

**DEVELOPMENT BANK OF SEYCHELLES**

**AUDITED ANNUAL FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**

**DECEMBER 31, 2017**

**DEVELOPMENT BANK OF SEYCHELLES**  
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The Management have pleasure in submitting their report together with the audited annual financial statements of **Development Bank of Seychelles** (hereafter referred to as the "Bank" or "DBS") for the year ended December 31, 2017.

#### **PRINCIPAL ACTIVITY**

The principal activities of the Bank are:

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

This activities have remained unchanged in the year under review.

#### **RESULTS**

	2017	2016
	SCR	SCR
Retained earnings at January 1,	202,702,390	198,196,957
Profit for the year	15,818,393	4,505,433
<b>Retained earnings at December 31,</b>	<b>218,520,784</b>	<b>202,702,390</b>

#### **EQUIPMENT**

Additions to equipment and property totalled SCR 1,516,165 for the year ended December 31, 2017 (2016: SCR 728,719).

Equipment is stated at cost less accumulated depreciation. The Management is of the opinion that there is no adjustment required for the impairment of equipment and property.

#### **STATEMENT OF DIRECTORS' RESPONSIBILITY**

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

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

The Management considers it has met its aforesaid responsibilities.

#### **GOING CONCERN**

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

#### DIRECTORS AND THEIR INTERESTS IN THE BANK

The directors of the Bank at the date of this report are:

Names	Nationality	Category	Date of appointment	Date of resignation
Brenda Bastienne	Seychellois	Chairperson	January 1, 2018	-
Brian Charlette	Seychellois	Vice-Chairperson	January 1, 2018	-
Ina Barbe	Seychellois	Member	January 1, 2018	-
Rosanda Alcindor	Seychellois	Member	January 1, 2018	-
Marc Naiken	Seychellois	Member	January 1, 2018	-
Roy Clarisse	Seychellois	Member	January 1, 2018	-
Rupert Simeon	Seychellois	Member	January 1, 2018	-
Daniel Gappy	Seychellois	Member	February 1, 2017	-


None of the directors have any direct or indirect interest in the shares of the Bank.

#### AUDITORS

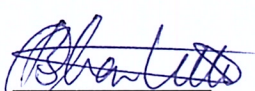
The auditors, Ernst & Young (Seychelles) have indicated their willingness to continue in office and their re-appointment will be proposed in the next Board Meeting.

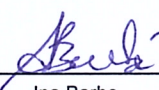
#### BOARD APPROVAL

Approved by the Board of Directors in Victoria, Seychelles on 23<sup>rd</sup> April 2018 and signed on its behalf by:

  
Brenda Bastienne  
Chairperson

  
Daniel Gappy  
Director

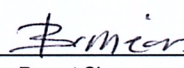
  
Brian Charlette  
Vice-Chairperson

  
Ina Barbe  
Director

  
Rosanda Alcindor  
Director

  
Marc Naiken  
Director

  
Roy Clarisse  
Director

  
Rupert Simeon  
Director

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DEVELOPMENT BANK OF SEYCHELLES

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of Development Bank of Seychelles ('Bank') set out on pages 6 to 41 which comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Development Bank of Seychelles Decree 1977, the Financial Institutions Act 2004, as amended, the Financial Institutions (Application of Act) Regulations, 2010 and the regulations and directive of the Central Bank of Seychelles.

#### *Other matter*

This report has been prepared solely for 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 Banks's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### Report on Other Legal and Regulatory Requirements

#### *Financial Institutions Act 2004, as amended*

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

- In our opinion, the financial statements are complete and fair and properly drawn up; and
- They exhibit a true and fair view of the Bank's affairs
- We have obtained all the information and explanations we have required and have been deemed as satisfactory.
- To the best of our knowledge and belief, no violations of the Financial Institutions Act 2004, as amended have occurred during the year ended 31 December 2017 that might have had a material adverse effect on the business of the Bank or on its financial position.
- To the best of our knowledge and belief fiduciary duties have been administered in accordance with the law.
- We have no relationship with or interests in the Bank other than in our capacity as auditors and dealings in the ordinary course of business.
- In our opinion, proper accounting records have been kept by the Bank as far as it appears from our examination of those records.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DEVELOPMENT BANK OF SEYCHELLES (CONTINUED)

