

DBS ANNUAL REPORT 2008

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MANAGEMENT REPORT

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Management Report

Introduction

The year 2008 proved to be undeniably challenging for the Development Bank of Seychelles, particularly in the fourth quarter of the year. Undoubtedly, the Bank absorbed its fair share of the global economic downturn. In November 2008, Seychelles Rupee was floated, consequently, forcing it to lose around 60% of its value against hard currencies namely the Euro, US Dollar and British Sterling. This negative effect caused the Bank's provision for foreign exchange losses to shoot up exponentially. With price inflation picking up high, both staff and administrative expenses shoot up to exceed our 2008 budget. Not least to mention our 2008 budget was also affected by the Voluntary Departure Scheme (VDS) that was launched early in October 2008 which scooped off a good SR566, 878.00. Another factor that affected our profit has been increases in interest rates due to the National Economic Reform Program that is being put in place to revive our economy on the whole. Interest rates rose to more than 15% on average in November. As a result, repayment on our loans increased severely, hence putting pressure on the bank's cash flow. Reciprocally, DBS also had to raise its interest rate charged to clients, results of which will be apparent during the course of next year.

On a positive side, amid the calamities of the economic, the Development Bank of Seychelles is pleased with its progress and achievement, and had remained realistic with the occurrences of the global economic crisis and Reform Program. As at December 2008, DBS achieved a 2.44% growth on net income for the year 2008 and still maintained a sound reserve of over SR43.905m. Our operating profit for the year stands at SR6.4m. A total of SR78.503m was collected on loan repayment; with 1million collected on application and other fees.

Moreover, the Bank performed well in terms of loan approvals during 2008. A total of 221 loans were approved for an aggregate value of SR86.19million. This represents a remarkable 40% increase over the preceding year's performance. Included in this figure is SR17.2million advanced to the agriculture sector, of which SR16.2 million alone were directly in support to Government's Food Security Strategy launched last year in an effort to boost the national food production in the wake of a worldwide food crises. The overall figure per se represents eight times the previous year's loan approvals to the agriculture sector.

Loans extended to the other sectors of the economy have also, in general, improved considerably in 2008 compared to 2007 results. The service sector continued to be the dominant area of financing with a total 148 loans approved for a value of SR47.086 million. This is followed by the Tourism

Sector with 22 loans worth SR14.263 million, Industry with 20 loans for a total value of SR5.826 million and Fisheries with 18 loans worth 1.866 million.

The Recovery Team has also been very busy dealing with recalcitrant defaulters. As at December 2008, the Department managed to recoup around SR5.22 million or 24.65% of monies that were stuck in arrears. This helped in keeping our loan recovery rate significantly high at 92.93%. To add further, arrears in 2008 reduced considerably and hence the provision for bad debts also reduced remarkably. This resulted in an extra income of nearly SR14 million to our profit and loss account.

Internal Audit

The Internal Audit Unit continued to give its support to the management. Anti-Money Laundering was one of the key area that were looked at last year, and in collaboration with the Financial Intelligence Unit (FIU) enacted by the Central Bank of Seychelles, a half day awareness class on AML was conducted for staff of DBS. A follow up seminar on KYC was due shortly after, but due to unforeseen circumstances, it did not materialize, however, it is expected that the FIU will endeavour it during 2009.

Internal control checks within the various departments were carried out, and it was found that the bank has been in most instances compliant with its policies, procedures and internal controls.

Information Technology

Since its initiation in 2006, the IT Unit continued to effectively implement the standards of the Information Security Management System (ISMS) ISO/IEC 27001:2005. One of the key areas for business continuity is data protection and this is where the Disaster and Recovery project came in.

In tandem with the ISMS standards it was found necessary to have an off site Data Recovery System away from the main office as a means of securing the bank's vital information from a wide range of threats in order to ensure business continuity.

Data are copied live (backup) to the off-site server through encryption (algorithm) for security through a 1 Gigabyte Optic fibre network. Also the off-site server acts as a standby in case the primary server fails.

Public Relation

As with previous years, we have continued to take our corporate social responsibility very seriously and have provided financial support of approximately SR300, 000.00 towards sponsorship and donations for health, education, environment, culture and to various other good causes.

Human Resource and Administration

As it has always been the case, staff development has remained the core of the Human Resources and Administrative department. The department has remained comprehensive in facilitating staff development via various educational programs set in local institutions, overseas workshop, bilateral cooperation attachments and university courses. Continuous effort for staff development over the years once again paid off in 2008 with the successful achievement of one staff who not only, successfully completed the Professional Level of ACCA examinations, but also won the National President's Award.

As part of the Economic Reform Program, the Government initiated Voluntary Departure Scheme (VDS), with aim to reduce the number of public workforce. The Human Resource Department had to comply as necessary; hence, the Bank saw a 10% reduction in its workforce through the said scheme. Despite the setback, the department managed to maintain a balanced staff levelling for the effective functioning of the institution.

