Content

Managing Director's Message

The year 2007 has been of mixed fortunes marked by many challenges as well as opportunities for DBS. Following Government's initiation to revise the minimum deposit rate from 2.5 to 3.5%, the knock-off effect was felt by many financial borrowers including DBS. Consequently, the high cost of lending applied by many commercial banks, compelled DBS to make drastic decision to follow suit and increased its lending rate to 9.5% across the board. Whilst the achievements of this move will be evident in the coming year, it has been anticipated that DBS will prevail in terms of maintaining a healthy loan portfolio with a projected increase of 4% compared to 2007.

With the Government disengaging itself as an economic actor, such initiation itself brought about favourable business opportunities and increase in demand for financial assistance. Inevitably, DBS enjoyed some of this economic prosperity as reflected in the upsurge in the number of loans approved for 2007. The Bank approved 270 loans for a total sum of SR61.445 million. Value wise it represented an increase of more than 3 percent over the previous year. The Service Sector was more dominant with a total loan of 202 for the value of SR47, 820, 741. This represents 78 percent of the total loan approval throughout the year. This was followed by the Tourism Sector with SR8.758 million, Agriculture SR2.130 million, Fisheries SR1.373 million and Industry SR1.363 million.

The Bank, through careful planning, maintained a good creditors' record with its local lenders. All local loan commitments were met on time and as scheduled. In respect to its overseas debts, the Bank remained unfortunate in meeting some of its recurrent repayment and clearing of its arrears, as well. Evidently, this unfortunate financial position remains largely influenced by the inaccessibility of hard currencies in the banking system.

On a brighter side, the Bank managed to collect a total of SR106.7M during 2007 as repayment on loans as opposed to SR63, 515, 286 million in 2006. This was an increase of SR33, 847, 714 over 2006. As compared to the previous year, the Bank continued to perform remarkably well with an operating profit standing at SR11.046M. However, the final result was adversely affected by an unrealised exchange loss of SR44M, which resulted in a net loss of SR34.9M. Obviously, this came as a result of Government decision to re-evaluate the Rupee to make it more competitive against major hard currencies traded on the local financial system, mainly the Euro and the US Dollar. Despite that adversity, the Bank's cash reserve stood at SR62.7M as at year end. With the anticipated improvement in the overall economy, it is most likely that 2008 will be a much better year for the Bank. Nevertheless, we will continue to seek every ways and means to limit our foreign exchange risks whilst at the same time try to improve our foreign exchange income.

Internally, the Bank's various departments have continued to contribute and support the Bank's many achievements. In 2007, the IT department introduced several measures to enhance the Bank's IT system. To name a few, it adopted a 'back up system' to secure the Bank's electronic data and this is performed on a daily basis. A server rack, two 3KVA UPS (standby power) and firewalls were bought in an effort to upgrade the Bank's IT system. The Praslin branch can now enjoy easy access to all databases on our internal Server (LAN) by means of VPN (virtual private network).

This year earmarks a great achievement for the Recovery department. The department managed to reduce the value of outstanding defaulters by almost 30 percent from SR30M to SR21M. This attainment had mainly been due to the department introducing a Recovery Committee that meets on a weekly basis to monitor progress of default cases. In addition, the department reviewed its credit control policy and reinforced its means of dealing with recalcitrant defaulters.

The Bank recognises the risks that exist in today's financial world; therefore, the need for internal control remains paramount in mitigating those risks. The Internal Audit department conducted several audits during the year, and some of the areas that were looked at included the Bank's health and safety policy, staff benefits and others. This department will continue to provide support to the Bank and assist in overseeing mainly internal risks without overlooking external risks through an effective internal control system.