### Report on the Financial Statements (Continued)

#### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code to performing the audit of the Bank. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Other Information*

The directors are responsible for the other information. The other information comprises the Directors' Report as required by the Development Bank of Seychelles Decree 1977. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### *Responsibilities of the Directors for the Financial Statements*

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

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

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

#### *Auditor's Responsibilities for the Audit of the Financial Statements*

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF  
DEVELOPMENT BANK OF SEYCHELLES (CONTINUED)

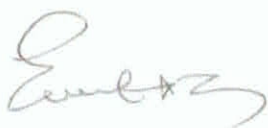
Report on the Financial Statements (Continued)

*Auditor's Responsibilities for the Audit of the Financial Statements (Continued)*

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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



ERNST & YOUNG  
Mahe, Seychelles

Date: 26 April 2018

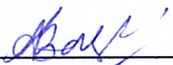
DEVELOPMENT BANK OF SEYCHELLES  
STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2017

6.

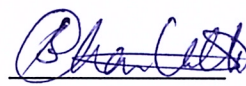
	Note	31 December 2017 SCR	31 December 2016 SCR
<b>ASSETS</b>			
Cash and cash equivalent	5	158,987,407	133,053,441
Loans and advances	6	885,154,986	747,522,308
Held-to-maturity financial assets	7	-	9,915,604
Other assets	8	20,374,661	6,133,780
Property and equipment	9	18,389,947	18,590,824
Intangible assets	10	145,216	12,470
<b>Total assets</b>		<b>1,083,052,217</b>	<b>915,228,426</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Funds under management	13	10,210,173	12,458,053
Other liabilities	14	3,660,665	2,314,424
Borrowings	11	445,419,076	443,023,379
DBS bonds	12	302,246,575	151,260,274
Compensation benefit obligations	15	5,230,027	5,704,990
		<b>766,766,516</b>	<b>614,761,120</b>
<b>EQUITY</b>			
Share capital	16	39,200,000	39,200,000
Contingent reserve	17	41,385,321	41,385,321
Revaluation reserve		17,179,596	17,179,596
Retained earnings		218,520,784	202,702,390
		<b>316,285,701</b>	<b>300,467,306</b>
<b>Total liabilities and equity</b>		<b>1,083,052,217</b>	<b>915,228,426</b>

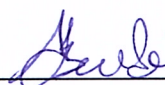
**BOARD APPROVAL**

These financial statements have been approved for issue by the Board of Directors on 23<sup>rd</sup> April 2018.

  
Brenda Bastienne  
Chairperson

  
Daniel Gappy  
Director

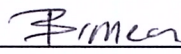
  
Brian Charlette  
Vice-Chairperson

  
Ina Barbe  
Director

  
Rosanda Alcindor  
Director

  
Marc Naiken  
Director

  
Roy Clarisse  
Director

  
Rupert Simeon  
Director

	Note	2017 SCR	2016 SCR
Interest income	19	79,721,197	62,807,229
Interest expense	20	(37,816,695)	(28,898,199)
<b>Net interest income</b>		<b>41,904,502</b>	<b>33,909,030</b>
Allowance for credit impairment	6 (b)	(3,346,077)	(2,909,126)
<b>Net interest income after allowance for credit impairment and bad debts</b>		<b>38,558,425</b>	<b>30,999,904</b>
Other income	21	1,992,579	2,883,523
Net foreign exchange profit/ (loss)		1,359,168	(1,527,518)
<b>Net interest and other income</b>		<b>41,910,173</b>	<b>32,355,909</b>
Employee benefit expenses	22	(17,219,733)	(18,788,213)
Depreciation of property and equipment	9	(1,706,296)	(1,206,798)
Amortisation of intangible assets	10	(12,750)	(13,943)
Other operating expenses	23	(7,153,001)	(7,841,523)
<b>Profit from continuing operations</b>		<b>15,818,393</b>	<b>4,505,433</b>
<b>Other comprehensive income</b>			
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Revaluation of land and building	9	-	1,818,648
<b>Total comprehensive income for the year</b>		<b>15,818,393</b>	<b>6,324,081</b>

DEVELOPMENT BANK OF SEYCHELLES  
STATEMENT OF CHANGES IN EQUITY - YEAR ENDED DECEMBER 31, 2017

8.