To promote good quality service, DBS undertook major refurbishment works of its offices as well as replaced the old furniture with new and modern ones.

DBS Performance

The comparative figures for DBS performance in loan approval for the last two years are as follows:

Table1

2007		2008	
Number	Value	Number.	Value
270	61,444,951	221	86,194,482

Number-wise there has been a drop in the amount of loans approved in 2008 compared to 2007. This represents a fall of 49 loans or approximately 18%.

In term of the value of loans approved, there has been a remarkable 40% increase as noted earlier, representing some SR24.7 million above the 2007 loan value.

Figure 1 and figure 2 below show results of loans approved during the last five years in terms of number and value.

Fig. 1

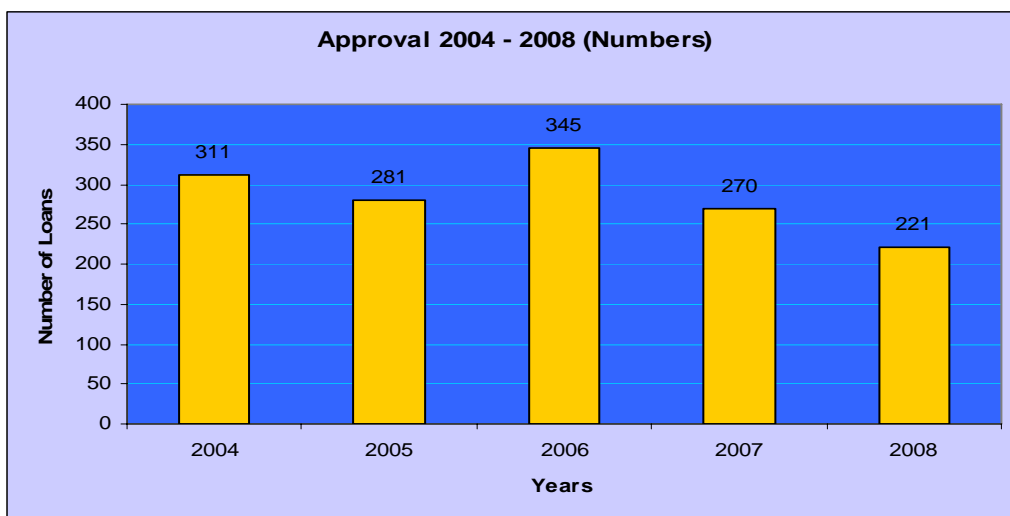
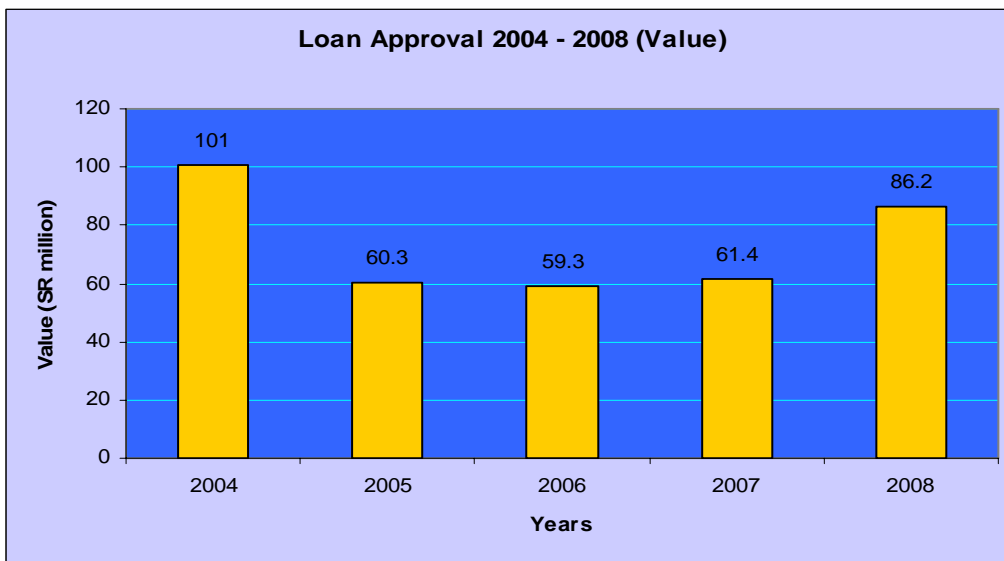


