS AND ADVANCES

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

Loans and advances by credit quality

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

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

A reconciliation of interest in suspense is as follows:

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

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

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

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

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

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

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

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

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

7. HELD-TO-MATURITY INVESTMENTS

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

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

	2018	2017
	SR	SR
Between 1 and 5 years	-	-

(b) *Held-to-maturity investments are denominated in Seychelles Rupees.*

(c) *The fair value disclosures are provided in note 3 (f)*

8. OTHER ASSETS

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

(a) The Bank contracted loans with Nouvobanq S.I.M.B.C, Mauritius Commercial Bank in line with the Public Debt Management Act, and signed contracts with the Ministry of Finance, Trade and Investment, stating that upon maturity of the loans net foreign losses arising on the loan facilities will be reimbursed by the latter. Refer to Note to 11 for notes on borrowings.

(b) During the year ended December 31, 2018, the Company re-classed a loan, net of the associated provision, to "other assets" reflecting the fact that the Company had acquired legal title to the property which was the subject of a collateral arrangement and which was legally enforced through the Courts upon default of the customer.

(c) Other receivables mainly comprise of management fees charged for management of the Photovoltaic Fund, Agricultural Development Fund, EU Fisheries Development Fund, subsidise Small and Medium Enterprise interest due from Seychelles Government, and balances receivable from staff in respect of telephone charges settled by the Bank on their behalf.

9. PROPERTY AND EQUIPMENT

	Land and Buildings	Equipment	Furniture & fixtures	Motor Vehicles	Total
	SR	SR	SR	SR	SR
COST					
At January 1, 2017	17,525,000	3,151,147	1,415,582	1,496,037	23,587,766
Additions	-	1,026,394	190,604	299,167	1,516,165
Disposals	-	(1,163,299)	(80,201)	(504,317)	(1,747,817)
At December 31, 2017	17,525,000	3,014,242	1,525,985	1,290,887	23,356,114
Additions	-	364,689	162,020	-	526,709
Disposals	-	(30,595)	(188,999)	-	(219,594)
Revaluation adjustment	3,075,000	-	-	-	3,075,000
At December 31, 2018	**20,600,000**	**3,348,336**	**1,499,006**	**1,290,887**	**26,738,229**
ACCUMULATED DEPRECIATION					
At January 1, 2017	73,611	2,736,195	1,158,154	1,028,983	4,996,943
Charge for the year	882,980	419,263	153,081	250,972	1,706,296
Disposals	-	(1,153,814)	(78,941)	(504,317)	(1,737,072)
At December 31, 2017	956,591	2,001,644	1,232,294	775,638	4,966,167
Charge for the year	882,980	450,229	155,031	197,305	1,685,545
Disposals	-	(30,595)	(162,293)	-	(192,888)
Eliminated on revaluation	(1,746,238)	-	-	-	(1,746,238)
At December 31, 2018	**93,333**	**2,421,278**	**1,225,032**	**972,943**	**4,712,586**
NET BOOK VALUE					
At December 31, 2018	**20,506,667**	**927,058**	**273,974**	**317,944**	**22,025,643**
At December 31, 2017	16,568,409	1,012,598	293,691	515,249	18,389,947

(a) The property has been reclassified from non-currents held for sale.

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

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

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

9. **PROPERTY AND EQUIPMENT** *Continued*

(c) Cash outflow for the purchase of equipment assets was SCR 526,709 (2017: SCR 1,516,165).

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

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

(f) Significant unobservable valuation input:

	Price per square metre
2018	**SR 130 - SR 26,000**
2017	SR 130 - SR 22,000

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

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

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

10. **INTANGIBLE ASSETS**

	SR
COST	
At January 1, 2017	4,596,508
Additions	145,496
Disposals	(158,911)
At December 31, 2017	4,583,093
Additions	37,765
At December 31, 2018	**4,620,858**
AMORTISATION	
At January 1, 2017	4,584,038
Amortisation	12,750
Disposals	(158,911)
At December 31, 2017	4,437,877
Amortisation	57,443
At December 31, 2018	**4,495,320**
NET CARRYING VALUE	
At December 31, 2018	**125,538**
At December 31, 2017	145,216

10. **INTANGIBLE ASSETS** *Continued*

(a) Intangible assets comprise of software and licenses.

(b) The total cost relating to fully depreciated assets still in use amounts to SCR 4,415,168 as at December 31, 2018 (2017: SCR 4,415,168).

(c) Cash outflow for the purchase of intangible assets was SCR 37,765 for the current year (2017: SCR 145,496).

11. **BORROWINGS**

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

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

The loans are secured by the Government of Seychelles.

