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BUSINESS OVERVIEW

2011 was another remarkable year for the bank. The bank managed to keep up with its main objective which is to provide financing to the productive sectors of the economy. The Bank approved a total of 325 loans for a value of SR 181 million. This was the second highest recorded loan approval since its inception. Both the number and value of loans could have been more had the bank not take a decision to suspend vehicle financing from July 2011.

For the year 2011, the bank achieved a good financial performance. We managed to increase income by SR 6.87 million, control our expenses and achieve a profit before provisions of SR 20.05 million. The bank obtained a 45% debt forgiveness on the AfD lines of credit and the loan was re-structured over 15 years after a moratorium on capital repayment of three years. The loan is presently in Seychelles Rupees and does not tie us to any foreign exchange risk. After considering the debt forgiveness, the bank achieved a final profit of SR 110.99 million. Despite the good financial achievement, the bank faced difficulties to raise long-term funds to continue with its lending activities and we only managed to raise short to medium term funds through domestic bonds issue.

DBS undertook some important strategic changes in 2011. The bank set up the risk committee to oversee the development, implementation and maintenance of the overall risk management framework and its risk appetite, strategy and policies to ensure that these are in line with good corporate governance and industry best practice. In addition, the bank started the implementation of a new banking software with the aim to facilitate fast information processing and to provide customers with real time information.

The bank continued to intensify its effort to recover as much arrears as possible from the loan defaulters. Much progress was observed from the category of non-performing loans as a percentage of total loans in DBS portfolio. There was a remarkable improvement from 23% in 2007 to 13% in 2011 and this was within the norm as set by the Association of African Development Finance Institutions. This was a very good achievement when considering both the prevailing economic and market conditions.

DBS employees continued to be the key attribute in its drive for success and the bank recognises the importance of maintaining a balanced workforce. Staffs received both local and overseas training with the aim to achieve a diverse and professional team within the bank. The bank continued with its policy of corporate and social responsibility in 2011. A sum of SR 250,000 were given out as donation and sponsorship to various sporting events including the Indian Ocean Island Games and other educational and youth recreational activities to assist in keeping our young people away from the social scourge of drugs and alcohol abuse which are affecting our local communities as large.

In general, we can say that 2011 was in fact a good year for the bank.

MANAGEMENT REPORT

CORPORATE GOVERNANCE

Composition of the Board

The DBS Board of Directors comprises of seven Non-Executive members plus the Chief Executive Officer and they are as follows:

- Mr. Barry Faure – Chairman – Non-Executive
- Mr. Rupert Simeon – Vice Chairman - Non-Executive
- Mr. Roger Toussaint – Chief Executive Officer – Executive
- Mr. Fred Hoareau – Ordinary Member - Non-Executive
- Mr. Serge Benstrong - Ordinary Member- Non-Executive
- Ms. Rosanda Alcindor - Ordinary Member - Non-Executive
- Mrs. Ina (Henriette) Barbe - Ordinary Member - Non-Executive
- Mrs. Santasha Houareau - Ordinary Member - Non-Executive

The members are appointed by the President of Seychelles which is inline with the Bank’s Decree 21, the statutory document which details how the bank should be governed. The Directors represents various sectors that the bank provides financial assistance such as Tourism, Agriculture, Fishing, Small Industries etc.

Board Training

Four members of the Board attended the ‘Welcome A Board Training’ in 2011 which was organised by Seychelles Management of Institute. The training was designed to increase the Director’s knowledge with respect to their roles and responsibilities as a Board Member and the importance of good corporate governance.

Board committees

Currently, there are three sub committees on the Board of Directors of the bank and their roles and responsibilities are as details below:

Audit committee

The committee monitors and review the formal arrangements established by the Board in respect of the financial statements and reporting; internal controls and risk management framework; the internal audit and the bank's relationship with its external auditor. When the committee was formed initially there were only two non-executive members. In June 2011 the members were increased to three to make it easier for them to take decision especially when it comes to voting.

Risk committee

The risk committee was formed in 2011 and its charter approved in April 2011. The members are both Executive and Non-Executive. The roles and responsibilities are to review and report to the board on the bank's risk appetite and risk management framework.

Remuneration committee

The committee sets the principles and parameters of remuneration policy for the bank, and to oversee such policy and outcomes within the scope of the committee. There are three Non-Executive board members on that committee

Director's conflict of interest

Members of the board must declare their interest in any activities that are financed by the bank. When a decision is being made on a matter which a member has financial interest, that member must not take part of the group approving the decision.

Director's remuneration

The Executive Director is employed full time with the Bank. His salary package included his salary plus transport facilities and is entitle to bonuses. The CEO is on a three year contract and at the end of the contract he is paid his compensation based on his performance as assessed by the Board of Directors and the Public Service Commission.

The Non-executive Directors attended meeting once a month and in addition any ad hoc meeting when necessary.

Both the Executive and Non-Executives were paid a total annual salaries and allowances of SR 528.5 thousand while their combined yearly bonuses amounted to SR 70.1 thousand.

Table 1

Directors	Annual salary (SR)	Bonuses
Non-Executive	158.4K	13.2K
Executive	370.1K	56.9K

New and amendments to bank's policies

All policies or any major amendments to the existing policies are presented to the Board for approval.

INVESTMENT

DBS main objective is to provide financing to Agriculture, Fisheries, Industry, Tourism and Service sectors in Seychelles. The year 2011, was another year where we saw a lot of demand for loans. The result being that DBS lending criteria were more favourable to promoters of project development. In 2011, the bank approved a total of 325 loans worth a total value of SR 181.27 million which proves that DBS continued to provide financing to the ailing business community. The total loan approved in 2011 showed a reduction of 33% compared to 2010. The bank acknowledged that in 2010, it approved a large number of loans which were still awaiting disbursement and decided to restrict loan approval from mid 2011 to contain its liquidity constraint.

Therefore, in July 2011 the bank imposed a temporary halt on vehicle financing. The reason being that disbursement for vehicle is done in one go and it depleted the cash-flow rapidly. Furthermore, the bank felt that it had provided financing to a much larger volume of projects such as taxi, car hirer operators, pick-up hirer, omnibus and vehicles for other business purposes.

Fig. 1



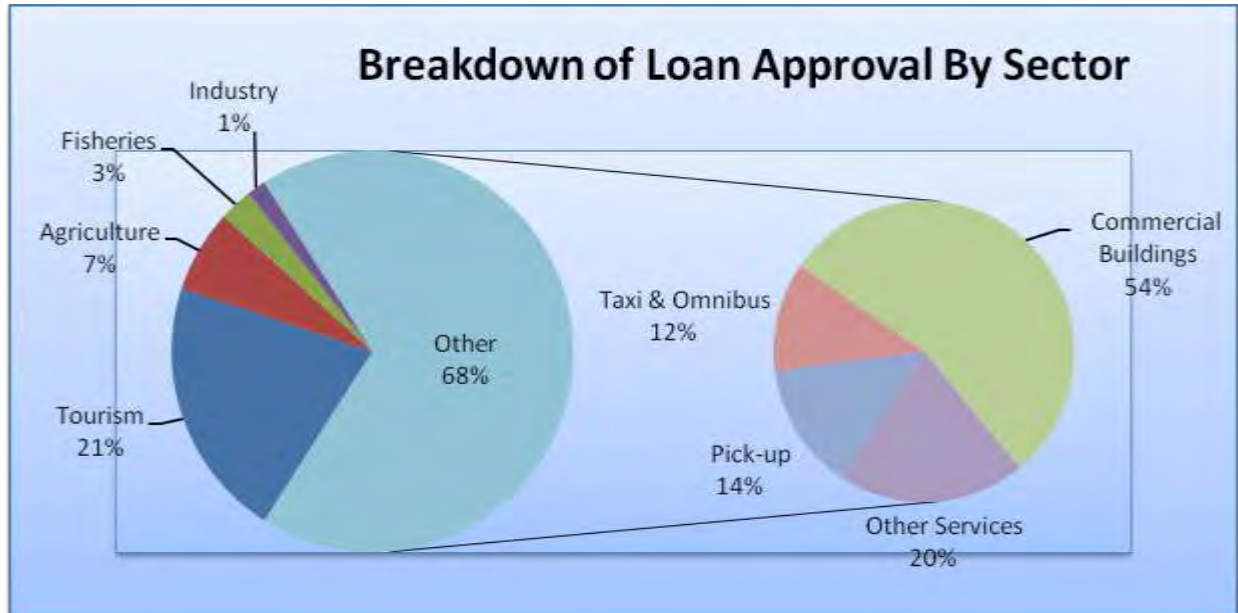
Fig. 2



Break down of loan approval in 2011 by sector

As previously stated the total loan approved in value-wise for 2011 was SR 181.272 million. The Service sector dominated the total loan approved with 67%, followed by Tourism with 21%. The Industry sector remained the lowest beneficiary with 1% followed by the Fisheries sector with 3% and Agriculture 7%.