Fig. 2



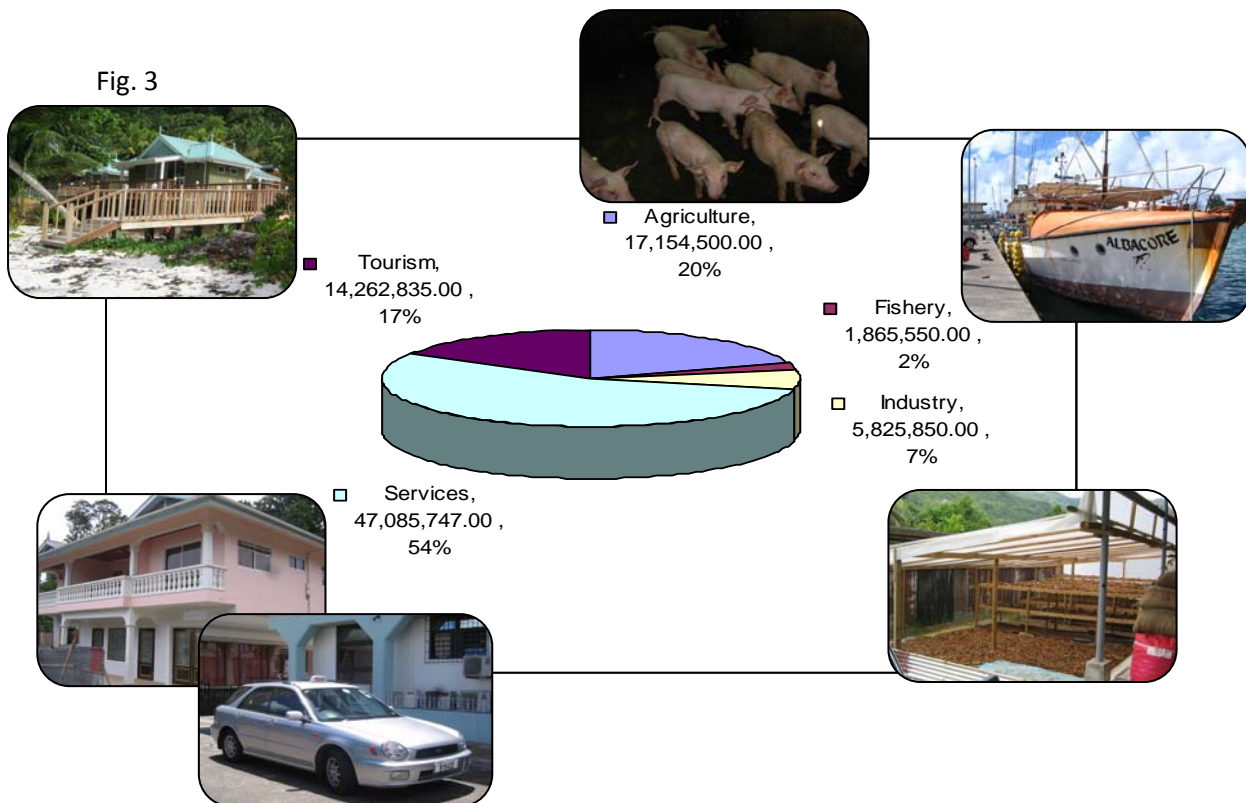
As it can be observed from the two graphs above, they show that although there has been a gradual decrease in the number of loans approved, there has been a reasonable increase in the amount of capital employed towards the five economic sectors of the country. The Bank is hopeful that this trend will continue as there are serious developers who are taking advantage of the prevailing economic situation. Needless to say, the Bank has remained rigorous and stringent when approving loans.

Disbursement

Total loan commitment for the year 2008, was recorded at SR71.99 million, of which SR38.93 has been disbursed and the rest due for call up in the coming year. It is to be noted that the Bank experienced quite an adverse take in terms of loan disbursement last year as more clients became more risk averse due to the economic conditions. On average the Bank disbursed SR3.24 million per month.

Sectorial Analysis

The Development Bank of Seychelles is a distinct financial institution for which it serves the purpose of promoting economic development in the country. To that effect, the Bank has continued to contribute in the development of both the risky and protected sectors of the economy. For the year 2008, the Bank sanctioned loans amounting to SR86.19 million to 221 loans. Comparative figures for 2007 and 2008 by sector are as follows.



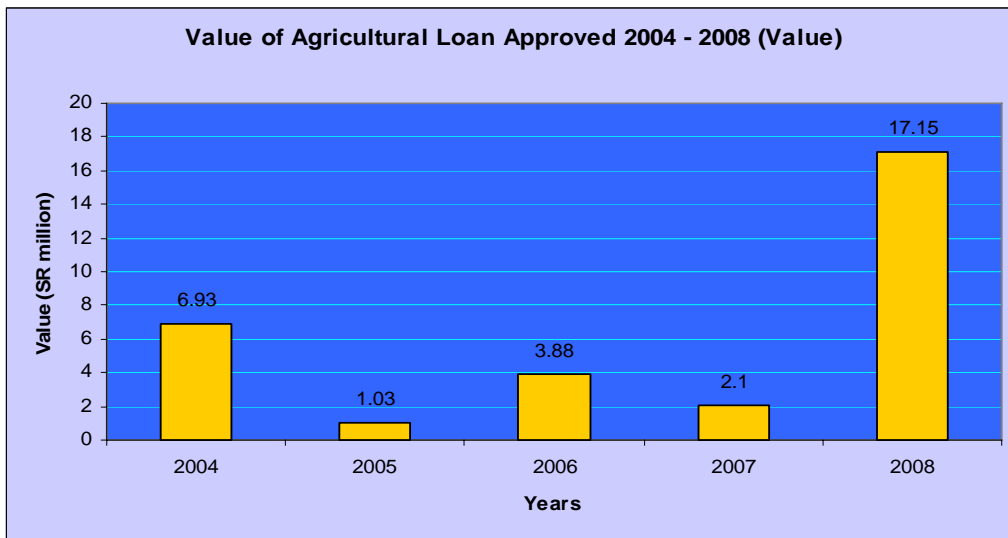
The Service sector clearly continues to be the dominant sector, whilst Fisheries and Industry remain the two struggling sectors; with the Fishery sector being rated quite risky for investment recording 2% contribution to DBS loan portfolio. For once, the year 2008 saw the Agricultural sector surpass the performance of that of the Tourism sector, but that is attributable to the Food Security Program that was initiated by the Government to combat potential food shortages in the country, at the peak of the global food crisis frantic.