	Notes	Share capital SCR	Contingent reserve SCR	Asset revaluation surplus SCR	Retained earnings SCR	Total SCR
Balance at January 1, 2016		39,200,000	41,385,321	15,360,948	198,196,957	294,143,226
Profit for the year		-	-	-	4,505,433	4,505,433
Other comprehensive income	10	-	-	1,818,648	-	1,818,648
<b>Balance at December 31, 2016</b>		<b>39,200,000</b>	<b>41,385,321</b>	<b>17,179,596</b>	<b>202,702,390</b>	<b>300,467,306</b>
Balance at January 1, 2017		39,200,000	41,385,321	17,179,596	202,702,390	300,467,306
Profit for the year		-	-	-	15,818,393	15,818,393
Other comprehensive income		-	-	-	-	-
<b>Balance at December 31, 2017</b>		<b>39,200,000</b>	<b>41,385,321</b>	<b>17,179,596</b>	<b>218,520,784</b>	<b>316,285,701</b>

The notes on pages 10 to 41 form an integral part of these financial statements.  
Auditor's Report on pages 3 and 5

DEVELOPMENT BANK OF SEYCHELLES  
STATEMENT OF CASH FLOWS - YEAR ENDED DECEMBER 31, 2017

9.

	Note	2017 SCR	2016 SCR
<b>Operating activities</b>			
Net profit		15,818,393	4,505,433
<i>Adjustments for:</i>			
Depreciation of property and equipment	9	1,706,296	1,206,798
Amortisation of intangible	10	12,750	13,943
(Gain)/ Loss on disposal of equipment and intangible assets	9, 10, 21	(318,796)	1,258,751
Allowance for credit impairment	6	10,820,641	4,409,832
Changes in compensation benefit obligations	15	1,980,456	2,814,233
Net interest on financial instruments		807,988	2,784,187
Net foreign exchange difference		(1,359,168)	1,527,518
<i>Working capital adjustments:</i>			
Increase in loans and advances	6	(148,453,319)	(220,466,702)
Increase in other assets (*)	8	(1,213,663)	(2,745,253)
(Decrease) / Increase in funds under management	13	(2,247,880)	18,612
Increase/ (Decrease) in other liabilities	14	1,346,241	(1,102,837)
		(121,100,061)	(205,775,487)
Compensation paid	15	(2,455,419)	(955,726)
<b>Net cash flow from operating activities</b>		<b>(123,555,480)</b>	<b>(206,731,213)</b>
<b>Investing activities</b>			
Purchase of intangible assets	10	(145,496)	(5,000)
Purchase of equipment	9	(1,516,165)	(728,718)
Proceeds from sale of equipment	9	329,541	3,250,000
Purchase of treasury bills	7	-	(9,872,000)
Proceeds from redemption of treasury bills	7	9,872,000	14,576,760
<b>Net cash flow from/(used in) investing activities</b>		<b>8,539,880</b>	<b>7,221,042</b>
<b>Financing activities</b>			
Proceeds from borrowings	11	41,687,059	219,002,862
Repayment of borrowings	11	(52,079,007)	(37,218,708)
Proceeds from bonds issued	12	150,000,000	150,000,000
Bonds redeemed	12	-	(125,000,000)
<b>Net cash flow from/(used in) financing activities</b>		<b>139,608,052</b>	<b>206,784,154</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>		<b>24,592,452</b>	<b>7,273,983</b>
<b>Movement in cash and cash equivalents</b>			
At January 1,		133,053,441	126,834,388
Net increase in cash and cash equivalent		24,592,452	7,273,983
Net foreign exchange difference		1,341,515	(1,054,930)
<b>At December 31,</b>	5	<b>158,987,407</b>	<b>133,053,441</b>
<b>Operational cash flows from interest</b>			
Interest paid		36,419,225	25,036,921
Interest received		80,600,638	53,820,544

(\*) **Significant non-cash transactions**

The Bank contracted loans in line with the Public Debt Management Act, and signed a contract with the Ministry of Finance, Trade and Investment stating that the net foreign exchange losses arising on the loan facilities will be reimbursed by the latter. Total net foreign exchange incurred during 2017 was SCR 13,027,218 (SCR 2016: 85,500).