Fig. 3



The Service sector is very wide and has several sub sectors such as taxi, pick-up hirer, omnibus, commercial development and others.

Commercial development comprised of projects such as commercial complex, shops and luxury apartments and flats for rental. The total loan given for that sub sector represents 54% of loans given for the entire Service sector. This is mainly because the investment cost for projects of that nature is generally huge.

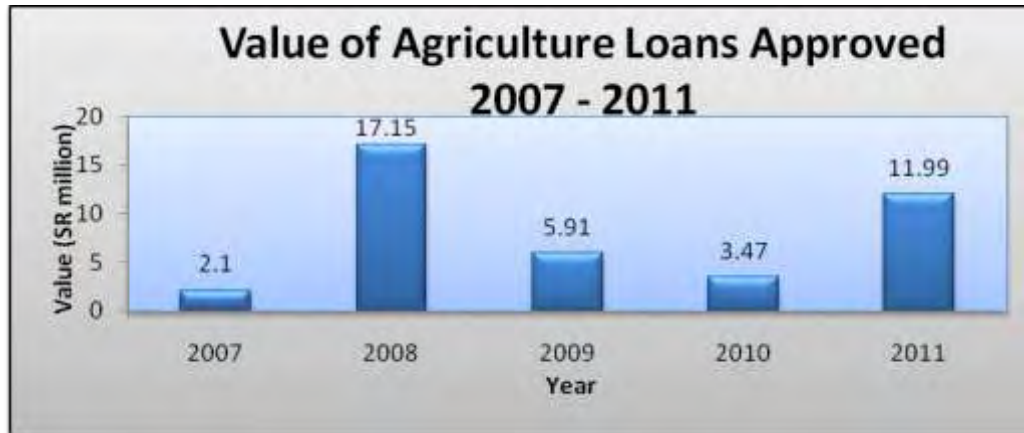
Vehicle financing represented 26% of the total loan given for Service sector and this excluded loan given to car hirer operators as it falls in the category of Tourism project in DBS loan portfolio. Out of the 26% loan for vehicles, 14% was given for the purchase of pick-up for hiring purposes or attached to other projects like maintenance and construction contractors, 8% for omnibus and 4% for taxis operators.

Other Service projects which comprised of hair dressers, take-away, retailing business, day care centre etc, represents 20% of the total loan for service sector.

Agriculture Sector

The Agriculture sector picked up well during 2011. The bank approved 15 loans for a value of SR 11.99 million. In value-wise, this was the 2nd highest value of loan for agriculture during the last five years. Loans to this sector have been mainly for developing the farming business such as upgrading the existing infrastructure, purchase of new farm and purchase of equipment and vehicles for farming.

Fig. 4



Crop Farming/ Pumpkin



Banana Plantation



Crop Farming/ Lettuce

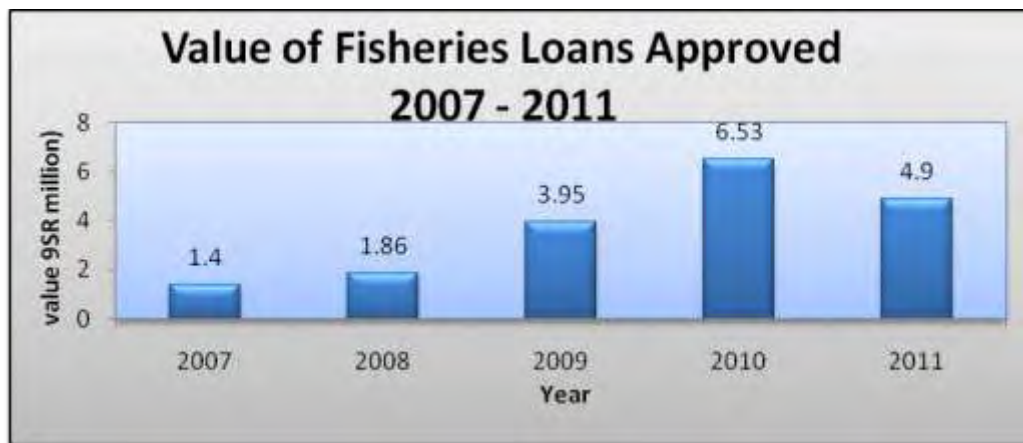


Pig Rearing

Fisheries

Despite the piracy problem in the Seychelles waters and other adverse economic factors, the Fisheries sector performed reasonably well. The bank approved 25 loans for a value of SR 4.9 million. This shows a decrease of 25% compared to 2010 but the result was better than the preceding three years. It is worth noting that the figure does not include loans approved under the EU/ SFA Fisheries fund which is managed by the Bank. As usual, loans to this sector are for the financing of boat (reparation, purchase of new one or construction), engine and purchase of fishing equipment.

Fig. 6



Fishing Boat

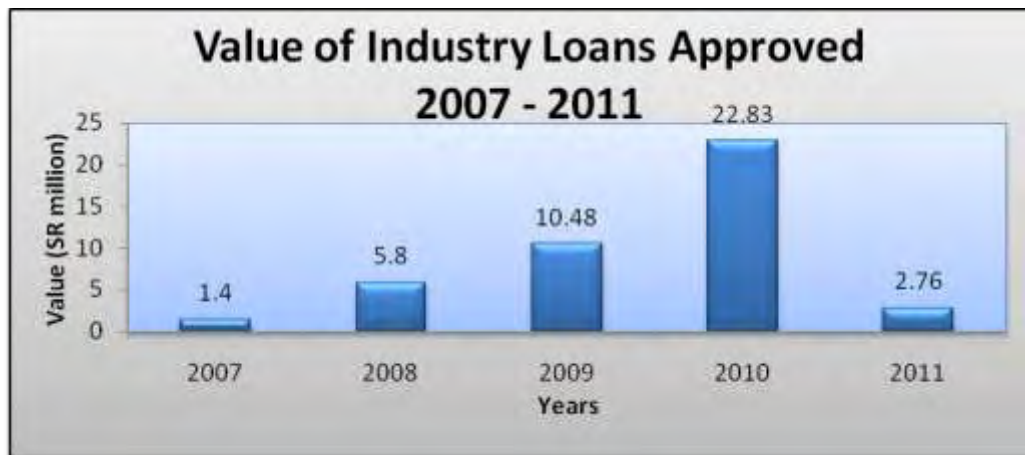


Fishing / Diving Gears

Industry

For 2011, the bank approved a total of 25 loans for the Industry sector for a value of only SR 2.76 million. The bank was receiving smaller projects for this sector and most of the projects were for the purchase of equipment and raw materials. Comparing the 2011 result with the previous year (2010) the demand for industrial project dropped by 88%. For the last five years, 2011 was the year that the bank recorded the second lowest loan approval in value-wise for this sector. This could be mainly attributable to a large number of these small sized projects being catered / financed by the Concessionary Credit Agency (CCA)

Fig.7



Tailoring Business

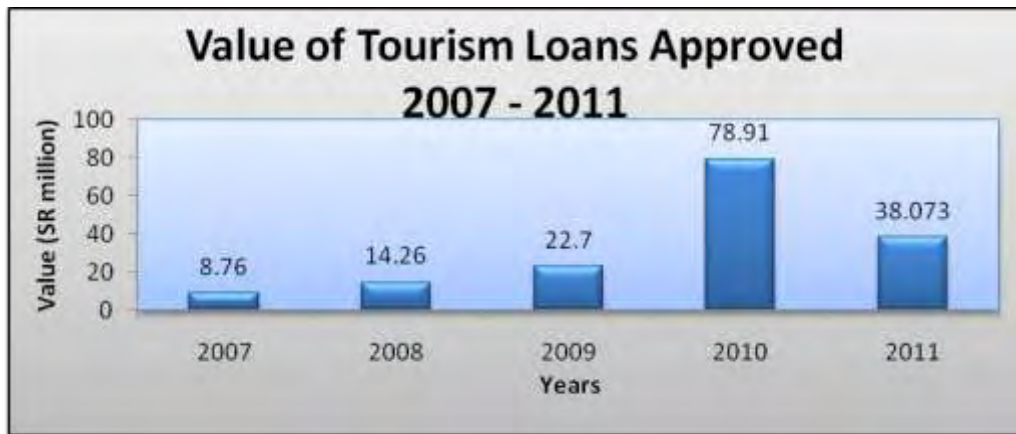


Printing/ Graphics Design

Tourism

The bank approved 42 loans for a value of SR 38.07 million during 2011. This was the second highest loans approval in value-wise over the last five years. In 2010, the bank registered the highest value of loan approved which was more than twice the value that was approved in 2011. The bank approved a few loans for self catering chalets but the majority loans were for car hire businesses.

