# DEVELOPMENT BANK OF SEYCHELLES

# 2006 Annual Report

# Content

## Managing Director’s report

The year 2006 saw DBS undertaking some important strategic changes. In particular, a lot of emphasis was placed on upgrading its current Information and Technology system and the year witnessed the integration of the Loans Management System (LMS) software into our loans management network, specifically designed with aim to facilitate fast information processing for the Loans Department. The initiation of the LMS was also one of the reason d’êtres to bring DBS in line with advancement taking place in the world of technology and at the same time, to provide our customers with real time information. Another crucial strategic change that was aimed to be introduced and is at its preliminary stage was the implementation of ISMS (Information Security and Management System) of ISO /EIC 27001, Bs 17799. This project is envisaged to be completed in the coming year.

For the year ending 2006, the Bank posted an operating profit of almost SR12M, down by SR 1.8M compared to previous year. During the year, opportunity arose for the Bank to clear a substantial portion of its long-standing arrears with overseas creditors. As a consequence, the bank sustained a substantial amount of exchange loss of SR18.5M compared to a gain of SR17.2M in preceding year, thus affecting the end result of the Bank.

Another contributing factor that took its toll on DBS performance has been the steady reduction in the value of loans approved, akin to that of preceding year. This fell from SR62.2M in 2005 to SR59.3M in 2006, representing a decrease of 5%. The shortfall was particularly noticeable in respect of loans extended to industry and tourism related projects, which posted a decline of SR2M (or 73%) and SR6M (or 32%) respectively, compared to 2005.

Against these backdrops, the Bank approved a remarkable total of 345 loans in the year under review. The exceptional increase in loans approved during the year was due to the financing of SACL shares to ex-SACOS staffs, which made up a total of 58 loans worth SR2.6M. Compared to 2005 alone, the windfall represented a rise of 64 loans or 23%.

Much progress was observed in the number of default cases that were recovered during the year.  A total of 42 cases in arrears were remitted. The result depicted a milestone for the Bank of pooled efforts consolidated by the Recovery Unit and its entourage.

DBS continual importance on human development maintains, and as with previous years, last year saw many staff attending various training courses, throughout. DBS workforce is paramount to the institution and the Human Resource Division is mandated to review its Human Resource policy to enhance its staff capabilities and self development.

The Internal Audit and Research Division continued to provide management support. Two researches were carried out one in the commercial property projects and the other on car hire. The researches were done as a result of concerns raised regarding these lines of financing which were thought to be areas of possible saturation.
Much apprehension were in respect of rental projects given that in recent years this has been a major line of financing for the Bank, forming the bulk of loans extended in the service sector.

The reports provided management with an update on the general performance of these projects in the Bank's loan portfolio, as well as, served as substance for future project evaluation and debt risk management for the institution.

The Development Bank of Seychelles remained a benevolent partner in social development. This year SR200,000 was donated to Government Ministries, Sports Clubs and Charitable organizations as well as to Religious and Non Governmental organizations. Sponsors were generously extended to good causes such as to finance sensitization programs (HIV, drugs/alcohol/Family issues) and other, involved sponsoring events like Graduation Ceremony and to activities such as Festival Creole, to mention a few.

Last year was a year of changes, implementations, consolidations and progressive achievements. We saw the initiations of fundamentals needed that will lead the Bank towards prosperity and higher achievements. All these would not have been possible, of course, without the dedication and support from its management and staff alike. Special thanks also go to our Board of Directors who encouraged our ideas to bring the Bank into the future.

# Management Report

## Introduction

The Bank continued its quest in implementing the ICRA and LIFSC recommendations. The year saw the integration of the LMS software which is near its end stage and the groundwork for the adoption of the ISMS project is underway. The need for the latter came about in an effort to heighten its information security. With the local financial market opening its doors to the needs of the 21st century, the new standard "ISO/EIC 27001, Bs 17799" once implemented, it shall establish DBS as the first bank in the region with the highest level of information security and will be in tandem in combating fraud and anti-money laundering in the financial sector.

Operating income for the year 2006 stood at SR12M. Alas, with DBS being a non-foreign exchange earner and as a result of accumulation of interest and arrears on its long-term finance with its overseas partners, the Bank reported an unprecedented operating loss of SR10.2M after taking into account realization of exchange loss of SR18.5M in contrast to a profit of SR17.2M for the year before. Our income growth, in spite of all, continued to grow at an average rate of 5% over the last two years.

Despite the downsides, the Development Bank of Seychelles continued to make good progress and in 2006, it registered an exceptional total of 345 loans for that year, representing an increase of 23% compared to 2005. The augment, has been due to the Bank financing an additional 58 loans worth of SR2.6M towards servicing SACL shares to ex-SACOS.

DBS employees continue to be its key attribute in its drive to success and the Bank recognizes the importance of maintaining a balanced workforce. Staffs receive both local and overseas training with aim to achieve a diverse and professional team within the Bank. It is the Bank's policy to encourage self actualization, and alas, last year it witnessed the departures of two key Managers. Both ex-staffs were successfully recruited by very reputable financial institutions; one locally and the other overseas. Their successful employment clearly demonstrates the quality and level of training our staffs acquire whilst working for DBS.

Donations to charitable organizations and humanitarian causes are customary to DBS since its inception, and as per preceding years such deed did not pass DBS usual generosity. Last year only, DBS contributed nearly SR200,000 towards education, sensitization programs, humanitarian causes, but the major donation went to sponsoring World Cup Football, a very popular sport amongst the locals.

## DBS Performance

DBS continued to contribute and support the development of the economy as a whole. In 2006, the Bank registered a remarkable total of 345 loans with an interest return of well above SR26M, showing an average income growth of 5% since 2004. In terms of value, DBS was able to pull together SR59.3M worth of loans approved, accounting for a decrease of 5% compared to its preceding year. Innovation level amongst the five main economic sectors, also remained stagnant if not stale for some businesses, has also played a major part to a slow economic growth for the Bank.

## Project financing

The Bank once again proved its role as a financial facilitator to the risky sectors of the economy which saw a total of 345 loans been approved for the year. The increase represented an addition of 64 loans approved compared to last year or 23%. The bonus has been attributable to the financing of SACL shares to ex-SACOS staff. Despite good performance in the number of loans approved, unfortunately, the Bank continued to experience a reduction in the value of loans approved to SR59.3M compared to 2005 which stood at SR62.2M. Figure 1 and figure 2 below illustrate the Bank's loan approval trend for the five economic sectors for the five year period from 2002 to 2005.