The notes on pages 10 to 41 form an integral part of these financial statements.  
Auditor's Report on pages 3 and 5

## 1. GENERAL INFORMATION

The Development Bank of Seychelles was established in 1977 under the Development Bank of Seychelles Decree as a corporate body. The registered address of the Bank is at Independence Avenue, Victoria, Mahe Seychelles.

These financial statements were authorised for issue in accordance with a resolution of the board of directors dated ..... 23 APR 2018 .....

## 2. ACCOUNTING POLICIES

### 2.1 Basis of preparation

The financial statements have been prepared on a historical cost basis unless otherwise indicated in the accounting policies. The financial statements are presented in Seychelles rupees (SCR).

#### Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC), The Development Bank of Seychelles Decree 1977 and The Financial Institutions Act 2004, as amended, the Financial Institutions (Application of Act) Regulations, 2010 and the Regulations and Directives of the Central Bank of Seychelles.

### 2.2 New Standards, New Interpretations and Amendments to Standards adopted in the current period

On 1 January 2017, the Bank adopted the following new standards, new Interpretations and amendments to standards.

#### IAS 7 Disclosure Initiative - Amendments to IAS 7

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The amendments did not have an impact on the entity.

### 2.3 Standards issued but not yet effective

Effective for  
accounting period  
beginning on or  
after

#### New or revised standards

IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 16 Leases	1 January 2019
Amendments to IFRS 10 and IAS 28: <i>Sale or Contribution of Assets between an Investor and its Associate or indefinitely Joint Venture</i>	Effective date deferred indefinitely
IFRS 2 <i>Classification and Measurement of Share-based Payment Transactions</i> - Amendments to IFRS 2	1 January 2018
Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4	1 January 2018
Transfers of Investment Property (Amendments to IAS 40)	1 January 2018
IFRIC Interpretation 22 <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> - Deletion of short-term exemptions for first-time adopters	1 January 2018
IFRS 17 Insurance Contract	1 January 2021
IFRIC Interpretation 23 Uncertainty over Income Tax Treatment	1 January 2019
IAS 28 <i>Investments in Associates and Joint Ventures</i> - Clarification that measuring investees at fair value through profit or loss is an investment - by - investment choice	1 January 2018

## 2. ACCOUNTING POLICIES (CONTINUED)

### 2.3 Standards issued but not yet effective (Continued)

The above new standards and amendments to existing standards issued but not yet effective are not expected to have an impact on the Bank except for IFRS 9 as listed below:

#### IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015.

#### *Classification and measurement of financial assets*

Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Debt instruments are subsequently measured at FVTPL, amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held. There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch. Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss.

#### *Classification and measurement of financial liabilities*

For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss.

All other IAS 39 *Financial Instruments: Recognition and Measurement* classification and measurement requirements for financial liabilities have been carried forward into IFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

Financial asset currently classified as held-to-maturity and measured at amortised cost appear to meet the conditions for classification at amortised cost under IFRS 9. Accordingly the Bank does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

#### *Impairment*

IFRS 9 introduces a revised impairment model which will require entities to recognize expected losses ('ELC') based on unbiased looking-forward information. This replaces the existing IAS 39 incurred model which only recognizes impairment if there is objective evidence that a loss has already been incurred and would measure the loss based on the most probable outcome. The IFRS 9 impairment model will be applicable to all financial assets at amortised cost.

The measurement of expected loss will involve increased complexity and judgement including estimation of lifetime probabilities of default, loss given default, a range of unbiased future economic scenarios, estimation of expected lives, estimation of exposure at default and assessing increases in credit risk.

## 2. ACCOUNTING POLICIES (CONTINUED)

### 2.3 Standards issued but not yet effective (Continued)

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by using 30 days past due as a backstop and any other information on the borrower that may indicate future financial difficulties.

The Bank will group its loans and advances into Stage 1, Stage 2 and Stage 3 as described below:

Stage 1: When loans are first recognized, an allowance based on 12m ELCS are recognized. Stage 1 loans include facilities where the credit risk has improved and the loan has been reclassified from stage 2.

Stage 2: When a loan has shown significant increase in credit risk since origination, the Bank records an allowance for the lifetime expected credit losses (LTECLs). Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3: Loans considered credit-impaired when the borrower becomes 90 days past due on its contractual payments. The Bank records an allowance for the LTECLs.