Fig. 8



Small Guest House

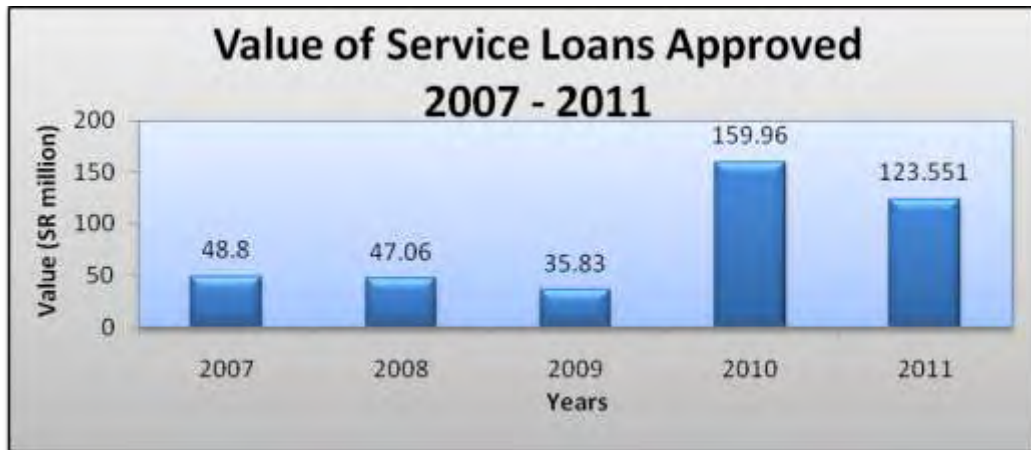


Boat Charter

Service

As it has always been the case, the Service sector is the largest sector in DBS loan portfolio. For 2011, the bank approved a total of 218 loans for a value of SR 123.551 million. All loans which do not fall into the above four sectors, are categorized under the service sector. Although in 2011 the bank reported a decrease in loans approved by 23% compared to 2010, the result was still better than the previous three years under review.

Fig. 9



Medical Clinic



Commercial Building under construction



Cherry Picker Truck for commercial hiring



Car Garage/ Car Body repair

RECOVERY PERFORMANCE

During the year 2011, the bank continued to intensify its effort to contain the level of non-performing loans and recover as much arrears from defaulters. Such tasks are not always easy as there are many factors which prevent the borrowers from honouring their loan repayment in accordance with their loan agreement which include the following:

The Economic Condition

In 2011, the Seychelles economy was recouping slowly after the launching of the International Monetary Fund supported economic reform program late in 2008. However there were certain uncontrollable factors such as the major foreign currencies appreciated against our rupee which resulted in increase in certain commodity prices, fuel, utility bills etc. All these contributed to the increase in the business' operational expenses hence preventing the borrowers from keeping up with their loan repayment.

The Market Condition

Seychelles is a very small market and several promoters tend to be doing the same type of business activities. Therefore promoters are often faced with tough competition not only amongst themselves but also from other unlicensed businesses like the taxis, car hire operators, omnibus businesses, take-away, snack producers etc.

Other Factors

During 2011 the Somalia Pirates continued their activities in the Indian Ocean particularly in the Seychelles waters or EEZ which prevented many fishermen from going out on long fishing trips. The boat charter businesses were also affected by this situation and of course it resulted in low income for these businesses hence increase in loan defaulters for DBS.

There were also some new businesses which got difficulty to launch their business on the market due to poor publicity or just bad timing. There are reports that certain businesses which tried very hard to start trading but could not break-even hence defaulted on their repayment.

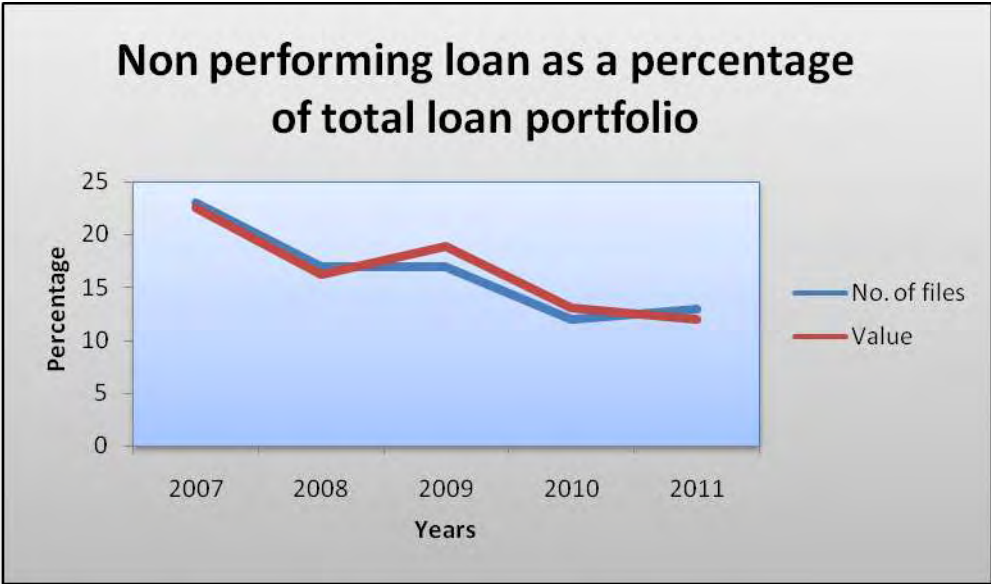
The farmers particularly the livestock producers were also affected due to lack of animal feed on the market and difficulty to sell their end product as the imported meat were selling at a cheaper price than the ones being produced locally.

Despite all the above setbacks, the bank was able to contain the situation and tried every possible means to recover bad debts. During 2011 many guarantors were called upon to honour their obligation after the Bank has exhausted all the necessary steps to collect funds from the borrowers. A remarkable number of vehicles, boats and equipment were seized and disposed off by way off public auction as a means to recoup losses.

Non-Performing Loans

Non-performing loans are loans which are in arrears three months and above. Graph 10 below shows DBS non-performing loans as a percentage of total loan portfolio in both number of loans and in total outstanding debts (value) for the last five years.

Fig. 10



In 2011, the Bank had 1,435 loans in its portfolio for a total outstanding amount of SR 483,301,752. In 2007 the Bank's non-performing loans were quite high at 23% of its loan portfolio. The bank enforces on its recovery team and managed to reduce the number of files to 13% and total outstanding loan amount to 12% in 2011.

SECTORIAL ANALYSIS

DBS loans are mainly from five sectors as mentioned earlier. Graph 11 below shows the non-performing loans in number-wise by sectors as a percentage of the total loan portfolio in each sector whilst graph 12 shows the total outstanding loan of non-performing loans as a percentage of the total outstanding in each sector.