**Fig. 1**

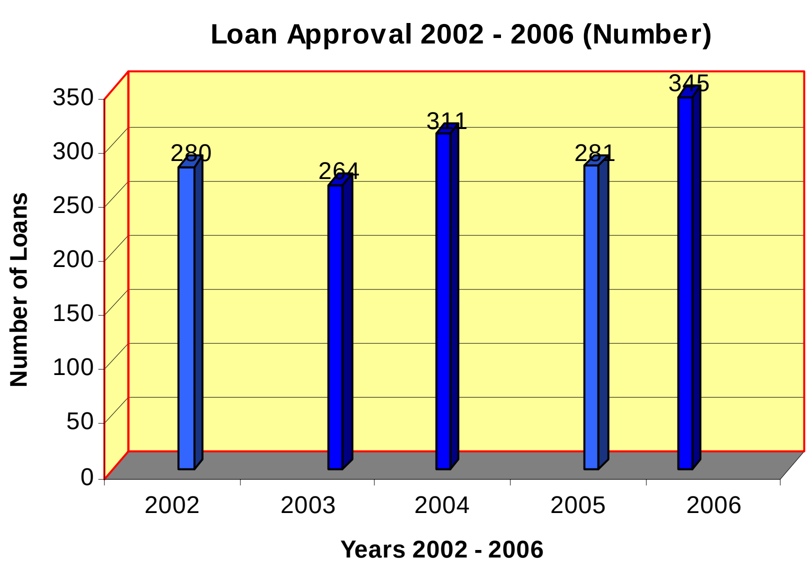
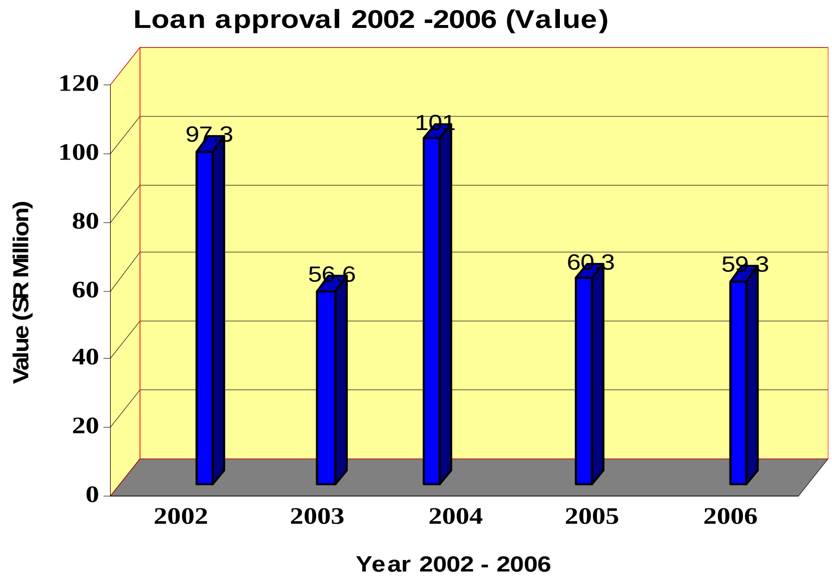


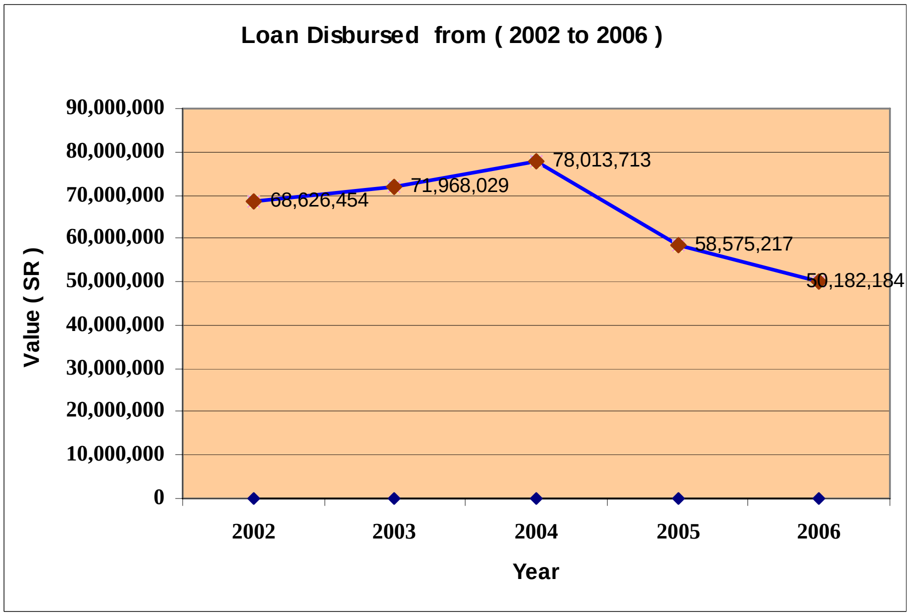
**Fig. 2**




## Disbursement

The chart below shows the distribution of value of loans disbursed from year 2002 to 2006 for the five main economic sectors:

**Fig.3.**



As it can be observed, the Bank experienced a decline in the value of loans disbursed during the year. As to the previous year, this represents a 14.33% decrease compared to 2005 for a value of SR58.6M. In contrast, better results were observed during the year 2004 with the highest value of loans disbursement, which stood at SR78.0M.

## Arrears

More stringent measures and astute tactics continued to be implemented to curtail the rise in the number of debtors in default. Providentially the year 2006 was a remarkable year which witnessed a fall in the number of cases in default noticeably by 42 cases from 664 to 622 showing a 6% change in percentage terms. Currently default cases represent approximately 50% of loan portfolio, but as mentioned herein, with appropriate strategic measures being undertaken, DBS is on the right road to recovery to redress the situation with its debtors. A total of nine vehicles were seized and disposed off through public auction on the premises of DBS by way of extra judicial proceedings. Another factor that had contributed to the increase in debtors, had been the endured aftermath of the tsunami, still been felt by many loan-takers as they are still recovering from servicing their outstanding arrears, hence finding it difficult to meet their required repayments. This effect is considerably large and is observed mainly in the Fisheries and Agricultural Sectors.