Agriculture

The Agricultural sector has performed more than the Bank anticipated last year, but as mentioned earlier that has been due to Government's Food Security Program launched last year, whereby DBS was given the task to assist farmers with financial facilities. In total SR16.2 million was sanctioned to this cause. It is to be noted that the program did not last as anticipated in light of the national economic situation; as the Government had to embark on a supported IMF economic reform program to restore its economy. It is envisaged that once the country's economic conditions re-adjust, more financing will be demanded by this sector.

Fig 4 shows performance of the Agricultural sector over the last five years.

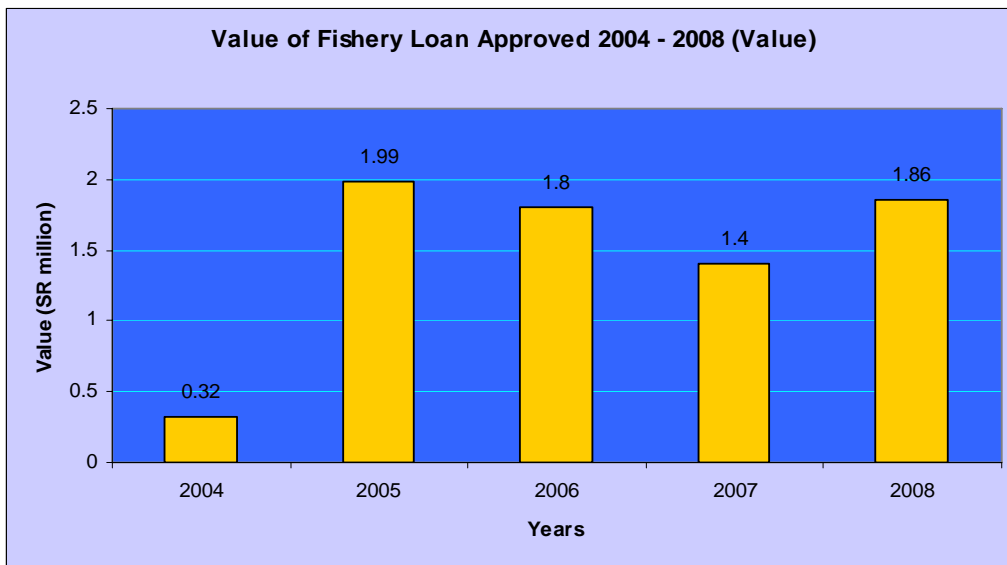
Fig. 4



Fisheries

Based on the Bank's statistics, performance of this sector is starting to pick up slowly. Financing to this sector is mostly related to the purchasing of boat engines and boats for artisanal fishing activities. Notably to say, artisanal fishery remains one of the most prominent sub-sectors of that industry. Value-wise the Fishery sector sanctioned a total amount of SR1.86 million, representing 35.85% increase compared to 2007. Figure 5 below shows a five year trend of this sector.