Obviously, the Bank would not have been able to operate and function properly without the support of its Human Resource department. Staff training has always been of key importance and will continue to remain one of the Bank's priorities with the aim to increase staff awareness, broaden their knowledge on new challenges in the world of business that is rapidly changing. One of DBS senior staff member is currently pursuing a 3 year degree course in Human Resources and Development in Australia. Two other staff attended short term training in Ireland and Singapore, whilst another two more participated in a 2 weeks work attachment program at the Development Bank of Mauritius. Furthermore, several other staff attended courses at SIM in different fields of businesses. On the Administration side, major renovation works were undertaken to give the building a fresh look and creating a friendly and conducive working environment to its employees and customers alike.

Without failing to mention, during the year 2007, the Bank continued to play an active role towards supporting social development activities through various donations and sponsorship. DBS contributed close to SR300, 000 or almost 3 percent of its operating profit to sport clubs, non-governmental organisations including educational, health, environmental, cultural and many others.

Finally, I would like to extend my sincere thanks to our Board of Directors for their continued support and guidance, Management and members of our staff for their loyalty and hard work and more importantly, to our clientele for allowing us the opportunity to meet our objectives towards financing economically viable projects in the various sectors of the economy.

Management Report

Introduction

For the year 2007, one of the Bank's remarkable achievements was undertaken by its Recovery department. The number of delinquent debtors was escalating too high and the problem had to be addressed. Last year the team embarked on a plan to redress the situation; hence saw the creation of a Recovery Committee that meet once a week to discuss and tackle the problem of defaulters. It is to note that the Bank managed to reduce the amount of delinquent loans from SR30M to SR21M (29 percent), hence increasing our cash balance to SR62.7M as at December 2007.

The Bank also performed remarkably well in terms of business financing. Despite a reduction in the number of approved loans during the year 2007 compared to 2006 - 345; in terms of value there was an increase of over SR2.3M compared to its preceding year. The Bank seized the opportunities that were presented through Government's initiations in launching their Strategy 2017. Strategy 2017 led to the creation of a more conducive environment for businesses; thus brought about favourable business opportunities and as a result increased the demand for assistance from the financial sector. Evidently the Bank benefited from some of this economic prosperity and collectively, the Service industry brought in a total of 202 approved loans worth SR48M, 29 loans for the Tourism sector worth SR8.8M, 17 loans for the Industrial sector for SR1.4M, 12 Fisheries loans for the value of SR1.4M and finally 10 loans for the Agricultural sector for the value of SR2.1M.

It is worth noting that, DBS faced tough competition from other financial service providers notably the commercial banks which, because of their versatility, stood at a more competitive edge in terms of loan advances. DBS, fortunately, managed to surmount this challenge thanks to the sustainable support of its esteemed clients and strong customer-based relationship it has cultivated over the last three decades.

The Bank's operating profit for the year was recorded at SR11.046M. However, the reported profit was reduced considerably to a loss of SR34.9M; on account of SR44M of unrealised exchange losses sustained during the year 2007. Notably, repayments to our local creditors have been on time and on schedule, while, our repayment situation with respect to our foreign lenders have continued to be unfavourable especially with the CFD loan.

On the other hand, repayments to BADEA and ADB have remained on schedule and are being paid on time. Despite all, it is good to report that the Bank recorded an income growth of 3% on its loans, and to add further, the Bank in general performed profitably well during the year under review.

The IT department continued to play a major role in keeping the Bank abreast with the latest developments in IT security. Last year, major works were undertaken towards upgrading the Bank's networking infrastructures and securities. The Praslin Office can now enjoy easy access to all the Bank's relevant databases from our Internal Server (LAN). It is crucial to the Bank that maximum security is placed on its information system; therefore a Remotely Data Recovery backup was introduced.

Risk management and good corporate governance was welcomed by the Bank as a means to maintain internal control. Therefore, the Internal Audit department has continued in its capacity to assist in overseeing the duties and at the same time discharged its functions to its credibility.