## Manpower Development

The developments of our human resources is still of high importance. Our business loyalty to our customers is as good as the people who deliver it. Therefore, we remain dedicated towards human development by ensuring continuous training programs locally and overseas for a more diverse and committed workforce. Our Human resource Department is committed to reviewing its human resource policies annually and for last year, it allowed substituting some of its overseas training to locally equivalent courses offered by various local learning facilitators, to name a few; SIM (Seychelles Institute of Management), VCS training center and ALDEC (Adult Learning and Distance Education Center). Aside those, the on-going Seychelles - Mauritius Bilateral Agreement on work attachments of its staffs via the two Development Banks continued to be successful with exchange of at least two employees each year. And as per preceding years, this year also, two staff members benefited through the exchange program. The table below provides an overview of staff training that took place last year.

**Table 1. Training**

**A. Local training**

**Staff on Long-term Training**

| No of staff attended | Course Attending | Institution Attending | Course Duration |
|---|---|---|---|
| 1 | ACCA Professional Streams | Seychelles Institute of Management | 3 years |
| 2 | Diploma in Management | Seychelles Institute of Management | 2 years |
| 1 | CAT | Seychelles Institute of Management | 2 years |
| 1 | O' Level Accounting | ALDEC | 1 year |
| 1 | Advance Diploma in Marketing | Seychelles Institute of Management | 2 years |

**Staff on Short-term Training**

| No. of staff attended | Course Attended | Institution Attending | Course Duration |
|---|---|---|---|
| 1 | Supervisory Skills | Seychelles Institute of Management | |

**B. Bilateral Exchange program Overseas**

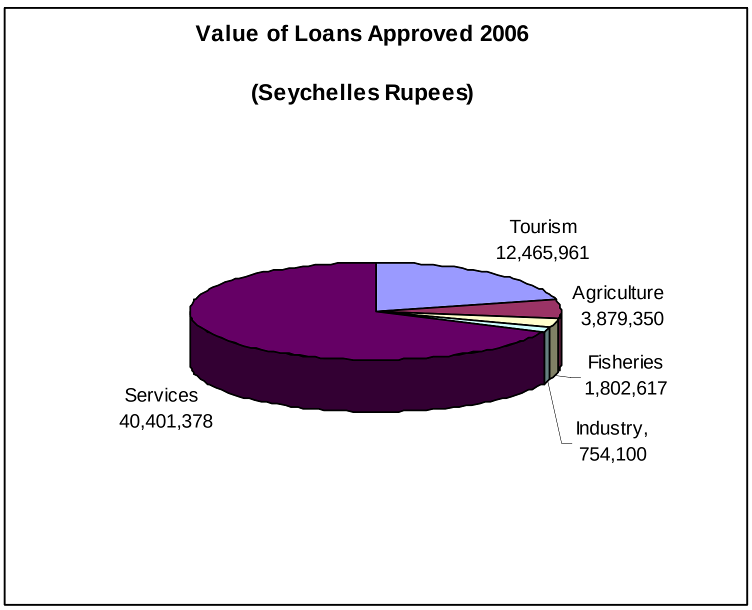
| **No of staff attended** | **Course Attended** | **Institution Attending** | **Course Duration** |
|---|---|---|---|
| 2 | Seychelles - Mauritius Work Attachment Program | Development Bank of Mauritius | 12 days |

Staff movements in 2006 were more or less monotone as compared to 2005, although, sadly, the year witnessed the departure of two key staff members: our System Development Manager and Loans Manager respectively. Both positions were complemented by successful appointments, taking effect at beginning of 2007, involving the promotion of an internal senior staff and external recruitment.

# Sectorial Analysis

Again DBS remained “a partner in development” to the five main economic sectors namely Agricultural, Fisheries, Industry, Service and Tourism during the year 2006. As in previous years some of these sectors experienced favorable market conditions which propelled significant number of loans being approved for those sectors as witnessed in the Service Sector with the highest record of loans sanctioned during that year. Whilst the lowest numbers of loan approved were recorded in poor performing sectors such as in the Fisheries and Industries sectors. Nonetheless, DBS played a key role and prudently continued to extend its financial services to these risky sectors of the economy. The Chart below shows value of loans approved during the year 2006.

**Fig. 4**

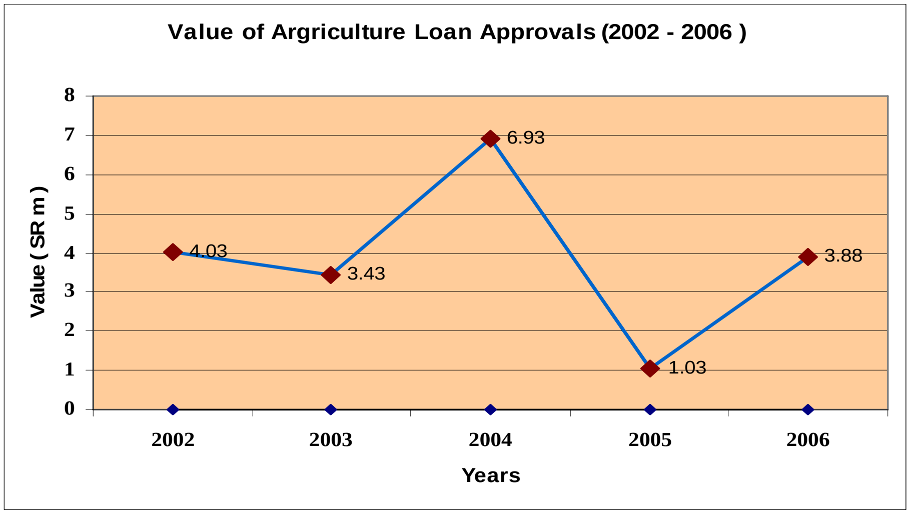



As it can be observed, the service sector remained the dominant and most rewarding sector in the Bank’s loan and investment portfolio with the highest number of loans at 272 worth SR40.4M. That is followed by the Tourism Sector with 24 loans approved worth SR12.5M. Compared to 2005, the Agricultural sector has proven healthier and ranked third in place with 13 loans worth SR3.9M and the Fisheries Sector took the latter’s place and positioned in fourth place with loans worth SR1.8M for 26 loans. The least performing sector, which is the Industry/Manufacturing Sector, fetched in SR0.75M with 10 loans approved.