11. **BORROWINGS** *Continued*

(a) Reconciliation of borrowings:

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

12. **DBS BONDS**

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

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

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

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

13. **FUNDS UNDER MANAGEMENT**

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

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

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

13. **FUNDS UNDER MANAGEMENT** *Continued*

(c) This relates to balance held on behalf of the government with regards to the Photovoltaic project. The Government introduced the project in 2014 with the aim of intensifying efforts to reduce the country's dependency on fossil fuel by encouraging the use of renewable energy. The Bank is managing this fund on behalf of the Government. The funds are repayable on demand.

(d) This fund was created under the United Nations Framework Convention on Climate Change. The objective of the fund is to assist in the hiring of consultants and procurement of services to build capacity of the coordination and management unit that will have the responsibility of coordinating with other ministries, NGO's and stakeholders on the Green Climate Fund.

14. **OTHER LIABILITIES**

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

(a) Trade payables consist mainly of retention amounts due upon completion of construction contracts, to which the Bank has a current obligation for services rendered and invoiced by the construction companies.

(b) Other payables consist mainly of sundry creditors and personal contribution deposited by the producers toward the financing of total project costs.

15. **COMPENSATION BENEFIT OBLIGATIONS**

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

(a) **COMPENSATION - END OF CONTRACT**

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

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

15. **COMPENSATION BENEFIT OBLIGATIONS** *Continued*

(b) **GRATUITY**

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

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

(c) **COMPENSATION - RETIREMENT**

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

(i) **Amount recognised to profit or loss:**

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

(ii) **Reconciliation of present value of obligation**

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

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

	2018	2017
Discount rate	6.67%	6.50%
Future salary increases	6.00%	6.00%
Retirement age	63	63

15. **COMPENSATION BENEFIT OBLIGATIONS** *Continued*

(c) **COMPENSATION - RETIREMENT** *Continued*

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

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

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

(d) **LONG SERVICE AWARD SCHEME**

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

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

(e) **PERFORMANCE INCENTIVE**

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

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

16. SHARE CAPITAL

	2018	2017
	SR	SR
Authorised shares		
At December 31,	**40,000,000**	40,000,000
Issued and fully paid shares		
At December 31,	**39,200,000**	39,200,000

17. CONTINGENT RESERVE

	2018	2017
	SR	SR
At December 31,	**41,385,321**	41,385,321

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

18. CONTINGENT LIABILITIES

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

19. INTEREST INCOME

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

20. INTEREST EXPENSE

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

21. OTHER INCOME

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

22. EMPLOYEE BENEFIT EXPENSE

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

23. ADMINISTRATIVE EXPENSES

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

(a) Lease arrangements

Operating lease commitments - Bank as lessee

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

23. **ADMINISTRATIVE EXPENSES** *Continued*

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

(b) Lease commitments

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

24. **CAPITAL COMMITMENTS**

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

25. **RELATED PARTY TRANSACTIONS**

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

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

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

25. **RELATED PARTY TRANSACTIONS** *Continued*

(b) **Interest subsidy**

	2018	2017
	SR	SR
Government of Seychelles		
Interest subsidy on SME loan scheme	**19,561,578**	17,643,123