The Bank has always recognised that investment in its staff is fundamental towards its growth. Hence, its policy on training remained a high priority during that year. The year began with the departure of one of the Human Resource Department's senior staff who left to pursue a three years first degree course in Human Resources and Development in Australia. Later on, two other senior staffs from other Departments attended two weeks short courses; one in Ireland and the other in Singapore; whilst another two more employees participated in a two weeks work attachment program at the Development Bank of Mauritius. Locally, several staffs had the opportunity to follow short courses in Business Studies conducted by the Seychelles Institute of Management (SIM). On the Administration, the department undertook renovation works around the Bank to give it a new and fresh look for its clients and staffs.

As a corporate entity, DBS has always taken its social responsibility towards the community at large. On a yearly basis since its inception, the Bank has made donations to various charitable, religious, Governmental and non-Governmental organisations and to other humanitarian causes not least to mention sponsorship towards sports and education.

DBS Investment

The Bank approved a total of 270 loans during that year; out of which included 202 loans for the service sector, 29 for the tourism sector, 17 for the industrial sector, 12 and 10 for the fisheries and agriculture sectors respectively. In monetary terms, the 270 loans were worth SR61.4M in total, which is SR1.7M more compared to 2006. Again the service sector remained dominant with a total of 202 loan approvals for the value of SR48M, which made it SR7.7M more than its previous year. The branch on Praslin also performed reasonably well, and, was able to contribute a total of 18 loans worth SR4.2M. Figures 1 and 2 below show the statistics of loans approved for the last five years.

Fig. 1

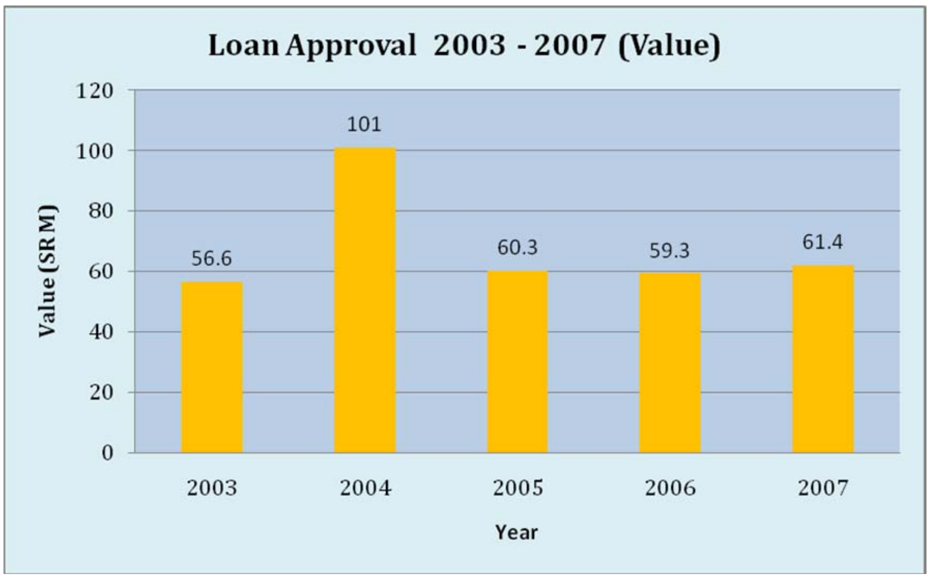
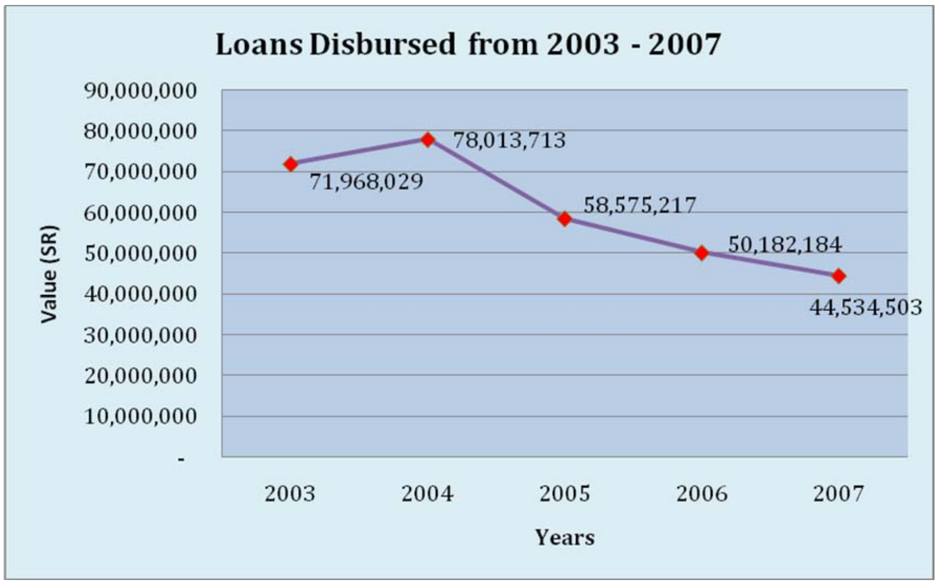