# Agriculture

Much improvement was witnessed in the Agricultural Sector last year which saw an increase, both in the number of loans approved and in value. Demand for viable loans in this sector rose to SR3.9M upon SR1.03M for 2005, associated generally with favorable climatic conditions. The Government also continued to support this risky sector via various financial schemes, such through tax relief on imported essentials for farming. In response to these fiscal incentives, expansions in production of certain livestock and traditional crops have been recorded. This is reflected in the GDP, showing an output increase of 2.1% over 2005 to SR53M. It is envisaged that with better climatic conditions and sustainable economic growth, this sector should retain its momentum and keep up the upward trend. The graph below gives a clear picture of business movement in the Agricultural sector for the last five years.

**Fig. 5**

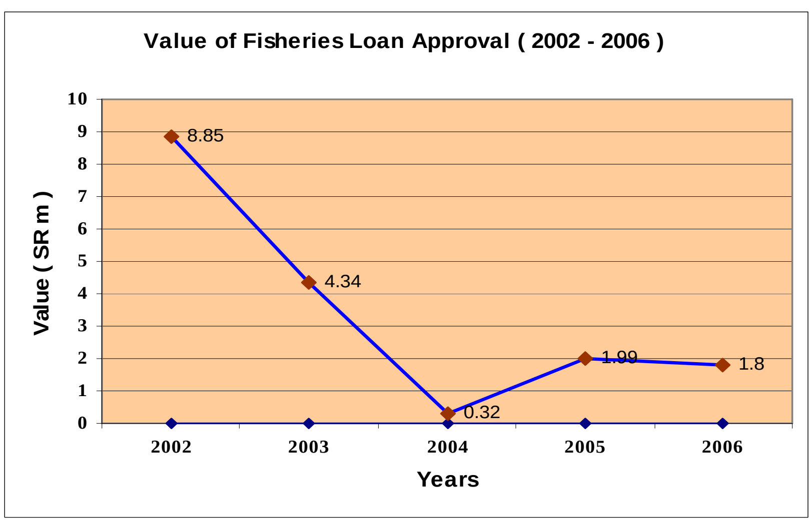


Value of Argriculture Loan Approvals (2002 - 2006 )
Value ( SR m )
8
7
6
5
4
3
2
1
0
4.03
3.43
6.93
1.03
3.88
2002
2003
2004
2005
2006
Years

# Fisheries

The Fisheries sector continued to show a decline in terms of value of loans approved, and last year posted a total of SR1.8M, registering a contraction of 34% worth of loans compared to 2005. The downward trend prevailed since 2003. As stated by Central Bank of Seychelles in its annual reports 2006, the Fisheries Sector was not at its best during the year 2006 which recorded a 13% decrease in artisanal catch compared to 2005. Notably to say, the catch was targeted to mostly meet domestic demand. Albeit, despite the low level in catch, output, the year saw a rise of 91% increase over 2005 production, and that accounted for nearly SR39M toward GDP. The chart below shows the loan approval trend in the Fisheries sector for the last five years.

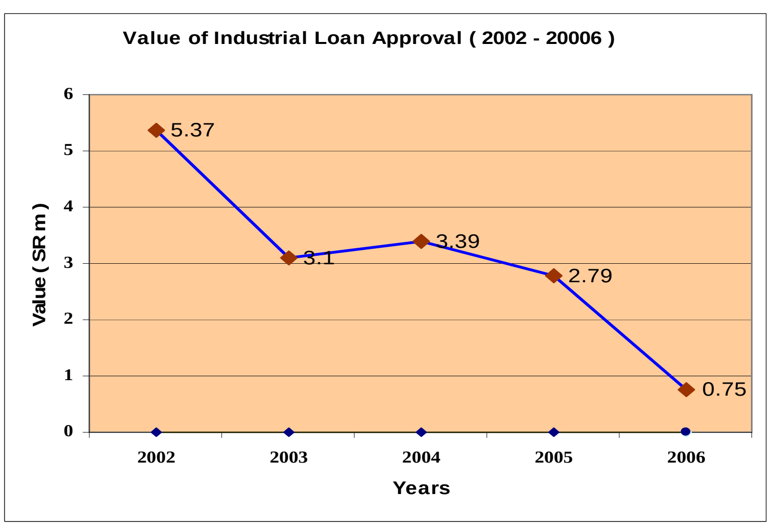
**Fig. 6**.



# Industry

The performance of this sector has moved at a slower pace than expected. This year a total of 10 loans were approved worth SR0.75M compared to SR2.79M for 2005. The Industry sector remains to be the Bank’s smallest sector in terms of investment and makes up of 1.27% of the total loan portfolio for the year 2006. Figure 7 below shows the loan approval trend for the Industry sector for the years 2002 to 2006.

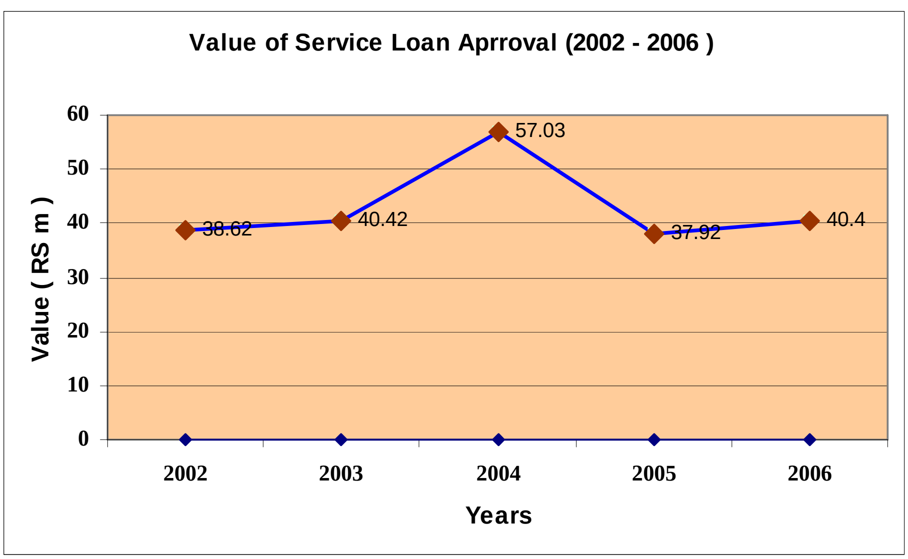
**Fig.7**



## Services

Once again the Service Sector proved economically viable and remained the largest segment of the economy as well as dominant in DBS loans portfolio. Despite a decline of 33.51% in value of loans approved in 2005, the year 2006 saw the sector picking up and registered a reasonable rise of 6.5% in number of loans approved resting at 272 loans, approved worth SR40.4M. The main contributors for this sector comprised businesses such as taxi operators, pick up hirers, hairdressers, commercial developer, take-aways etc… Figure 8. below shows the value of loans approved in the service sector for the last five years.