Fig. 11

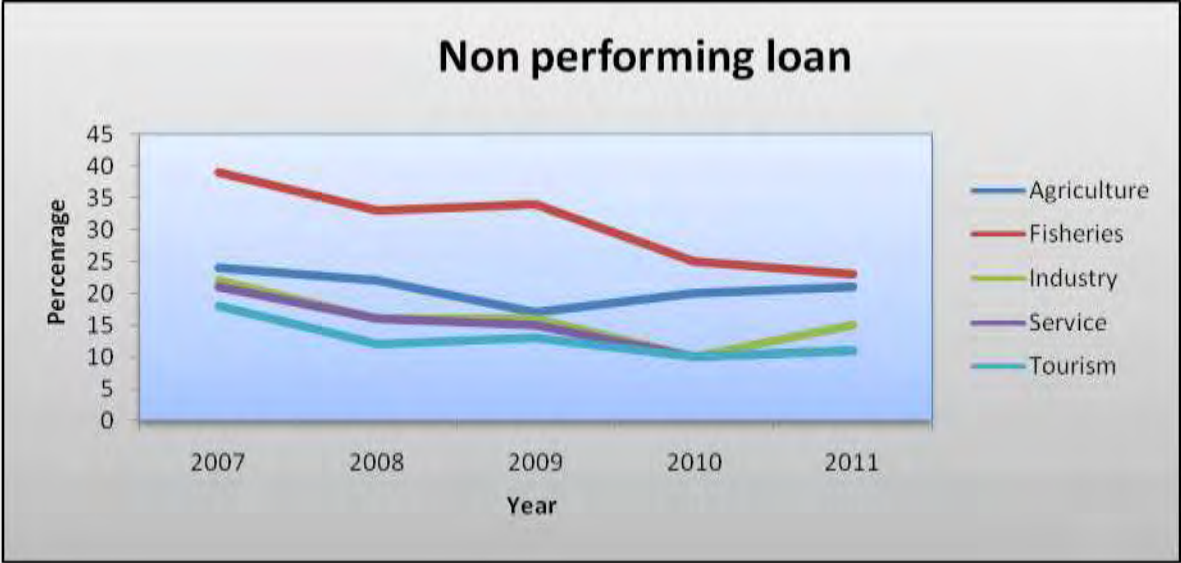
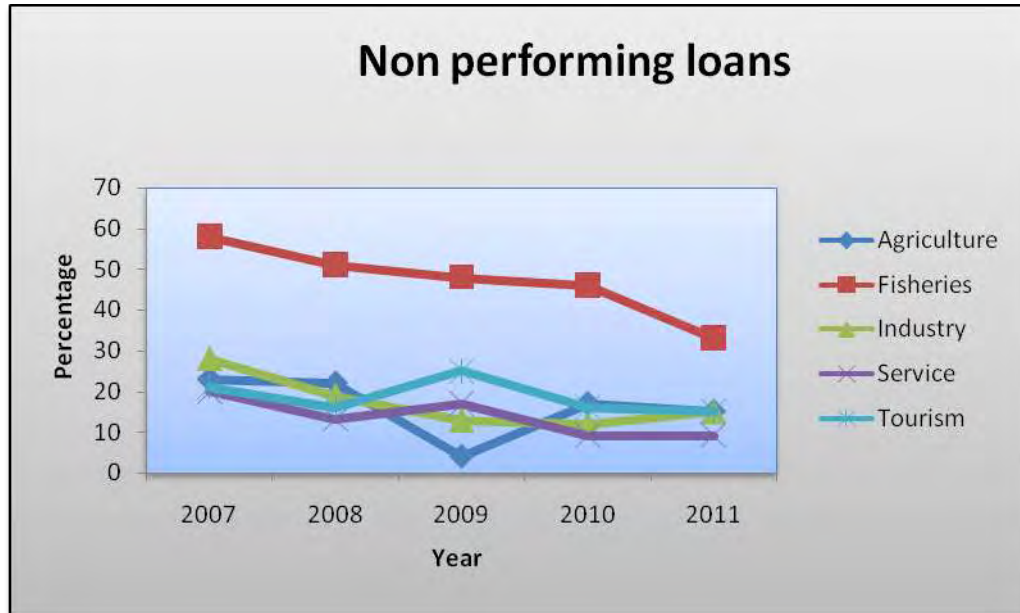


Fig. 12



As can be seen from both graphs Fisheries was the worse sector followed by Agriculture as the second worst in number of files in arrears. In total outstanding value Agriculture was the second best sector as small farmers were the ones being mostly affected by either natural disaster, shortages of animal feed or other negative impact as they do not have other sources of income to help them meet their loan repayment. Tourism and Services were the two best sectors.

Agriculture

In 2011 the Agriculture sector had 58 loans for a total outstanding value of SR 25.7 million. Out of these 12 loans were classified as non-performing and the total loan outstanding were SR 3.7 million. Value-wise this amount represents 14% while number-wise it represents 20%.

Fisheries

A total of 56 loans out of 143 loans were classified as non-performing loans in 2011. The total outstanding loans for the Fisheries sector were SR 19 million and out of these SR 6.2 were for non-performing loans. Compared to the previous years, there was a reduction in the non-performing loans for fisheries sectors. Value-wise this amounts to approximately 33% value-wise and 39% number-wise.

Industry

In 2011 there were only 111 loans in DBS loan portfolio and out of these 17 loans were classified as non-performing. The total outstanding loans for non-performing classification amount to SR 2.6 million out of a total outstanding loan of SR 18.1 million. This represents 14% in value wise and 15% number wise.

Services

This is the sector which consumed most of the bank's capital. There were 976 loans from the Service sector and 109 are considered as non-performing. The total outstanding loan for Service sector was SR 284.9 million and the non performing loans had a total outstanding value of SR 24 million. This showed that in value wise non-performing loan represents 8% and number wise 11%.

Tourism

Although Tourism sector is not very large in terms of number of loans but in value-wise it is considered to be a big sector. In 2011, the bank had 172 loans in its loan portfolio for a value of SR 135.4 million. Out of these 19 loans were classified as non-performing and their loan outstanding value was SR 20.8 million. This represents 11% in number wise and 15% value wise.

RISK MANAGEMENT

Prior to 2011 DBS did not have a proper risk management structure in place. Each line Manager was identifying risks in their respective department and report on how they are mitigating the risks. In 2011 the bank decided to establish a separate unit to handle all risk issues. The Board approved the risk charter and a risk committee was subsequently set up with the specific responsibilities to oversee the development, implementation and maintenance of the overall risk management framework and its risk appetite, strategy, principles and policies to ensure that these are inline with the good corporate governance and industry best practice.

The liquidity risk amongst others is regarded as the most pressing challenge for the bank. Whilst a larger volume of projects were approved during the last two years, it was also very difficult for the bank to raise funds at a reasonable interest rate. Furthermore, the foreign exchange rate in Seychelles was very volatile and most currencies particularly the US dollars, Euro and Pound Sterling kept on appreciating against the rupee hence borrowing in foreign currency was not advantageous as the exchange risk was relatively high. Additionally, borrowing on the domestic market was fairly risky as the interest rate was also high. Given the above constraints, the bank decided to suspend further loan approval for the financing of vehicles in July 2011. Moreover a disbursement cap of SR 8 million per month was introduced to control the outflow of cash.

In the coming year, the bank will continue to identify other risks and try to put necessary control in place to mitigate them to an acceptable level.

INFORMATION TECHNOLOGY

Late in 2010 the Board of Directors approved for DBS to embark on one of its long awaited project, the implementation of a new banking software to replace the existing computer system which was much outdated. Subsequently, DBS contracted Polaris Software Labs LTD, a company based in India which is the same company that implemented the Central bank of Seychelles' core banking system. The new software will bring about more efficiency in the loans management system and overall operational activities. The project started at the beginning 2011 to be completed early in 2012.

HUMAN DEVELOPMENT

Building long lasting relationship through people

In order to create good working environment to maintain talented staff, DBS invest substantially in its staff development. During 2011 and past years DBS staff had the opportunity to go on both short and long term training either locally or abroad. Being a Member of the Association of African development Finance Institution (AADFI) and SADC Development Finance Resource Centre (SADC-DFRC), DBS was able to send several members of its staff for overseas training. Other than the two mentioned institutions, DBS' employees enjoyed various form of training to augment their knowledge in prudential guideline, audit tools and techniques, IT audit security as well as risk management at other venues in Asia and Middle East.