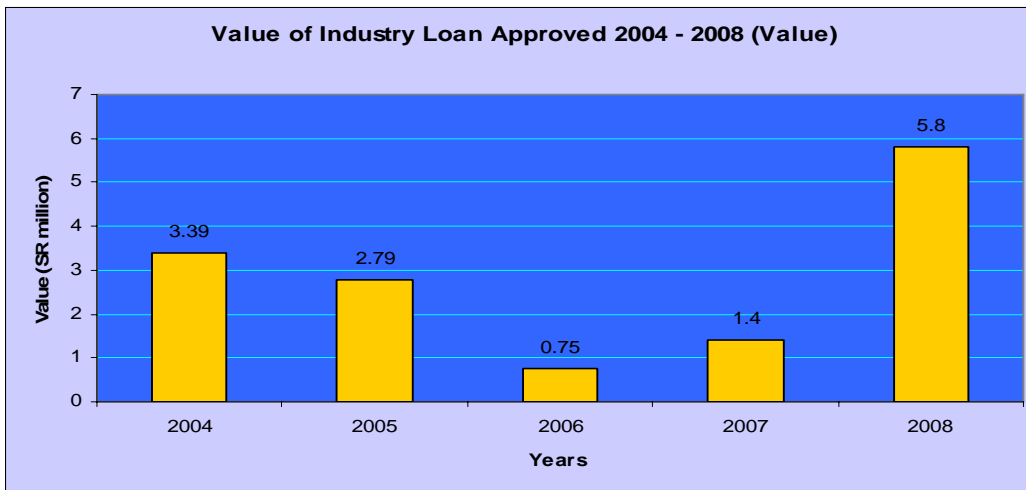
Fig. 5



Industry

Value-wise this sector has performed better than expected. The industry increased its growth by SR4.40 compared to year 2007, hence contributing to nearly 7% to the Bank's loan portfolio.

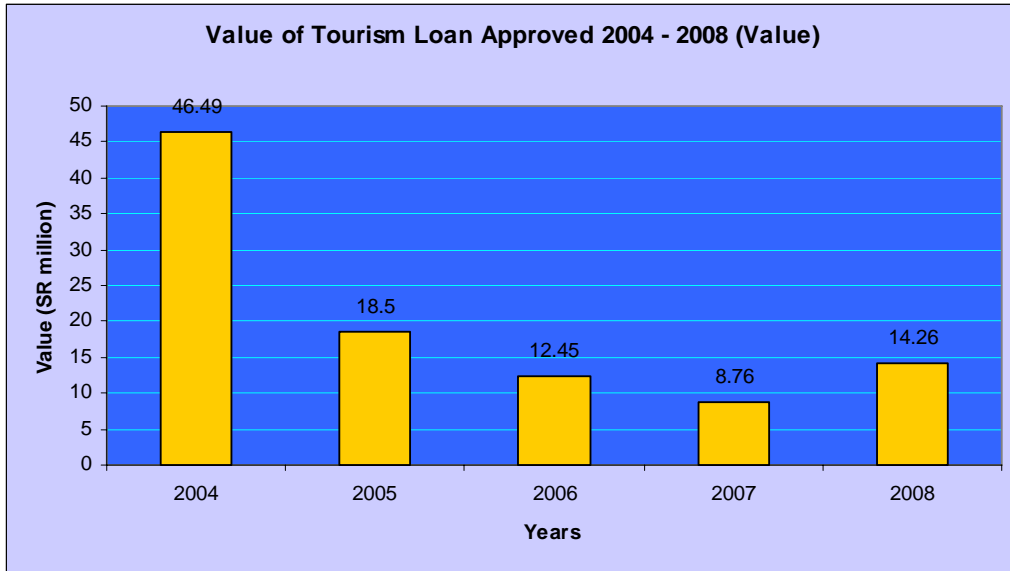
Fig. 6



Tourism

Development loans to the tourism sector have increased compared to the year 2007 to an amount of SR14.26 million. Performance in that sector has picked up at a slow pace, amid economic downturns, the Bank remains optimistic that once the economy adjusts to the new economic conditions, more financial aid will be sought from this sector.

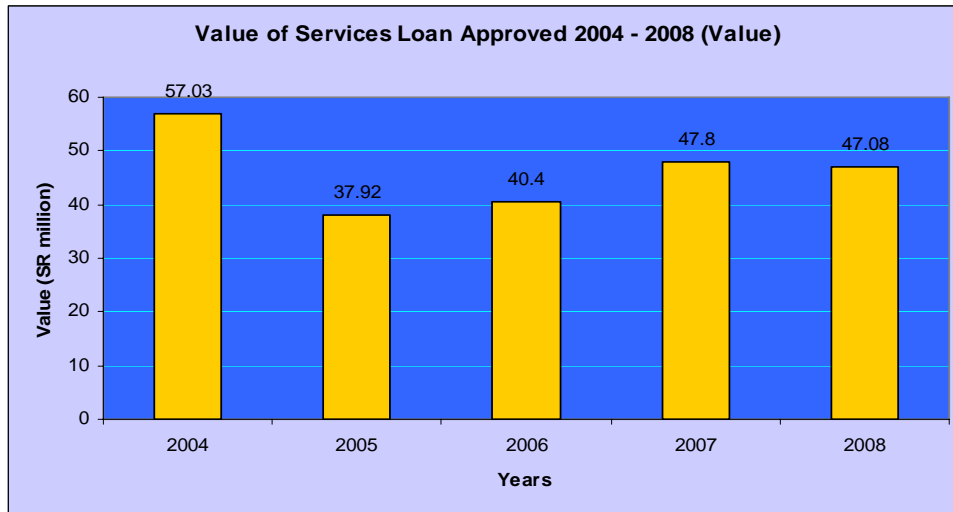
Fig. 7



Services

An amount of SR 47.086 million was sanctioned in favour of the Service sector for 148 projects relating to transport which include taxi and pick-ups for commercial purposes, car hire and boat charters, construction related projects, purchase of company cars amongst others. This figure has increased remarkably compared to 2007 figures which reported a total of 202 loans. Value-wise, growth in the Service sector contracted by 1.5%, but the Bank is optimistic that growth will pick up in the coming year in light of Government's initiatives and emphasis being placed to boost that area of the economy.