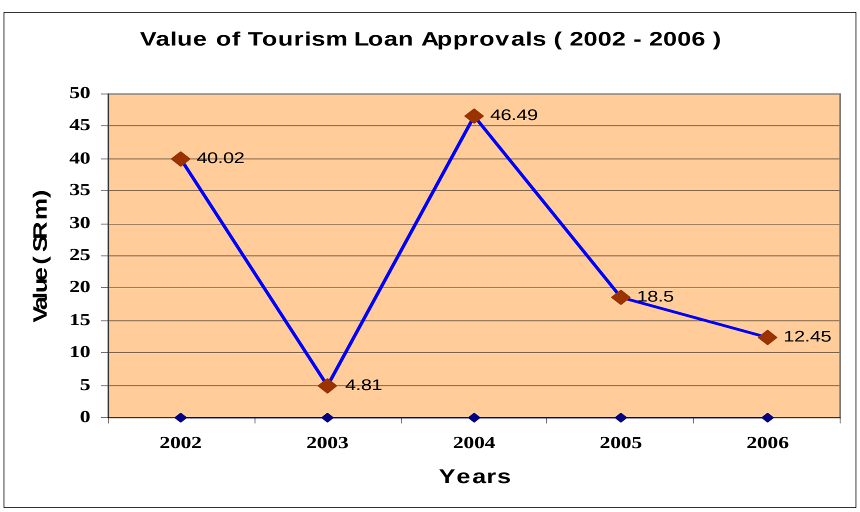
**Fig 8.**



## Tourism

The Tourism Sector again in 2006 experienced a drop in demand for loans compared to previous years. A total of 24 loans worth SR12.5M were approved. DBS has been experiencing a downward trend for this once faithful and promising sector for the last couple of years now, with the Service Sector that has taken over now. However, on a brighter note, according to Central Bank of Seychelles 2006 annual report, this sector has shown much improvement and has picked up both in terms of number of visitors that arrived at our shores, and with the associated foreign exchange earned as a result of their visit. Figure 9 below illustrates loan approval trend for the tourism sector for the last five years.

**Fig 9.**



# Financial Review

A look at DBS financial position this year has been of concern but with remarkable results. The Bank posted an operating profit of SR12M excluding realized exchange loss in its profit and loss account. The end result however, posted a net loss of SR10.2M due to an exchange loss of SR18.5M. The net interest income for the year stood at SR19.5M compared to SR20.6M for last year, representing a 5.3% fall. Other incomes into the Bank's current account included a total of SR18.7M in the form of investments. The Bank's cash flow improved significantly by 7.67% compared to 2005 standing at a total of SR26.3M.

The year 2006 also saw an improved cash surplus of SR24.4M from SR7.5M in relation to the value of loans disbursed. So far the Bank disbursed a total sum of SR50.2M with an expected return of SR73.5M. Much improvement was also witnessed in relation to the Bank's debtors' performance; hence, provision for doubtful debt was reduced to SR3.18M from SR5.48M to reflect that effect.

To conclude, besides the downsides that affected DBS operations in the year 2006, it is worth stating that the Bank did perform reasonably well. The new strategic changes initiated last year, should see DBS with a better financial and operational position in the coming year.

# Auditor’s Report

We have audited the financial statements for the year ended 31 December 2006 on pages 3 to 11 which have been prepared under the historical cost convention and the accounting policies set out on page 6.

This report is made solely to the Bank's members as a body in accordance with the Development Bank of Seychelles Decree 1977. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditors report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank's members as a body, for our audit work, for this report, or for the opinion we have formed.

**Respective responsibilities of directors and auditors**

As described on page 3 the directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and report our opinion to you.

**Basis of opinion**

We conducted our audit in accordance with international standards on auditing. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the bank's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

We have no relationship with or material interest in the Bank other than in our capacities as auditors.

**Inherent uncertainty**

In forming our opinion we have considered the disclosures made in the financial statements concerning the long term overseas loans which under their terms repayment must be made in the currency of the original loan (Note 5). Due to non-availability of the necessary foreign exchange, the Bank has fallen in arrears on its repayment schedule. The lenders have not foreclosed nor given notice to foreclose but are charging penal interest on those loans (Note 5).

The long term overseas loans represent just over 50% of the Bank's liabilities (excluding equity & reserves). We therefore draw attention to the possible effects of a major currency fluctuation on the results of the forthcoming years.

**Going Concern**

The totality of the loans from the Caisse Française de Development (CFD) is now overdue for repayment (Notes 5). The financial statements have been prepared under the going concern basis on the assumption that the CFD will not call for the repayment of the loans within the next twelve months.

**Post Balance Sheet Event**

The value of the Seychelles Rupee has deteriorated further since at the Balance Sheet date; no account has been taken in the financial statements of the possible exchange loss caused thereby.

**Compliance with the Decree**

The Bank has not complied with paragraph 13 of the Schedule to the Decree in respect of one loan.

**Opinion**

Subject to adjustments which could arise out of above mentioned matters, in our opinion, the financial statements give a true and fair view of the bank's affairs at 31 December 2006 and of its loss and cash flow for the year then ended and have been properly prepared in accordance with the Development Bank of Seychelles Decree 1977 and accounting principles generally followed in Seychelles.