For more than a decade now, both DBS and Development Bank of Mauritius (DBM) have benefited through a staff exchange program under the Bilateral Cooperation between the two Governments. Every year one staff member from each institutions participated in the exchange program and stays in either country for at least ten days. This gives staff the opportunity to share experience and exchange ideas in the ways that each institution conducts their respective business. This exchange program helps our staff to develop further as they are exposed to new working environment and new technology amongst other things.

During 2011, DBS staff also attended training locally to enhance their academic knowledge and upgrade their skills. The Finance Department staff attended ACCA courses at Seychelles Institute of Management in order to obtain the necessary qualification for their job. Other staff followed courses in other areas such as certificate in office management, supervisory skills, information technology, diploma in management, Labour Law and other relevant fields. More specific training was also conducted in house at group level to enhance the skills and update the knowledge of employees to better deliver and overcome the new challenges in our economic environment. In house training was conducted on international Financial Reporting Standard by Seychelles Institute of Management and was attended by staff from the Loans and Finance Departments. Safety training was also conducted for the first time in DBS for all employees on fire fighting and evacuation procedure which was facilitated by the Fire and Rescue Service Agency. The following picture showed staff paying attention to the instructions given by a fire fighter.



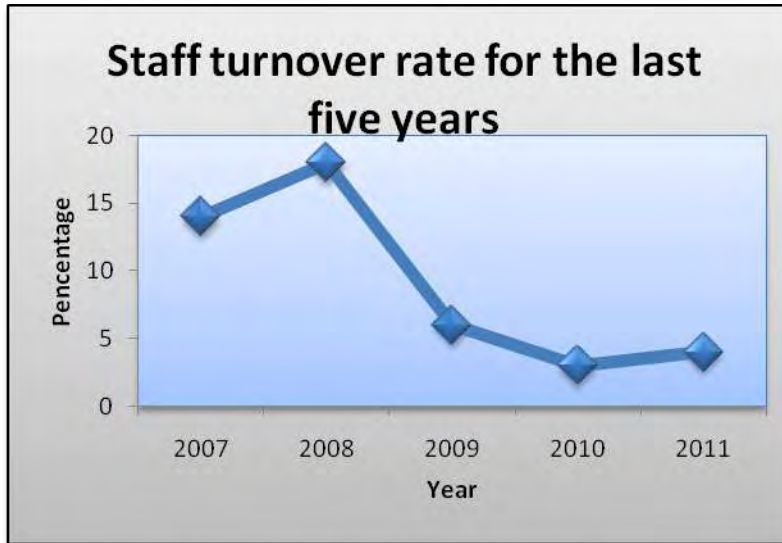
Staff listening attentively to instructions prior to going into real life situation of how to extinguish a fire using fire extinguisher and fire blanket.

Recruitment and retention

In the competitive environment that we operate where every business wants to recruit well qualified and more talented staff, DBS with its limited resources also tries its best to recruit the right candidate and strives to retain its existing experience workforce.

The Bank recruited 4 staff in 2011 and as at the end of 2011 DBS had 45 staff in employment. Staff turnover for the last five years is as per graph 16.

Fig. 16



It can be noted that DBS has maintained a low staff turnover for the last five years which shows that staff are reasonably happy with their working environment. In 2008 staff turnover was quite high due to the Government voluntary departure scheme whereby some staff opted to leave with the offer of an attractive severance pay.

Table 2 shows the length of service for staff at DBS.

Table 3

	1 - 5 years	5 -10 years	10 – 15 year	15-20 years	> 20 years
No. of staff	17	15	3	7	3

Performance, reward and incentive

During 2011 the Management and Board of Directors acknowledged that the Bank needs to put in place a new salary scheme for its staff. The aim of this salary scheme was to encourage high performance, greater productivity and deep lasting work relationship. All the posts were re-assessed to determine the level of qualifications that were required and which were also in line with the industry standard. The salary levels were revised to reflect as best of possible the market rate. The new scheme was approved in August 2011 and staff are now pursuing their training to obtain the necessary qualifications.

DBS tries its best to create a high performance culture across its various departments. We encourage staff to excel academically as well as in their work performance. The progress of staff is monitored throughout the year by the line manager and at the end of the year staff are rated according to their performance based on eight different areas of the appraisal requirements. Depending on the rates obtained, staff enjoys bonuses, increments and even promotion where necessary. It is a policy at DBS that when a post is vacant, we first see if there is an appropriate candidate internally before going in the market.

Staff are not only rewarded for work performance but also on high national achievement. During 2011 two staff were rewarded for their high achievement at national levels. In February 2011 Ms. Jean Preira won the Guy Morel Award which acknowledges excellence in the Accounting and Finance Industry in Seychelles during the graduation ceremony at Seychelles Institute of Management. Mr. Nelson Sopha who played as the National football goalkeeper won Gold medal during the Indian Ocean Island Games. DBS organized a small staff gathering on the occasions to honour their achievement and presented both of them with a gift of appreciation.



Ms. Preira posing for a picture with her award



Mr. Sopha accepting his reward from the Managing Director

Keeping our people together

One of our priorities at DBS is to keep our people together. It is good practice to maintain a good working team spirit amongst staff from different departments mixing and sharing thoughts and ideas. This creates conducive working environment that enhances greater productivity and deep lasting working relationship.

At DBS we also believe in socializing. There is time for work but there is also time for sharing jokes, enjoying ourselves which helps to boost up morals of employees and bring us closer as a team. We have

our Social Club which organizes activities such as hike, sports day, picnic, Christmas and end of year gathering as well as occasional happy hours. In 2011 for the first time ever, Seychelles hosted the carnival festival to promote Seychelles as one of the best tourism destination and DBS took part in the carnival parade. Most staff participated in this event and below is a picture of our float which showcased the activities of the bank, mainly the different sectors (Tourism, Agriculture, Fisheries, Industries and Services) which the bank provides financial support. The theme was DBS Spicing up the Economy which reflected exactly what the bank does. The picture also shows our staff performing a special dance at this wonderful event which shows that we do possess talents other than our business skills.



CORPORATE RESPONSIBILITY

Supporting our business strategy

Corporate responsibility is an integral part of our business strategy. We aim to ensure that the business operates in a responsible way to demonstrate that we are making a positive contribution to the economy and society at large. During 2011 the bank has contributed significantly towards creating new employment opportunities, bringing more competition in the market and new products which further added towards the economic growth.

The bank was faced with many challenges during 2011 in order to sustain its business strategy. The most important one was to raise new fund to continue with its lending activities and also modernize its operation so as to be in full compliance with the Financial Institution Act (FIA) and other recommendations set by its stakeholders. In order to find solution for the challenges, the Board of Directors requested the Management to organize a Retreat which grouped all the stakeholders together to undergo a comprehensive review of DBS and to come up with recommendations as well as a new mandate.

The Two Day Retreat took place in June at Le Meridien Hotel at Barbaron. The Vice President who was the then Minister for Finance delivered a key note address. Also present were Chairman of DBS and Board Members, Governor and Deputy Governor of Central Bank (CBS), PS Finance and other representatives from the Ministry of Finance as well as outside consultants from Seychelles Institute of Management and private enterprise. Each line Managers did a presentation outlining their shortcomings and made their recommendation on the way forward for DBS. After each presentation Board Members and other invited guests discussed on the issues and several recommendations were adopted.

Protecting the Bank against financial crime

The bank tries it best to ensure that it provides financing to projects which are not related in any way towards money laundering. We have mechanism in place to check the identity of borrowers and ensure that proper proof of address and identity of the clients (KYC) are obtained. We try our best to verify the source of income especially with respect to the promoter's personal contribution. Additionally, our

cashiers are trained to deal with clients when depositing lump sum cash transaction and to report any suspicious or fraudulent activity.

Building relationships

Building a good relationship with our stakeholders especially the customers is of paramount importance to the bank. The bank introduced a complaints box for customers to lodge their complaints on any issues and same are dealt with within a period of just a few days and the complainer are informed of the outcome. We take this matter very seriously as we would like to treat customers fairly and consequently build a deep and long lasting business relationship with them.

Social responsibilities

DBS has always taken its corporate social responsibility very seriously and demonstrated its commitment by generously contributed a total sum of more than SR 250,000 in 2011 through sponsorship and various donations to the community in supporting projects and activities that promote education, sports and other youth activities.