Fig. 2

Disbursement

Disbursement for the last couple of years has taken a downward but leveraged movement. A total of SR44.5M was disbursed during 2007. However, the Bank collected a total of SR106.7M on loans repayment, SR1M is interest during disbursement /grace and SR0.4M on application fee. A summary of the disbursement history over the last five years is represented on figure 3 below.

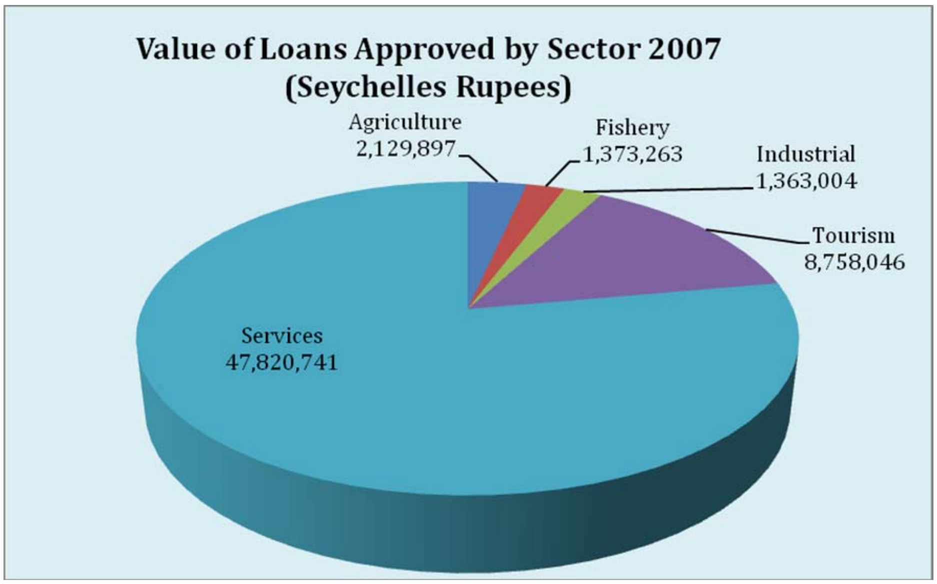
Fig. 3



Sectorial Analysis

Throughout 2007, DBS continued to support Government initiatives through the financing of the productive sectors of the economy with a view to help accelerate development of our country. The main financing activities remained focus on the sectors of tourism, agriculture, fisheries, services and industry. A look at DBS loan portfolio for this year, it recorded a remarkable improvement in the value of loans approved worth SR61.4M collectively. This represents 4% increase over 2006. Individual statistics for the five main economic sectors are illustrated on the chart below.