**Pool & Patel**
**Chartered Accountants**

16 May 2007

# Profit and Loss Account for the year ended 31st December 2006

| | Note | | | 2005 |
|---|---|---|---|---|
| **Interest income** | **1 (g)** | | | |
| Loan | **3** | **26,355,551** | | 25,400,631 |
| Bank | | **393,856** | | 152,800 |
| Government Securities | | **6,964** | | 12,419 |
| | | | **26,756,371** | 25,565,850 |
| **Interest Expense-Overseas loans-Normal** | | **(2,621,354)** | | (2,737,713) |
| **-Penal** | | **(2,936,818)** | | (2,991,981) |
| **Interest Expense-Local loans** | | **(2,545,120)** | | 0 |
| | | | **(8,103,292)** | (5,729,694) |
| | | | **18,653,079** | 19,836,156 |
| **Other income** | | | **835,590** | 768,330 |
| **Income (net)** | | | **19,488,669** | 20,604,486 |
| **Operating expenses** | | | | |
| Staff Costs | | **3,910,293** | | 3,856,441 |
| Administration expenses | **7** | **2,964,492** | | 2,726,453 |
| Bad debts written-off | | **620,912** | | 233,379 |
| | | | **(7,495,697)** | (6,816,273) |
| **Surplus before provision** | | | **11,992,972** | 13,788,213 |
| Provision for depreciation | **20** | | **(541,445)** | (599,350) |
| Provision for doubtful debts | **4** | | **(3,183,093)** | (5,477,957) |
| Provision for foreign exchange equalisation fund | **2** | | **0** | 114,433 |
| Provision for exchange (losses) gains | **19** | | **(18,471,486)** | 17,159,431 |
| **Profit/(loss) for the year** | | | **(10,203,052)** | 24,984,770 |
| Retained earnings 1 January | | | **79,484,885** | 54,601,568 |
| Transfer to E.I.B. Reserve | **2** | | **0** | (101,453) |
| Retained earnings 31 December | | | **69,281,833** | 79,484,885 |

# Balance Sheet as at 31st December 2006

| | Note | R | R | 2005 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash at bank | 16 | 26,287,557 | | 23,917,796 |
| Deposits with government | | 0 | | 497,420 |
| Accounts receivable | 15 | 6,664,964 | | 6,294,422 |
| | | | 32,952,521 | 30,709,638 |
| Loans outstanding (gross) | 4 | 322,156,993 | | 319,566,032 |
| Less: provision for irrecoverable loans | 4 | (38,098,597) | | (34,956,132) |
| Loans outstanding (net) | | | 284,058,396 | 284,609,900 |
| Treasury bonds | | | 600,000 | 600,000 |
| Investment in associated company | 18 | | 2,000,000 | 2,000,000 |
| Fixed assets (net) | 20 | | 2,552,728 | 2,923,261 |
| | | | 322,163,645 | 320,842,799 |
| **Liabilities** | | | | |
| Accounts payable | 17 | | 3,190,050 | 2,472,644 |
| Dividend payable | | | 1,457,327 | 1,529,399 |
| Long term borrowing-Overseas | 5 (a) | | | |
| CFD | | 37,748,925 | | 37,748,925 |
| EIB | | 0 | | 22,793,790 |
| ADB | | 1,692,328 | | 34,983,832 |
| BADEA | | 4,092,285 | | 5,000,473 |
| | | 43,533,538 | | 100,527,020 |
| Add: Accrued interest thereon | | 31,456,246 | | 38,993,490 |
| | | 74,989,784 | | 139,520,510 |
| Provision for unrealized exchange losses(Gain) | 1 (c) | 10,914,826 | | 10,663,282 |
| | | | 85,904,610 | 150,183,792 |
| Long term borrowing-Locally | 5 (b) | | 75,223,601 | 0 |
| Fund under management | 8 | | 4,000,469 | 4,066,324 |
| Share Capital | 6 | 39,200,000 | | 39,200,000 |
| Reserves | 2 | 43,905,755 | | 43,905,755 |
| Retained Earnings | | 69,281,833 | | 79,484,885 |
| | | | 152,387,588 | 162,590,640 |
| **Total liabilities** | | | 322,163,645 | 320,842,799 |

# Cash flow Statement for the year ended 31st December 2006

| | | | |
|---|---|---|---|
| **Net cash inflow from operating activities** | | | |
| Operating profit/(loss) | | **(2,879,532)** | 13,133,707 |
| Depreciation charges | | **541,445** | 599,350 |
| Profit on disposal of fixed assets | | **0** | (4,129) |
| Profit/(loss) on exchange on interest & committment fees | | **(3,888,883)** | 4,439,952 |
| Bad debts w/off to provision | | **(40,628)** | 0 |
| Loans to customers net of repayment | | **(2,590,961)** | (15,716,610) |
| Increase in debtors | | **(370,542)** | (247,241) |
| Increase in creditors | | **717,406** | (766,437) |
| Dividend received | | **0** | 2,137,405 |
| | | **(8,511,695)** | 3,575,997 |
| **Investing Activities** | | | |
| Purchase of treasury bonds | **0** | | (600,000) |
| Receipts from sale of tangible fixed assets | **0** | | 14,650 |
| Payments to acquire tangible fixed assets | **(170,912)** | | (133,500) |
| | | **(170,912)** | (718,850) |
| **Net cash inflow before financing** | | **(8,682,607)** | 2,857,147 |
| **Financing** | | | |
| E I B special reserve - training cost | **0** | | 0 |
| External loans net of repayment | **(64,530,726)** | | (758,939) |
| Local loans net of repayment | **75,223,601** | | 0 |
| Dividend paid | **(72,072)** | | 0 |
| Decrease in managed funds | **(65,855)** | | 279,046 |
| **Net cash inflow from financing** | | **10,554,948** | (479,893) |
| **Increase in cash and cash equivalents** | | **1,872,341** | 2,377,254 |
| **Cash & cash equivalents 1 January** | | **24,415,216** | 22,037,962 |
| **Cash & cash equivalents 31 December** | | **26,287,557** | 24,415,216 |

# Notes to the Financial Statements 31st December 2006

## 1. Significant accounting policies

The significant accounting policies adopted in the preparation of the financial statements of the Bank are set out below.

### (a) Statement of compliance

The financial statements are prepared in accordance with the requirements of the Development Bank of Seychelles Decree 1977.

### (b) Measurement basis and accounting policies applied

The measurement basis used is historical cost. The accounting policies have been consistently applied by the Bank and are consistent with those of the previous year.

### (c) Foreign currency

Transactions in currencies other than Seychelles Rupee are converted at the rate of exchange ruling at the transaction date. At the balance sheet date, foreign currency monetary assets and liabilities are converted at the rate of exchange ruling at that date. Resulting exchange differences are recognised in the profit and loss account.

### (d) Property, plant and equipment

Items of property, plant and equipment are stated at the lower of historical cost and recoverable amount and are depreciated using the straight line method over their estimated useful lives. Freehold land is not depreciated.