OPERATING AND FINANCIAL REVIEW

Breakdown of income and charges for the last five years

Table 2

Position	2007	2008	2009	2010	2011
Operating income	28.78	30.06	41.51	38.05	44.92
Interest expenses	10.56	13.35	17.79	6.24	11.83
Operating expenses	7.173	9.06	8.92	11.03	13.87
Profit/(loss) on exchange	0	(1.25)	(4.81)	(0.39)	0.83
Profit before provisions	11.05	6.40	9.98	20.39	20.05
Provisions	1.21	(13.26)	2.4	4.09	8.90
Provision for unrealised gain / (loss) On exchange	(44.22)	(126.27)	76.54	0.51	(0.46)
Extraordinary profit	0	0	0	0	100.29
Profit / (Loss) for the year	(34.38)	(106.61)	84.13	16.82	110.99

Profitability

Operating income in 2011 rose by SR 6.87 million which shows an increase of 18.06% from the previous year's performance. This was mainly attributed to a greater volume of project financing, increase in fee-based income and interest rate on lending activities.

Breakdown of operating income

Fig. 13



The major activity of DBS is financing development projects and therefore its main income is generated from interest on loans. For 2011 this represents 89.76% of the total operating income. The bank was charging interest rate at 8.5% at the beginning of 2011 and then it raised the interest to 10% on 01st September 2011 principally due to increase in cost of borrowing.

Interest on Bank deposit was very minimal at 3.98% of the total operating income. This is mainly attributable to the very low interest we received on our deposits with the Commercial Banks.

Other income is mainly fees that DBS charges for its services. This includes management fees for the funds that the bank manages on behalf of Government and other Agencies, application fees, re-scheduling fees, capitalization fees etc. The other income represented 6.26% of the total income for 2011.

Expenses

Interest payable increased significantly by SR 5.59 million (89.58%) as compared to 2010 due to increase in borrowing cost. The bank was raising domestic bonds to obtain new funding and the interests being charged were higher than what the bank was getting from overseas lines of credit. Furthermore, the AFD loan which was long overdue in DBS book, was re-structured under the Government/ Paris Club Agreement and the interest during grace became payable in 2011.

Operating expenses which included staff cost, administrative expenses and other costs also showed increase. The increased in staff cost was attributed to more staff being recruited and salary revision whilst the operating cost increased as a result of higher cost of commodity items such as fuel, telephone, electricity etc.

Provisions also showed a significant increase which was mainly attributable to over 100% increase in provision for bad debts as compared to the previous year. The provision is in line with the Financial Institution Act guidelines which DBS has been subject to as from 2010.

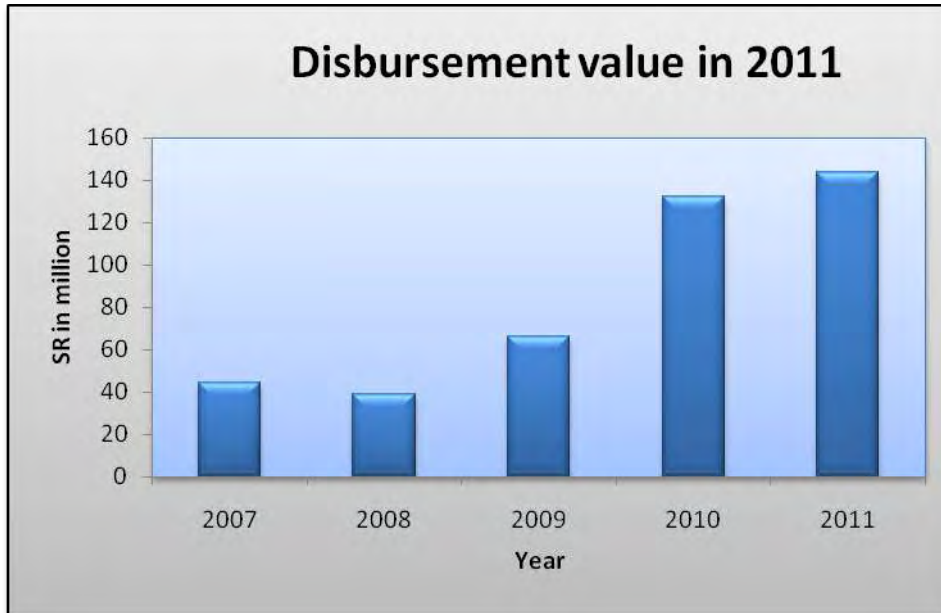
Profit

The overall profit before provisions for the financial year 2011 was SR 20.05 million which represented SR 0.34 million lower than the previous year. The bank posted a net profit of SR 110.99 million after taking into account the provisions and the extraordinary profit gained from the debt forgiveness of the AfD loan.

Financial Position

During the year 2011 the bank disbursed at total of SR 143.98 million towards the productive sectors of the economy. This figure represented an increase of 9% compared to 2010. The graph below shows the level of disbursement for the last five years.

Fig. 14



Funding

DBS raised funds through borrowing in order to provide financing to the productive sectors of the economy. The bank normally looks for concessionary lines of credit from overseas credit provider to on-lend at affordable rate of interest. For 2011 this has not been possible as the bank was not able to obtain the necessary collateral particularly Sovereign Guarantee for the loan. Instead the bank raised SR 100 million bonds on the domestic market. SR 50 million was issued in March 2011 at 6% for a five year period whilst the other issue was done in two tranches in August 2011. SR 25 million was raised at 7% over a three year period and SR 25 million at 7.5% for a five year period. The bank also used part of its normal collection to finance the projects.

Net Worth Position

On assets side, the total assets for 2011 were SR 574.22 million which showed an increase of SR 100.07 million representing 21% from the previous year's figure.

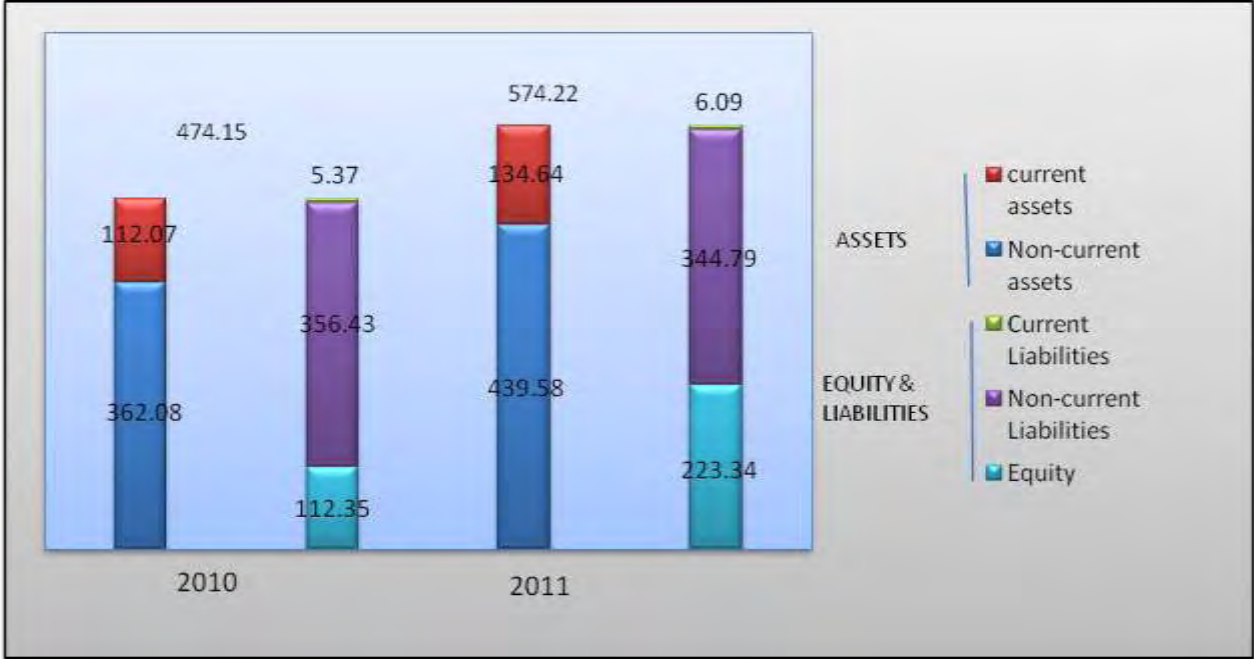
Current assets went up by SR 22.57 million. This was mainly due to the increase in cash as a result of the last bond issue which was fully subscribed in November 2011.