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

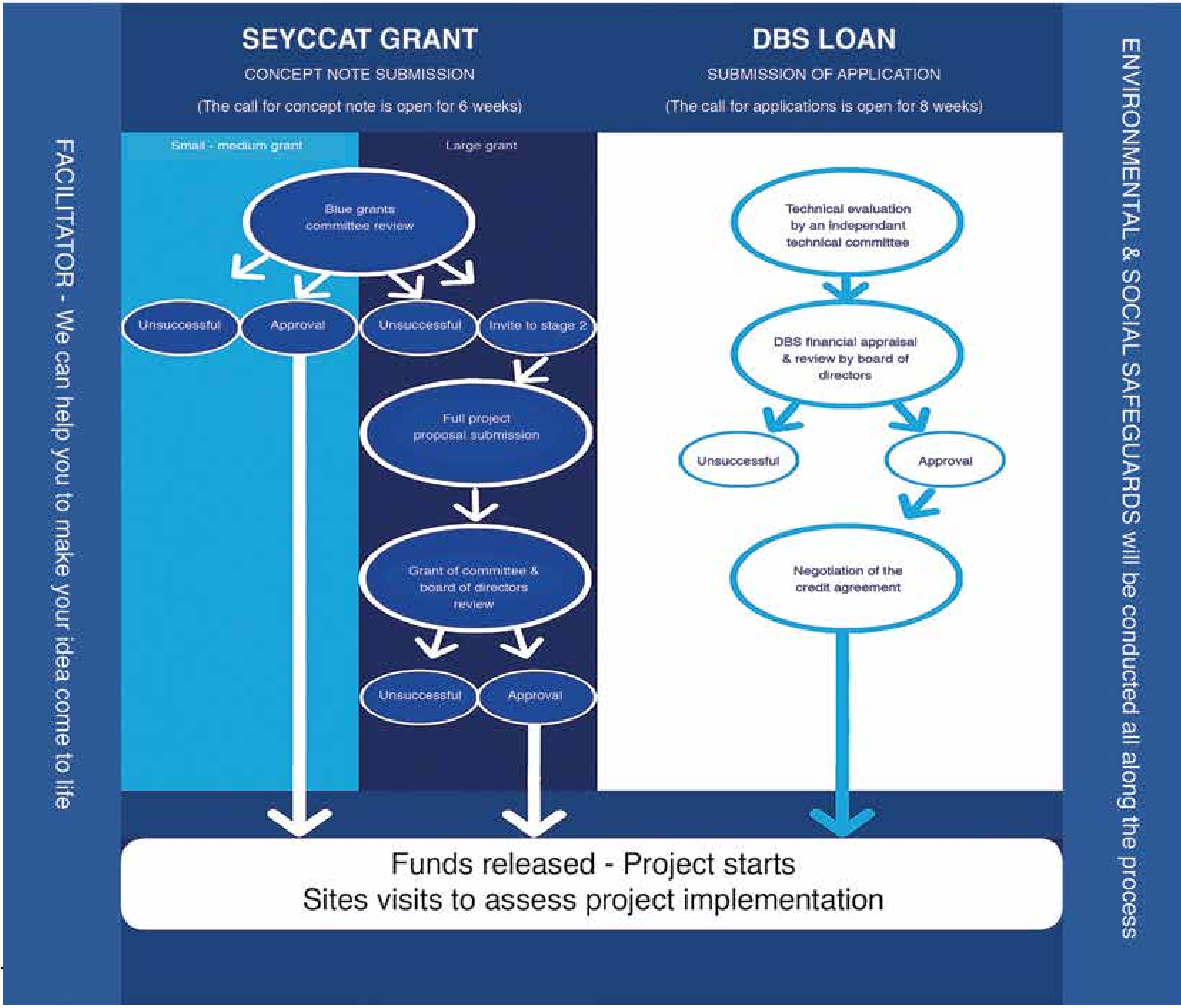
	Relationship	2018	2017
(c) **Salaries and other benefits**		**SR**	SR
Key management salaries	Key management	**1,277,566**	2,624,584
Directors remuneration	Directors	**230,495**	378,143
End of contract settlement	Key management	**227,113**	956,681
End of contract provision	Key management	**803,966**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

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

26. **EVENTS AFTER THE REPORTING PERIOD**

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

• Your business idea
• Feasibility study
• Business plan
• Project pilot
•Research
• Project initiative
• Marine Spatial Plan
Small - medium grants up to 100,000 SCR
Large grant between 100,000 to 1,000,000 SCR
DBS Blue investment Fund
12 million USD
BLUE FINANCE
SEYCCAT DE-RISKING YOUR BUSINESS
SeyCCAT
SeyCCAT Blue Grants Fund
3 million USD
Facilitators
DBS
YOUR PARTNER IN DEVELOPMENT
DBS DEVELOP YOUR BUSINESS
DBS maximum loan 42 million SCR (Subject to exchange rate)
Interest rate 4% payback over 15 years



SEYCCAT GRANT
CONCEPT NOTE SUBMISSION
(The call for concept note is open for 6 weeks)
DBS LOAN
SUBMISSION OF APPLICATION
(The call for applications is open for 8 weeks)
Small - medium grant
Large grant
Blue grants committee review
Unsuccessful
Approval
Unsuccessful
Invite to stage 2
Full project proposal submission
Grant of committee & board of directors review
Unsuccessful
Approval
Technical evaluation by an independant technical committee
DBS financial appraisal & review by board of directors
Unsuccessful
Approval
Negotiation of the credit agreement
Funds released - Project starts
Sites visits to assess project implementation
FACILITATOR - We can help you to make your idea come to life
ENVIRONMENTAL & SOCIAL SAFEGUARDS will be conducted all along the process

DEVELOPMENT BANK OF SEYCHELLES
P.O. BOX 217 | INDEPENDENCE AVENUE | VICTORIA
MAHE | SEYCHELLES
+248 4294400 | devbank@dbs.sc