Fig. 8



Financial Review

The Bank's operating profit contracted by 41.6% reporting SR6.4 million, and a net loss of SR106.605 for the year end, mostly on account of the revaluation changes of the rupee resulting in a major increase of SR126.3 million in the Bank's provision for unrealised exchange losses. It is to be noted that business was very slow for the Bank last year as it faced tougher competition from other commercial banks, coupled with the sobering realities of the global economic crisis. Budgetary wise, the Bank tried to stay within its provisional budget for 2008. However, with increase in inflation, devaluation of the Seychelles Rupee and Government's VDS, these effects placed a strain on our projected budget, hence affected our operating expenses.

Despite that, the Bank's cash flow position was well maintained recording a cash surplus of SR71.84 million representing an increase of 10% compared to 2007. Total asset grew by 5% to SR342 million, due to increase in cash and revaluation in total provisioning for bad debts. As at December 2008, the bank still maintains a strong balance and good liquidity position.

On the overall outlook, the year ahead is expected to be challenging for DBS as local businesses adjust their operations and borrowings requirements in line with prevailing economic conditions, notably in the light of high interest rates and foreign exchange rates. Nevertheless, DBS is still seen as a preferred possibility for meeting long term funding requirements of businesses in this country, especially for small and medium enterprises. Hence, the Bank will continue to pursue its developmental role within the new economic environment of Seychelles.

Auditor's Reports

INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF DEVELOPMENT BANK OF SEYCHELLES

We have audited the financial statements for the year ended 31 December 2008 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 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.

Going concern.

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).

These loans which represent over 75% of the Bank's liabilities (excluding equity & reserves) are now all in arrears due to the Bank's inability to obtain the necessary foreign exchange to effect the repayments on the due date.

The lenders have not foreclosed nor given notice to foreclose but are charging penal interest on those loans in accordance with the terms of the loan agreement.

The financial statements have therefore been prepared under the going concern bases on the assumption that the lenders will not call for repayment of the loans within the next twelve months.

Opinion

On the basis herein therefore mentioned, in our opinion, the financial statements give a true and fair view of the Bank's affairs at 31 December 2008 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 principals generally followed in Seychelles.

Pool & Patel

Chartered Accountants

10th March 2009

DEVELOPMENT BANK OF SEYCHELLES

PROFIT AND LOST ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2008

Financial statements are prepared in Seychelles Rupees

	Note		2007
Interest income	1 (g)		
Loan	3	26,832,476	27,145,214
Bank		<u>1,976,251</u>	734,253
		28,808,727	27,879,467
Interest Expense-Overseas loans-Normal		(2,395,120)	(1,769,679)
-Penal		(6,183,410)	(4,761,664)
Interest Expense-Local loans		<u>(4,771,326)</u>	<u>(4,032,095)</u>
		(13,349,856)	(10,563,438)
		15,458,871	17,316,029
Other income		<u>1,251,157</u>	902,677
Income (net)		16,710,028	18,218,706
Operating expenses			
Staff Costs		5,709,531	4,424,756
Administration expenses	7	3,268,076	2,730,066
Bad debts written-off		<u>85,079</u>	<u>181,207</u>
		(9,062,686)	(7,173,029)
Realised losses on exchange		<u>(1,245,613)</u>	(80,719)
Surplus before provision		6,401,729	10,964,958
Provision for depreciation	18	(673,860)	(627,364)
Provision for doubtful debts	4	(13,953,031)	(585,585)
Provision for unrealised exchange (losses) gains	17	<u>(126,268,216)</u>	(44,135,641)
Profit/(loss) for the year		(106,605,316)	(34,383,632)
Retained earnings 1 January		34,898,201	69,281,833
Transfer to E.I.B. Reserve	2	0	0
Retained earnings 31 December		<u>(71,707,115)</u>	34,898,201