Fig. 4

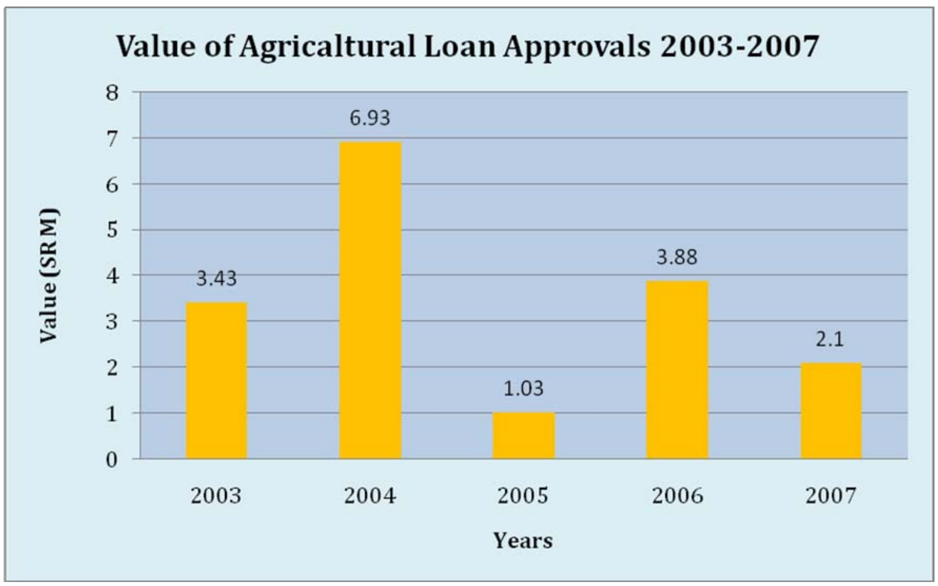


As it can be observed, the Service Sector continued to dominate the Bank's lending portfolio, with a take of approximately 78% in terms of value of the total for that year. The two lowest performers remained in the Fisheries and Industrial sectors both with a take of 2.3% and 2.2% respectively.

Agriculture

The number of loans approved for this particular sector has remained more or less monotonous with an average of 10 loan approvals each year for the last five years. Compared to last year, both in terms of numbers and in value, it experienced a downward movement with an 8 percent and 43 percent drop respectively. It should be noted that apart from the development Bank, there is another scheme; the Agriculture Development Fund (ADF) which is managed by the Concessionary Credit Agency (CCA) that is providing loan facilities to this sector. Figure 5 below provides a picture of business movement for this sector.