Non-current assets such as fixed assets and investment in bonds showed an increase of 15% compared to the previous year. There was no investment in treasury bonds/ bills however, fixed assets increased

due to purchase of furniture and fittings, office equipment and a vehicle. The office equipment is more to do with computer hardware and software. Furthermore, there was increased in the level of finances provided by DBS in 2011. The total outstanding loans increased by SR 85.25 million. The provision for bad debts increased by SR 8.08 million which made the net loan amount outstanding at SR 435.76 million hence showing an increase of SR 77.17 million compared to previous year.

Group Asset and financial structure in million

Fig. 15



The current liabilities increased by SR 0.7 million which was mainly due to SR 1.1 million increase in interest accrued on bonds and the BADEA lines of credit.

The increased in long term borrowing was only SR 1 million. The bank obtained a debt forgiveness of SR 100.3 million with AfD and received disbursement of SR 6 million with BADEA. The bank also issued new bonds to the value of SR 100 million.

The funds under management which are basically funds that the bank managed on behalf of the Government have reduced by SR 12.7 million.

The gain from the debt forgiveness of SR 100.3 million increased the retained earnings significantly and this results in equity being increased by 99%.

AUDITOR'S REPORT



DEVELOPMENT BANK OF SEYCHELLES

Independence Avenue, P.O. Box 217, Victoria, Mahe, Seychelles
Tel: 4254400, Fax: 224274, E-mail: devbank@dbs.sc

Your Ref:

Our Ref: DBS/

AUDITOR'S REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

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STATEMENT OF FINANCIAL POSITION	3
CASH FLOW STATEMENT	4
NOTES TO THE FINANCIAL STATEMENTS	5 - 10



Pool & Patel
Chartered Accountants

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Website: www.moorestephens.com

Bernard L. Pool FCA . Suketu Patel FCA . Gemma Roberts FCCA

Independent Auditor's Report Development Bank of Seychelles

Report on the Financial Statements

1. We have audited the financial statements of Development Bank of Seychelles (the "Bank") on pages 2 to 10 which comprise the statement of financial position at 31 December 2011 and the statement of comprehensive income, the cash flow statement and the summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

2. The Bank's directors are responsible for the preparation and fair presentation of these financial statements in accordance with the Development Bank of Seychelles Decree 1977 and the Financial Institutions Act 2004. This responsibility includes, designing, implementing and maintaining internal control relevant to the presentation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6. In our opinion, the financial statements on pages 2 to 10 give a true and fair view of the financial position of the Bank at 31 December 2011 and of its financial performance and its cash flows for the year then ended and comply with the Development Bank of Seychelles Decree 1977 and the Financial Institutions Act 2004.

Report on Other Legal and Regulatory Requirements

7. The Financial Institutions Act 2004 requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:
- (a) in our opinion, the financial statements have been prepared on a basis consistent with that of the preceding year and are complete, fair and properly drawn up and comply with the Financial Institutions Act 2004 and the regulations and guidelines of the Central Bank of Seychelles, and
 - (b) the explanations or information called for or given to us by the officers or agents of the Bank were satisfactory.
 - (b) the bank did not act as a fiduciary during the year.


Pool & Patel
Chartered Accountants

26 March 2012

MOORE STEPHENS
INTERNATIONAL LIMITED

DEVELOPMENT BANK OF SEYCHELLES

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

Financial statements are prepared in Seychelles Rupees


	Note		2010
Interest income	1 (g)		
Loan	3	40,327,552	34,168,381
Bank		1,785,582	2,357,753
		42,113,134	36,526,137
Interest Expense-Overseas loans	5	0	(27,193)
Interest Expense-Local loans		(2,867,861)	(3,762,084)
Interest Expenses-Bonds		(8,957,514)	(2,453,567)
		(11,825,375)	(6,242,843)
		30,287,759	30,283,283
Other income		2,805,715	1,526,763
Income (net)		33,093,474	31,810,057
Operating expenses			
Staff Costs		9,102,352	7,263,890
Administration expenses	7	4,771,496	3,765,302
Bad debts written-off		320	234
		(13,874,168)	(11,029,426)
Realised profit/(losses) on exchange		834,563	(387,126)
Surplus before provision		20,053,869	20,393,505
Provision for depreciation	14	(814,589)	(662,766)
Provision for doubtful debts	4	(8,080,481)	(3,422,234)
Provision for unrealised exchange (losses)/gains	13	(460,096)	511,226
Extraordinary profit on debt forgiveness	15	100,290,082	0
Profit/(loss) for the year		110,988,785	16,819,731
Retained earnings 1 January		29,241,590	12,421,859
Retained earnings 31 December		140,230,375	29,241,590

DEVELOPMENT BANK OF SEYCHELLES

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

Financial statements are prepared in Seychelles Rupees


	Note		2010
Assets			
Cash at bank	10	42,260,119	51,616,209
Deposits with government	11	79,970,905	43,635,020
Accounts receivable	9	12,407,601	13,821,321
		134,638,625	112,072,550
Loans outstanding (gross)	4	472,952,250	387,704,829
Less: provision for irrecoverable loans	4	(37,190,865)	(29,110,384)
Loans outstanding (net)		435,761,385	358,594,445
Treasury bonds		1,235,000	1,235,000
Fixed assets	14	2,587,709	2,244,124
		574,222,719	474,146,119
Liabilities			
Accounts payable	12	6,085,822	5,365,413
Long term borrowing-Overseas	5 (a)		
Caisse Francaise de Development BADEA		0 5,996,035	195,717,735 0
		5,996,035	195,717,735
Long term borrowing-Locally	5 (b)	102,505,944	10,713,647
Bonds issued	5 (c)	200,000,000	100,000,000
Fund under management	8	36,298,788	49,001,979
Share Capital	6	39,200,000	39,200,000
Reserves	2	43,905,755	43,905,755
Retained Earnings		140,230,375	29,241,590
		223,336,130	112,347,345
Total liabilities		574,222,719	474,146,119

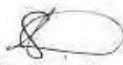

Barry Faure
Chairman


Ina Henriette
Member

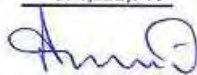

Rosanda Alcindor
Member

25th March 2012


Rupert Simeon
Vice- Chairman


Santasha Hoareau
Member


Serge Benstrong
Member


Roger Toussaint
Managing Director


Fred Hcuareau
Member

DEVELOPMENT BANK OF SEYCHELLES

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2011

Financial statements are prepared in Seychelles Rupees

		2010
Net cash inflow from operating activities		
Operating profit	19,239,280	19,730,739
Depreciation charges	814,589	662,766
Profit/(loss) on disposal of fixed assets	(102,977)	1,732
Bad debts w/off to provision	0	(176,050)
Loans to customers net of repayment	(85,247,421)	(78,874,447)
Decrease in debtors	1,413,720	(4,159,923)
Increase in creditors	720,409	2,673,496
Dividend paid	0	(720,721)
	(63,162,400)	(60,862,408)
Investing Activities		
Sale/(purchase) of treasury bonds/investment	0	0
Receipts from sale of tangible fixed assets	115,000	3,848
Payments to acquire tangible fixed assets	(1,170,197)	(617,738)
	(1,055,197)	(613,890)
Net cash inflow before financing	(64,217,597)	(61,476,298)
Financing		
External loans net of repayment	5,535,939	(547,073)
Local loans net of repayment	(4,635,356)	(34,483,724)
Decrease in managed funds	(12,703,191)	45,048,435
Increase in short term borrowings	100,000,000	100,000,000
Net cash inflow from financing	88,197,392	110,017,638
Decrease in cash and cash equivalents	23,979,795	48,541,340
Cash & cash equivalents 1 January	98,251,229	49,709,889
Cash & cash equivalents 31 December	122,231,024	98,251,229

DEVELOPMENT BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

Financial statements are prepared in Seychelles Rupees

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

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.