DEVELOPMENT BANK OF SEYCHELLES

BALANCE SHEET AS AT 31 DECEMBER 2008

Financial statements are prepared in Seychelles Rupees

	Note		2007
Assets			
Cash at bank	14	71,844,385	65,119,259
Deposits with government		0	0
Accounts receivable	13	<u>9,594,126</u>	8,382,600
		81,438,511	73,501,859
Loans outstanding (gross)	4	280,866,360	285,085,640
Less: provision for irrecoverable loans	4	<u>(24,284,467)</u>	(38,589,929)
Loans outstanding (net)		256,581,893	246,495,711
Treasury bonds		1,435,000	200,000
Investment in associated company	16	2,000,000	2,000,000
Fixed assets (net)	18	<u>2,840,576</u>	3,033,202
		342,295,980	325,230,772
Liabilities			
Accounts payable	15	3,858,124	2,667,022
Dividend payable		1,457,327	1,457,327
Long term borrowing-Overseas	5 (a)		
CFD		37,748,925	37,748,925
ADB		338,466	1,015,397
BADEA		<u>2,144,607</u>	3,140,330
		40,231,998	41,904,652
Add: Accrued interest thereon		<u>116,375,912</u>	54,679,414
		156,607,910	96,584,066
Provision for unrealised exchange losses(Gain)	1 (c)	<u>110,828,509</u>	37,998,668
		267,436,419	134,582,734
Long term borrowing-Locally	5 (b)	54,628,998	64,236,818
Fund under management	8	3,516,472	4,282,915
Share Capital	6	39,200,000	39,200,000
Reserves	2	43,905,755	43,905,755
Retained Earnings		<u>71,707,115</u>	34,898,204
		11,398,640	118,003,956
Total liabilities		342,295,980	325,230,772

DEVELOPMENT BANK OF SEYCHELLES

CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

Financial statements are prepared in Seychelles Rupees

		2007
Net cash inflow from operating activities		
Operating profit/(loss)	5,727,869	10,337,594
Depreciation charges	673,860	627,364
Profit on disposal of fixed assets	(23,467)	(47,269)
Profit/(loss) on exchange on interest & commitment fees	(53,438,375)	(17,051,799)
Bad debts w/off to provision	(370,431)	(94,253)
Loans to customers net of repayment	4,219,280	(37,071,353)
Increase in debtors	(1,211,526)	(1,717,636)
Increase in creditors	(1,191,102)	(523,028)
	<hr/>	
Investing Activities	(43,231,688)	28,602,326
Sale/(purchase) of treasury bonds/investment	765,000	400,000
Receipts from sale of tangible fixed assets	35,495	57,254
Payments to acquire tangible fixed assets	(493,262)	(1,117,823)
	<hr/>	
	307,233	(660,569)
	<hr/>	
Net cash inflow before financing	(42,924,455)	27,941,757
Financing		
External loans net of repayment	60,023,844	21,594,282
Local loans net of repayment	(9,607,820)	(10,986,783)
Decrease in managed funds	(766,443)	282,446
	<hr/>	
Net cash inflow from financing	49,649,581	10,889,945
	<hr/>	
Increase in cash and cash equivalents	6,725,126	38,831,702
Cash & cash equivalents 1 January	65,119,259	26,287,557
	<hr/>	
Cash & cash equivalents 31 December	71,844,385	65,119,259

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 the 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

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 expense 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 recognised as it accrues unless collectibility is in doubt.

2. Reserves.

The Movement in the reserve was as follows:

		2007
(i)	Contingency reserve	
	Balance 1.1.2008	39,583,919
	Balance 31.12.2008	39,583,919
(ii)	E.I.B Special reserve	
	Balance 1.1.2008	1,801,401
	Training in year	0
	Transfer during the year (note 13)	0
	Balance 31.12.2008	1,801,401
(iii)	Foreign Exchange Equalisation Fund - (FEEF)	
	Provision for FEEF on E.I.B Loan No. 4	
	Balance 1.1.2008	2,520,435
	Provision for 2008	0
	Balance 31.12.2008	2,520,435
		43,905,755

DEVELOPMENT BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

Financial statements are prepared in Seychelles Rupees

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 256,581,893 shown in the balance sheet is made up as follows:-

Long term loans (exceeding 7 years)	182,544,780
Medium term loans (between 2 & 7 years)	96,878,478
Short term loans (not exceeding 2 years)	1,443,102
	280,866,360
Less provision against private sector loans which may prove irrecoverable	(24,284,467)
	<u>256,581,893</u>

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

Balance 1 January 2008	38,589,929
Over provision written back during the year	(13,935,031)
Bad debts written off against provision	(370,431)
Balance 31 December 2008	<u>24,284,467</u>

Loans approved but not disbursed by the balance sheet date amounted to R70,526,728

DEVELOPMENT BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

Financial statements are prepared in Seychelles Rupees

5. Loan repayable

(a) Overseas loans

	Balance	Repayment	1st	Rate of	Scheduled
	31.12.2008	Period	Repayment	interest	Yearly
			due	per	Repayment
				annum	
African Development Bank					
Loan No. 3	338,466	7 years	01.02.2002	4%	640,987
BADEA	2,144,607	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	2,436,292	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%	1,031,221
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	<u>2,933,736</u>	5 years	31.10.1993	6.99%	1,113,720
	40,231,998				
Interest & commitments fees - accrued/exchange loss thereon	<u>116,375,912</u>				
	<u>156,607,910</u>				

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 plan.