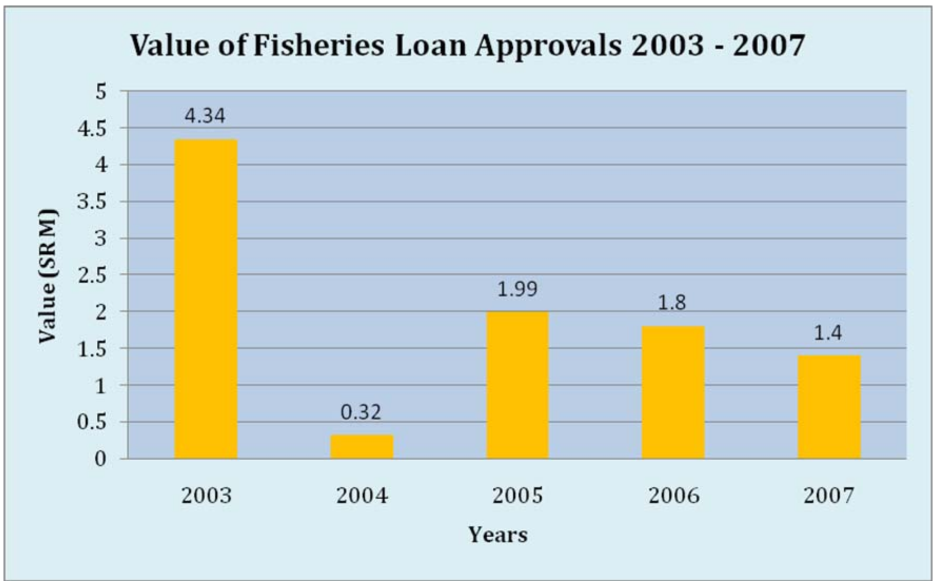
Fig. 5



Fisheries

This sector has experienced an unfortunate drop in the number of loans approved for the year under review. Compared to 2006, the total number of loans approved for 2007 was 12, representing a 52% fall. This result also affected the value of loans approved under this sector which was recorded at SR1.4M compared to SR1.8M for 2006. In relation to arrears, the Fisheries Sector has picked up by SR0.7M or 14 percent and is hoped that much improvement will be seen in the year ahead on account of Government's new concessionary schemes introduced during the year and the Bank's efforts to recuperate its debts from defaulters. Please refer to figure 6 below which illustrates the trend for the Fisheries sector for the last five years.

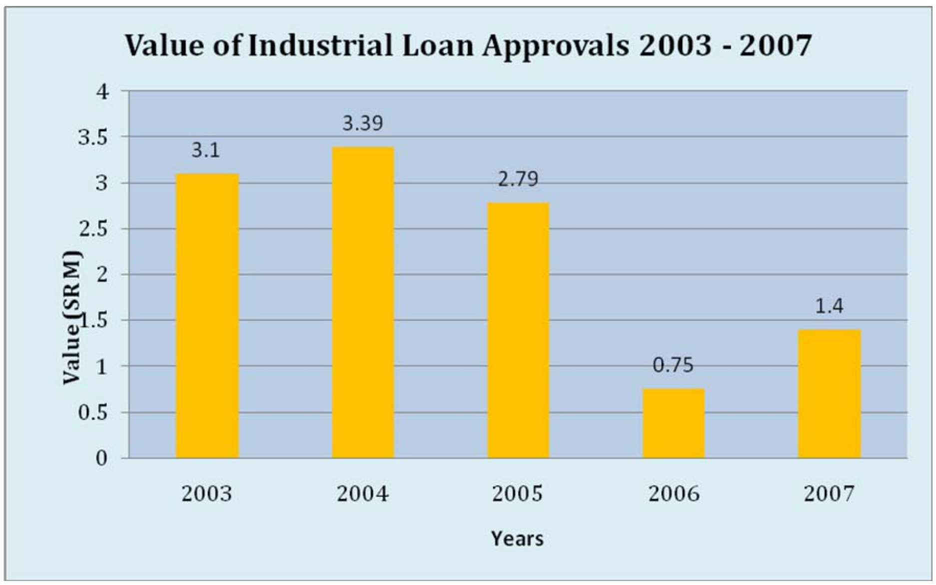
Fig. 6



Industry

The Industry sector continued to perform reasonably well from its previous year with a total of 17 loans approval worth SR1.4M. In contrast to the other two lowest performing sectors namely Agriculture and Fisheries; the Industrial Sector represents 6.3 percent of the Bank's total loan approval portfolio for the year 2007. In terms of its value it also increased by 27 percent. According to the Central Bank Annual Report 2007, this sector could have achieved higher results if it were not for short supply in essential quarry products, notably aggregate and crusher dust. The graph below shows the trend of the Industry sector for the last five years.