DEVELOPMENT BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

Financial statements are prepared in Seychelles Rupees

2. Reserves

The movement in the reserves was as follows:-

		2010
(i)	Contingency reserve	
	Balance 1.1.2011	39,583,919
	Transfer from E.I.B. special reserve	1,801,401
	Balance 31.12.2011	41,385,320
(ii)	E.I.B. Special Reserve	
	Balance 1.1.2011	1,801,401
	Transfer to Contingency reserve	(1,801,401)
	Balance 31.12.2011	0
(iii)	Foreign Exchange Equalisation Fund-(FEEF)	
	Balance 1.1.2011	2,520,435
	Transfer to staff training reserve	(2,520,435)
	Balance 31.12.2011	0
(iv)	Staff Training Reserve	
	Balance 1.1.2011	0
	Transfer from FEEF Fund	2,520,435
	Balance 31.12.2011	2,520,435
		43,905,755

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 and is not accrued for in the period to which the interest relates.

4. Loans to borrowers

The sum of R 358,594,445 shown in the balance sheet is made up as follows:-

		2010
	Long term loans (exceeding 7 years)	268,898,190
	Medium term loans (between 2 & 7 years)	202,165,748
	Short term loans (not exceeding 2 years)	1,888,312
		472,952,250
	Less provision against private sector loans which may prove irrecoverable	(37,190,865)
		435,761,385

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

		2010
	Balance 1 January 2011	29,110,384
	Extra provision required during the year	8,080,481
	Bad debts written off against provision	0
	Balance 31 December 2011	37,190,865

Loans approved but not disbursed by the balance sheet date amounted to R 153,486,164 (prior year R 184,646,351).

DEVELOPMENT BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

Financial statements are prepared in Seychelles Rupees

5. Loan repayable

(a) Overseas loans

	Balance 31.12.2011	Repayment period	1st Repayment due	Rate of interest per annum	Scheduled Yearly Repayment
Badea	5,535,939	9 years	Unknown	4%	1,909,196
Provision for unrealised exchange losses on capital outstanding	460,096				
	<u>5,996,035</u>				

The loan is 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.

(b) Local loans

	Balance 31.12.2011	Repayment period	1st Repayment due	Rate of interest per annum	Scheduled Yearly Repayment
Barclays Bank (Seychelles) Ltd	1,791,074	5 mths	31.12.11	6.5%	1,791,074
Natibonq	4,287,217	7 years	24.04.06	8.25%	5,434,123
Seychelles Government	96,427,653	16 years	31.12.13	2.75%	2,372,120
	<u>102,505,944</u>				

(c) Bonds issued

Balance 31.12.2011	Repayment period	Rate of interest per annum
50,000,000	2 years	5%
50,000,000	3 years	5.5%
25,000,000	3 years	7%
50,000,000	5 years	6%
25,000,000	5 years	7.5%
<u>200,000,000</u>		

6. Share capital

The share capital of the bank is as follows:-

	1 Jan 2011	31 Dec 2011
Authorised		
400,000 shares of R 100 each	<u>R 40,000,000</u>	<u>R 40,000,000</u>
Issued and fully paid		
Share of R 100 each	<u>R 39,200,000</u>	<u>R 39,200,000</u>

DEVELOPMENT BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

Financial statements are prepared in Seychelles Rupees

7. Administration costs

Included within the figure of R 4,771,496 is:

			2010
(i)	Auditors Remuneration	82,225	74,750
(ii)	Professional fees	399,805	286,005
(iii)	Directors fees	170,137	179,400

8. Fund under management

This comprises of the following funds:

			2010
(i)	Fisheries fund	0	170,596
(ii)	Credit guarantee scheme	c	870,134
(iii)	MAF (GTZ) fund	0	55,329
(iv)	SFA Fund	0	3,200
(v)	Agriculture Development Fund	a	1,101,790
(vi)	Seychelles Fishing Authority Fund	b	32,100,873
(vii)	Concessionary Loans Scheme Fund (CCA)	d	2,225,991
		36,298,788	49,001,979

(a) Agricultural development fund

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

(b) 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 1%.

(c) Credit guarantee scheme

This fund of R 870,134 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.

(d) Concessionary Loans Scheme fund

In the effort to encourage local investors for them to perform as the primary engine of the economic growth of the country, the Government introduced the Concessionary Credit Agency (CCA) known as (CLS) of the Ministry of Finance. Government decided to transfer the management for the disbursement and recovery of CCA loans activities to the Bank for which it charges a processing fee of 1.5%.

9. Accounts receivable

Included in this item is the sum of R 10,040,890 which represents the balance outstanding on loans made to staff members. These loans are granted on preferential terms and conditions.

DEVELOPMENT BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

Financial statements are prepared in Seychelles Rupees

10. Cash at Bank

The amount of R 42,260,119 is made up as follows:-

	R	2010
DBS bank accounts	38,812,871	44,248,798
Amount held in trust for:-		
Agriculture Development Fund-(ADF)	1,318,638	1,432,731
Concessionary Loans Scheme-(CLS)	2,128,610	5,934,680
	42,260,119	51,616,209

11. Deposits with government

The amount of R 79,970,905 is made up as follows:-

	R	2010
DBS bank accounts	47,852,420	6,540,953
Amount held in trust for:-		
Fisheries EU Fund-(SFA)	32,118,485	40,094,067
	79,970,905	46,635,020

12. Accounts payable

	R	2010
Provision for staff gratuity & compensation	1,530,309	1,910,720
Other payables & accruals	4,554,513	3,451,687
	6,084,822	5,365,413

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 either the bank, other parastatal companies or the Seychelles Government.

13. Provision for exchange differences

This is made up as follows:-

	R	2010
Realised profit on loans repaid	(834,563)	387,126
Increase in balance sheet provisions	460,096	(511,226)
	(374,467)	(124,100)

14. Fixed assets

	Freehold Property	Furniture & Fittings	Office Equipment	Motor Vehicle	Total
COST					
At 1 January 2011	6,137,094	719,590	2,421,980	739,317	10,017,981
Additions	41,850	149,937	691,410	287,000	1,170,197
Disposals	(21,850)	(5,120)	0	(235,000)	(261,970)
At 31 December 2011	6,157,094	864,407	3,113,390	791,317	10,926,208
DEPRECIATION					
At 1 January 2011	4,642,678	533,118	2,152,659	445,402	7,773,857
Additions	225,958	137,890	310,764	139,977	814,589
Disposals	(9,827)	(5,120)	0	(235,000)	(249,947)
At 31 December 2011	4,858,809	665,888	2,463,423	350,379	8,338,499
Net book value	1,298,285	198,519	649,967	440,938	2,587,709
At 31 December 2010	1,494,416	186,472	269,321	293,915	2,244,124

DEVELOPMENT BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

Financial statements are prepared in Seychelles Rupees

15. Extraordinary profit on debt forgiveness

During the year the Government of Seychelles and the Caisse Francaise de Development renegotiated the terms of the Caisse Francaise Euro loan to the Development Bank of Seychelles.

Subsequently the Government of Seychelles agreed a loan repayment schedule with the Development Bank in regard to the loan. The loan is now repayable by the Development Bank to the Government of Seychelles in Seychelles Rupees.

As a result of the above agreement R 100,290,082 has been written back in regard to the amount owing on this loan by Development Bank of Seychelles.

DBS DIRECTORY



Development Bank of Seychelles

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Fax: (248) 4323518



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Fax: (248) 4224678



BANKER: Seychelles Savings Bank

Kingsgate House
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Tel: (248) 4294000
Fax: (248) 4224713



BANKER: NOUVOBANQ

Victoria House
P.O. Box 241
Victoria, Mahe, Seychelles
Tel: (248) 4293000
Fax: (248) 4224670

SHAREHOLDERS



NOUVOBANQ

Victoria House
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Victoria, Mahe, Seychelles
Tel: (248) 293000
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European Investment Bank

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L – 2950 Luxembourg
Luxembourg - Kirchberg
Tel: (352) 43 79 72 64
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Agence Francaise De Development

35, Rue Boissy D'Anglas
75379, Paris Cedex 08, France
Tel: (33) 1 40 06 30 88
Fax: (33) 1 47 42 75 14



Seychelles Government