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

Caisse Francaise 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 BADEA and ADB No. 3 loans are being paid in accordance with new terms, apart from that there were no repayments made during the year on the other loans.

DEVELOPMENT BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

Financial statements are prepared in Seychelles Rupees

(b) Local loans

	Balance 31.12.2008	Repayment period	1st Repayment due	Rate of interest per annum	Scheduled yearly Repayment
Barclays bank (Seychelles) Ltd	37,905,093	7 years	31.07.06	19.25%	9,850,909
Nouvobanq	<u>16,723,905</u>	7 years	24.04.06	16.25%	4,347,060
	<u>54,628,998</u>				

6. Share capital

The share capital of the bank is as follows:-

	1 Jan 2008	31 Dec 2008
Authorised 400,000 shares of R 100 each	<u>R40, 000,000</u>	<u>R40, 000,000</u>
Issued and fully paid Share of R 100 each	<u>R39, 200,000</u>	<u>R39, 200,000</u>

7. Administration costs

Included within the figure of R 3,268,076 is:-

		2007
(i)	Auditors Remuneration	66,353
(ii)	Professional fees	55,294
(iii)	Directors fees	363,188
		<u>195,000</u>

DEVELOPMENT BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

Financial statements are prepared in Seychelles Rupees

8. Fund under management

This comprises of the following funds: -

(i)	Fisheries fund	170,596
(ii)	Credit guarantee scheme	870,134
(iii)	MAF (GTZ) fund	55,329
(iv)	SFA fund	3,200
(v)	Agriculture Development Fund	2,417,672
(vi)	Seychelles Fishing Authority Fund	<u>(459)</u>
		<u>3,516,472</u>

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. Credit guarantee scheme

This fund of R 1,335,871 comprises of 4 years of annual contribution of R 60,000 each from Federick 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.

DEVELOPMENT BANK OF SEYCHELLES

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Financial statements are prepared in Seychelles Rupees

12. M.AF/GTZ revolving fund

This fund represents proceeds from sale of agricultural equipment donated by GTZ, a German state owned company. The fund is managed by DBS on behalf of 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.

13. Accounts receivable

Included in this item is the sum of R 8,098,134 which represents the balance outstanding on loans made to staff members.

14. Cash at bank

The amount of R 71,844,385 is made up as follows:-

	R
DBS bank accounts	69,812,860
Amount held in trust for:- Agriculture Development Fund-(ADF)	<u>2,031,525</u>
	<u>71,844,385</u>

15. Accounts payable

	R
Provision for staff gratuity & compensation	1,036,894
Other payables & accruals	<u>2,821,230</u>
	<u>3,858,124</u>

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.

DEVELOPMENT BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

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16. Investment in associated company

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. The full amount was received on 27 March 2008.

17. Provision for exchange differences

This is made up as follows:-

	R
Realised losses on loans repaid	1,245,613
Increase in balance sheet provisions	72,829,841
Increase in exchange differences on interest accrued	<u>53,438,375</u>
	<u>127,513,829</u>

18. Fixed assets

	Freehold Property	Furniture & Fittings	Office Equipment	Motor Vehicle	Total
COST					
At 1 January 2008	6,111,660	958,223	3,003,834	462,317	10,536,034
Additions	43,884	268,455	180,923	0	493,262
Disposal	0	-604,628	-178,232	0	-782,860
At 31 December 2008	<u>6,155,544</u>	<u>622,050</u>	<u>3,006,525</u>	<u>462,317</u>	<u>10,246,436</u>
DEPRECIATION					
At 1 January 2008	3,976,586	893,851	2,350,876	281,519	7,502,832
Additions	225,344	70,929	315,862	61,725	673,860
Disposals	<u>0</u>	<u>-592,600</u>	<u>-178,232</u>	<u>0</u>	<u>-770,832</u>
At 31 December 2008	<u>4,201,930</u>	<u>372,180</u>	<u>2,488,506</u>	<u>343,244</u>	<u>7,405,860</u>
Net book value	<u>1,953,614</u>	<u>249,870</u>	<u>518,019</u>	<u>119,073</u>	<u>2,840,576</u>
At 31 December 2007	<u>2,135,074</u>	<u>64,372</u>	<u>652,958</u>	<u>180,798</u>	<u>3,033,202</u>

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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 report values of the bank's foreign assets and liabilities.

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

	Financial assets R	Financial liabilities R
Euro	0	262,220,775
US \$	800,053	6,672,971
Seychelles R	338,655,351	62,003,594
	<u>339,455,404.00</u>	<u>330,897,340</u>

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

Euro 1.00 = R 22.8713

US \$ 1.00 = R 16.5732

Liquidity risk

Over the 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 53,482,674 (see Note 4) at the Balance Sheet date. The bank mitigates its liquidity risks by a strict monitoring of lending portfolio.

Interest rate

Interest rate risk is the potential impact of the changes in market 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 enduring a fair positive margin between borrowing and lending rate.

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Seychelles Government