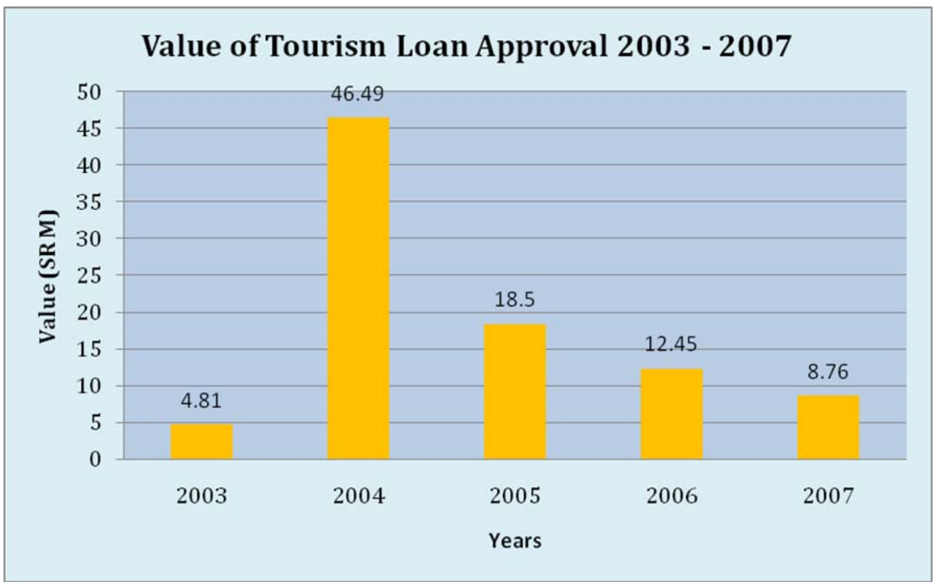
Fig. 7



Tourism

The Tourism Sector experienced an increase in terms of the number of loans approved. The year 2007 recorded a total of 29 loans compared to 22 loans of previous year. Unfortunately, its value dropped from SR12.45M to SR8.75M. This unfortunate drop has mainly been attributable to clients opting for better financial assistance available from commercial banks notably in the form of foreign currency which is a key ingredient in Tourism investment. Despite the drop in the Tourism sector portfolio, the Bank envisages positive improvement for the Sector next year as measures are underway to improve our lending facilities. Figure 8 shows the Tourism Sector movement in the value of loans approved from 2003 to 2007.

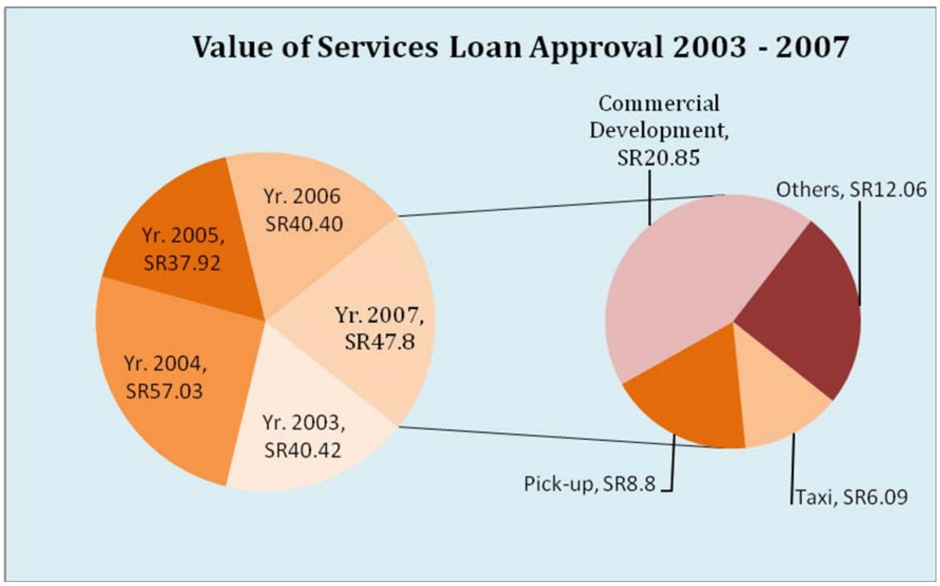
Fig. 8



Services

Activities in the Service Sector continued to boom contributing to at least 75% of the Bank's financing portfolio in terms of number of loans approved for the year 2007. Despite a drop of 23 percent in the number of loans approved for that sector, in terms of value it increased by 18 percent compared to 2006. In breaking down according to the various project financing for this sector, nearly SR20.859M worth of finance was allocated to the funding of commercial development. This was followed by the pick-up category, worth over SR8.809M, taxi recorded a value of SR6.091 and SR12.062M went to the funding of other various smaller categories of projects within the Service Sector. Figure 9 below shows the value of loans approved in the Service Sector for the last five years, plus it demonstrates the four major categories receiving financing in that sector.