The rates of depreciation used are based on the following useful lives:

| | |
|---|---|
| Buildings | 10 - 25 years |
| Plant and equipment | 3 - 6 years |
| Furniture and fittings | 3 years |

## Notes to the Financial Statements 31st December 2006

Assets are depreciated or amortised from the date of acquisition. Expenditure on repairs or maintenance of property, plant and equipment made to restore or maintain future economic benefits expected from the assets is recognised as an expenses when incurred.

**(e) Investments Valuation**

Investments classified as non-current assets are carried at cost.

**(f) Borrowing costs**

Borrowing costs are recognised as an expense in the period in which they are incurred.

**(g) Revenue recognition**

Interest income is recognized as it accrues unless collectibility is in doubt.

### 2. Reserves

The Movement in the Reserve was as follows:

| | | R | 2005 | |
|---|---|---|---|---|
| (i) | Contigency reserve | | | |
| | Balance 1.1.2006 | **39,583,919** | 39,583,919 | |
| | Balance 31.12.2006 | **39,583,919** | | 39,583,919 |
| (ii) | E.I.B Special reserve | | | |
| | Balance 1.1.2006 | **1,801,401** | 1,699,948 | |
| | Training in year | **-** | - | |
| | Transfer dduring the year (note 14) | **-** | 101,453 | |
| | Bal;ance 31.12.2006 | **1,801,401** | | 1,801,401 |
| (iii) | Foreign exchange equalisation Fund - (FEEF) | | | |
| | Provision for FEEF on E.I.B Loan No. 4 | | | |
| | Balance 1.1.2006 | **2,520,435** | 2,634,868 | |
| | Provision for 2006 | **-** | (114,433) | |
| | Balance 31.12.2006 | **2,520,435** | | 2,520,435 |
| | | **43,905,755** | | 43,905,755 |

# Notes to the Financial Statements 31st December 2006

### 3. Loan Interest

Interest calculations are computed on reducing monthly balances on the assumption that loan repayment instalments are made on time. Whenever necessary, penal interest is charged to adjust for late payment. This is done on final payment of the loan.

### 4. Loans to Borrowers

The sum of SR 284,059,396 shown in the balance sheet is made up as follows:-

| | |
|---|---|
| Long term loans (exceeding 7 year) | 228,609,430 |
| Medium term loans (between 2 & 7 years) | 91,147,955 |
| Short term loans (not exceeding 2 years) | 2,399,608 |
| | 322,156,993 |
| Less provision against Private Sector loans, which may prove irrevocable | (38,098,597) |
| | 284,058,396 |

The movement in the provision for doubtful debts during the year is as follows:

| | |
|---|---|
| Balance 1.1.2006 | 34,956,132 |
| Extra provision required during the year | 3,183,093 |
| Bad debts written off against provision | (40,628) |
| Balance 31.12.2006 | 38,098,597 |

Loans approved but not disbursed by the balance sheet date amounted to SR 40,959,116

# Notes to the Financial Statements 31st December 2006

## 5. Loans repayable

(a) Overseas loans

| | Balance 31.12.2006 | Repayment period | 1st Repayment due | Rate of interest per annum | Scheduled Yearly repayment |
|---|---|---|---|---|---|
| African Development Bank | | | | | |
| Loan No. 3 | 1,692,328 | 7 years | 01.02.2002 | 4% | 640,987 |
| BADEA | 4,092,285 | 9 years | 01.01.2002 | 5% | 152,603 |
| Caisse Francaise de Development | | | | | |
| Loan No. 2 | 4,085,910 | 10 years | 31.10.1990 | 4.5% | 1,020,910 |
| Loan No. 3 | 2,436,929 | 10 years | 31.10.1991 | 4.5% | 464,050 |
| Loan No. 4 | 2,441,347 | 10 years | 31.10.1991 | 4.5% | 464,050 |
| Loan No. 5 | 4,419,372 | 9 years | 30.04.1994 | 5.0% | 10,311,221 |
| Loan No. 6 | 4,102,267 | 10 years | 31.10.1994 | 4.5% | 464,050 |
| Loan No. 7 | 9,786,415 | 10 years | 31.10.2000 | 5.0% | 978,641 |
| Loan No. 8 | 7,543,586 | 8 years | 31.10.1998 | 4.5% | 942,948 |
| Loan No. 9 | 2,933,736 | 5 years | 31.10.1993 | 6.99% | 1,113,720 |
| | 43,533,538 | | | | |
| Interest & commitments fees - accrued/exchange loss thereon | 31,456,246 | | | | |
| | 74,989,784 | | | | |

The loans and interest thereon are stated at the amount translated in Seychelles rupees on the actual date of receipt although repayment thereof must be made in the currency of the original loan.

# Notes to the Financial Statements 31st December 2006

The following loans are further subjected to interest on any undrawn amounts as follows:-

| | | |
|---|---|---|
| Caisse Fraincaise de Development | - | 0.50% |
| African development bank | - | 0.75% |

The loans from the Caisse Francaise de Development and the African Development Bank are guaranteed by the Seychelles Government. The EIB and ADB laons No 1 &2 were paid off during the year. The BADEA and ADB No 3 loans have been partly paid; apart from the above that there were no repayments made during the year on the other loans.

(b) Local loans

| | Balance 31.12.2006 | Repayment period | 1st Repayment due | Rate of interest per annum | Scheduled Yearly repayment |
|---|---|---|---|---|---|
| Barcalys Bank (Seychelles) Ltd | 52,408,544 | 7 Years | 31.07.2006 | 5.75% | 9,850,909 |
| | 22,815,057 | 7 Years | 24.04.2006 | 5.75% | 4,347,060 |

## 6. Share Capital

| The share capital of the bank is as follows:- | | 01.01.2006 | 31.12.2006 |
|---|---|---|---|
| Authorised | | | |
| | 400,000 shares of SR 100 each | SR 40,000,000 | SR 40,000,000 |
| | Issued and fully paid | | |
| | Shares of SR 100 each | SR 9,200,000 | SR 39,200,000 |

## 7. Administration costs

Included within the figure of SR 2,963,492 is:

| | | 2006 | 2005 |
|---|---|---|---|
| (i) | Auditor’s remuneration | 50,000 | 50,000 |
| (ii) | Professional fees | 393,500 | 341,250 |
| (iii) | Directors fees | 191,500 | 164,000 |

# Notes to the Financial Statements 31st December 2006

**8. Fund under management**

This comprises of the following funds:-

| | | |
|---|---|---|
| (i) | Fisheries Fund | 170,596 |
| (ii) | Credit guarantee scheme | 1,335,871 |
| (iii) | MAF (GTZ) Fund | 3,200 |
| (iv) | SFA fund | 55,329 |
| (v) | Agricultural Development Fund | 2,207,609 |
| (vi) | Seychelles Fishing Authority Fund | 197,824 |
| (vii) | Small Business Facility Fund | 30,040 |
| | | 4,000,469 |

**9. Agricultural development fund**

This fund is managed by the bank for which it charges a processing fee of 2%.