Fig. 9



Financial Review

OVERVIEW

It can be reported that the Bank, has, for the last five years recorded on average, operating profits of SR12.5M annually. For the year 2007, the Bank's operating profit stood at SR11.045M. Despite the downward trend recorded in the operating profits, in contrast, the Bank's cash flow continued to accumulate and as at December 2007 a total of SR65.1M was recorded compared to SR26.28M for 2006. Net interest income for the year stood at SR18.21M; an increase that has been attributable to the Bank reviewing its lending charges on loans, plus due to increases of interest rate on DBS deposits being held in various commercial banks.

Provisions for doubtful debts was reduced considerably from SR3.184M to SR0.585M or by SR2.6M as some non performing loans were paid off and other clients managed to clear their arrears. The provision amount is now sufficient to cover for prospective bad debtors. Notably the Bank's recovery rate stood at 90.88% as at December 2007. A total of SR106.7M was collected as loan repayment, plus SR1M was collected as interest and SR0.4M on application fee.

Expenditure for the year decreased slightly compared to the previous year. From SR7.495M to SR7.173M, expenses went down by SR0.322M. The Administration Department in total budgeted for SR3.591M for the year 2007, but used SR2.730M instead. This is very encouraging considering the fact that last year the Department undertook major renovation works around DBS to give the Bank a nice facelift.

With regards to the Bank's balance sheet, DBS has maintained a healthy liquidity position as with previous years. It has been projected for this situation to prevail with the Bank being able to sustain its financial stand. Unfortunately, the Bank's gearing position was affected considerably due to the unrealised loss on exchange which have reduced our retained earnings significantly and increased our total loan exposure. Despite this adversity, the Bank remains optimistic and positive for a better financial performance next year.

Auditor's Report

We have audited the financial statements for the year ended 31 December 2007 on pages 2 to 10 which have been prepared under the historical cost convention and the accounting policies set out on page 5.

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 60% 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) are 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.

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 2007 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

27 February 2008

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2007

Financial statements are prepared in Seychelles Rupees

	Note			2006
Interest income	**1 (g)**			
Loan	**3**	**27,145,214**		**26,355,551**
Bank		**734,253**		**393,856**
Government Securities		**0**		**6,964**
			27,879,467	26,756,371
Interest Expense-Overseas loans-Normal		**(1,769,679)**		**(2,621,354)**
-Penal		**(4,761,664)**		**(2,936,818)**
Interest Expense-Local loans		**(4,032,095)**		**(2,545,120)**
			(10,563,438)	(8,103,292)
			17,316,029	18,653,079
Other income			**902,677**	835,590
Income (net)			**18,218,706**	19,488,669
Operating expenses				
Staff Costs		**4,424,756**		**3,910,293**
Administration expenses	**7**	**2,730,066**		**2,964,492**
Bad debts written-off		**18,207**		**620,912**
			(7,173,029)	(7,495,697)
Surplus before provision			**11,045,677**	11,992,972
Provision for depreciation	**19**		**(627,364)**	(541,445)
Provision for doubtful debts	**4**		**(585,585)**	(3,183,093)
Provision for foreign exchange equalisation fund	**2**		**0**	0
Provision for exchange (losses) gains	**18**		**(44,216,360)**	(18,471,486)
Profit/(loss) for the year			**(34,383,632)**	(10,203,052)
Retained earnings 1 January			**69,281,833**	79,484,885
Transfer to E.I.B. Reserve	**2**		**0**	0
Retained earnings 31 December			**34,898,201**	69,281,833

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

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Fax: (248) 224678

BANKER: Seychelles Savings Bank
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Seychelles Government