**10. Seychelles fishing authority fund**

This is a revolving fund for the Seychelles Fishing Authority which is managed by the bank and for which it charges a processing fee of 2%.

**11. Small business finance facility fund**

This fund has been transferred to Concessionary Credit Agency as from September 2006; the processing fee of 2% has been charged up to August 2006.

**12. Credit guarantee scheme**

This fund of R 1,335,871 comprises of 4 years of annual contribution of R 60,000 each from Frederick Ebert Stiftung (a private foundation in West Germany) the Social security division and Development Bank of Seychelles for the first three years and R 300,000 each for the fourth year together with interest accrued annually and deposits received from borrowers. The objective of this fund is to support small entrepreneurs and young graduates from the polytechnic on ventures not exceeding R 150,000.

Total guarantee that can be provided under the scheme should not exceed three times the value of fund. Guarantee provided as at Balance sheet date amounts to R 2,401,286. Total guarantee that can be provided under the scheme should not exceed three times the value of fund. Guarantee provided as at Balance sheet date amounts to R 2,401,286.

**13. M.A.F/GTZ revolving fund**

This fund represents proceeds from the sale of agricultural equipment donated by GTZ, a German state owned company. The fund is managed by DBS on behalf of the Ministry of Agriculture & Fisheries. It will be utilised for the purchase of equipment for sale, or eventually for other purposes in accordance with agreement between GTZ and M.A.F.

**14. EIB special fund**

This fund represents surplus interest charged to borrowers financed by EIB as per agreement dated 12.09.1989 between EIB and DBS. This amount will be used for feasibility studies and training.

**15. Accounts receivable**

Included in this item is the sum of R 5,715,115 which represents the balance outstanding on loans made to staff members.

**16. Cash at bank**

The amount of SR 26,287,557 is made up as follows:-

| | SR |
|---|---|
| DBS bank accounts | 24,245,291 |
| Amount held in trust for:- | |
| Agricultural development fund | 2,008,781 |
| Small business finance facility (SBFF) | 33,485 |
| | **26,287,557** |

**17. Accounts payable**

| | SR |
|---|---|
| Provision for staff gratuity & compensation | 1,052,251 |
| Other payables & accruals | 2,137,799 |
| | **3,190,050** |

The provision refers to gratuity and compensation payable to the Bank's staff, other than contract staff, on their attaining 15 years continuous service with the bank, other parastatal companies or the Seychelles Government.

## 18. Investment in associated companies

This represents 2,000 shares of R 1,000 each in COSPROH Limited at par. The company is in voluntary liquidation. The Ministry of Finance has given an undertaking to the Bank that Government will ensure full recovery by the Bank of the value of its investment.

## 19. Provision for exchange differences

This provision is made up as follows:-

| | SR |
|---|---|
| Realized losses | 14,331,059 |
| Provision for unrealized losses on loans outstanding | 4,140,427 |
| | **18,471,486** |

## 20. Fixed assets

| | Freehold Property | Furniture & Fittings | Office Equipment | Motor Vehicle | **Total** |
|---|---|---|---|---|---|
| COST | | | | | |
| At 1 January 2006 | 5822285 | 918361 | 2386048 | 303683 | 9430377 |
| Additions | 0 | 15635 | 91039 | 92000 | 198674 |
| Disposals | 0 | -2645 | -27762 | 0 | -30407 |
| At 31December 2006 | **58222285** | **931351** | **2449325** | **395683** | **9598644** |
| DEPRECIAION | | | | | |
| At 1 January 2006 | 3549839 | 798703 | 1977287 | 181287 | 6507116 |
| Additions | 212891 | 73226 | 185078 | 70250 | 541445 |
| Disposals | 0 | -2645 | 0 | 0 | -2645 |
| At 31 December 2006 | **3762730** | **869284** | **2162365** | **251537** | **7045916** |
| Net book value | **2059555** | **62067** | **286960** | **144146** | **2552728** |
| At 31 December 2005 | 2272446 | 119658 | 408761 | 122396 | 2923261 |

# Notes to the Financial Statements 31st December 2006

## 21. Financial instruments

Fair value

The bank's current assets and liabilities are stated at historical cost with due provision for currency rate fluctuation. The carrying amounts of these assets and liabilities approximate their fair value.

Currency risk

Some of the bank's assets and liabilities are denominated in foreign currency. Consequently the bank is exposed to the risk that the exchange rate of the Seychelles rupee relative to the foreign currencies may change in a manner which has a material effect on the reported values of the bank's foreign assets and liabilities.

The currency profile of the bank’s financial assets and liabilities is summarized as follows:-

| | Financial Assets SR | Financial Liabilities SR |
|---|---|---|
| Euro | 0 | 81,569,506 |
| US $ | 2,282,430 | 4,335,005 |
| Seychelles R | 17,328,487 | 83,871,447 |
| | 319,610,917 | 169,776,057 |

The rates of exchange at the Balance Sheet dates were as follows:-

**Euro 1.00 = SR 7.6258**
**US$ 1.00 = SR 5.7955**

# Notes to the Financial Statements 31st December 2006

Liquidity risk

Over and above its commitments to service the loans detailed in Note 5 above, the Bank has committed itself to further lending in the sum of R 40,959,116 (see Note 4) at the Balance Sheet date. The Bank mitigates its liquidity risks by a strict monitoring of its lending portfolio.

Interest rate

Interest rate risk is the potential impact of the changes in market interest rates on the fair value of the bank's assets and liabilities on the balance sheet date and on the annual interest income and expenses in the income statement. The Bank mitigates its interest rate risk by ensuring a fair positive margin between borrowing and lending rates.

## Shareholders

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