The Bank has used a 'loss rate approach'. Using this approach, the Bank has developed loss-rate statistics on the basis of the amount written off over the life of the financial assets. It has then adjusted these historical credit loss trends for current conditions. Management adjustments are made to model outputs where the modelling output does not cater for known or estimated factors, for instance specific forecasted economic expectations. The expected impact is SCR 300K- SCR 600K.

Per IFRS 9 principles, the gross carrying amount of an exposure is the contractual amount owing from the counterparty, whereas the amortised cost reflects the expected the cash flows discounted using the original effective interest rate. Hence the expected credit loss provision, which the difference between the gross carrying amount and amortised cost, would reflect the expected cash shortfalls discounted by the original effective interest rate.

### 2.4 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the financial statements are set out below:

#### (a) Foreign currency translation

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

##### *Transactions and balances*

Foreign currency transactions are initially recorded in the functional currency rate prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transactions.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on the translation of non-monetary items are recognized in profit or loss.

#### (b) Financial instruments - initial recognition and subsequent measurement

##### (i) Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognised on the trade date, i.e. the date that the Bank commits to purchase or sell the asset.

2. ACCOUNTING POLICIES (CONTINUED)

2.4 Summary of significant accounting policies (Continued)

(b) Financial instruments - initial recognition and subsequent measurement (Continued)

(ii) *Initial recognition of financial instruments*

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All the financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue

(iii) *Held-to-maturity financial assets*

Held-to-maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the Bank has the intention and ability to hold to maturity. After initial recognition, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The EIR amortisation is included in interest income in the statement of profit or loss. The gains and losses are recognised in the statement of profit or loss.

(iv) *Loans and advances to customers*

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

The EIR amortisation is included in interest income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss.

(v) *Borrowings*

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

(vi) *Bonds*

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

**2. ACCOUNTING POLICIES (CONTINUED)**

**2.4 Summary of significant accounting policies (Continued)**

**(c) Derecognition of financial assets and financial liabilities**

**(i) Financial assets**

A financial asset (or where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

the rights to receive cash flows from the asset have expired; or

the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:

- The Bank has transferred substantially all the risks and rewards of the asset, or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

**(ii) Financial liabilities**

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

**(d) Impairment of financial assets**

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

*Financial assets carried at amortised cost*

For financial assets carried at amortised cost (such as amounts due from banks and loans and advances to customers, as well as held-to-maturity investments), the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

**2. ACCOUNTING POLICIES (CONTINUED)**

**2.4 Summary of significant accounting policies (Continued)**

**(d) Impairment of financial assets (Continued)**

*Financial assets carried at amortised cost (Continued)*

If there is an objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the profit or loss.

*Financial assets carried at amortised cost (Continued)*

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

**(e) Offsetting financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**(f) Determination of fair value**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

In the principal market for the asset or liability, or

In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

**2. ACCOUNTING POLICIES (CONTINUED)**

**2.4 Summary of significant accounting policies (Continued)**

**(f) Determination of fair value (Continued)**

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

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

**(g) Property and Equipment**

Property and equipment are recognized when it is probable that the future economic benefits associated with the assets will flow to the entity and the cost of the assets can be measured reliably.

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

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

The revaluation surplus is transferred, in full, upon disposal of the asset to retained earnings.

All other items of property and equipment is stated at historical cost less accumulated depreciation less accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

Depreciation is calculated on the straight line method to write off the cost of the assets to their residual values over their estimated useful life as follows:

Buildings	10-25 years
Equipment	3-7 years
Furniture and fittings	3 years
Motor vehicles	4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. When the carrying amount of the asset is greater than its estimated recoverable amount, the asset is written down immediately to its recoverable amount. Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use.

**2. ACCOUNTING POLICIES (CONTINUED)**

**2.4 Summary of significant accounting policies (Continued)**

**(g) Property and Equipment (Continued)**

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in other operating income in profit or loss in the year the asset is derecognised.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in other operating income in profit or loss in the year the asset is derecognised.

**(h) Intangible assets**

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

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

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

**(i) Impairment of tangible and intangible assets**

At the end of each reporting period, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

**(j) Compensation benefit obligations**

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

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

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

**2. ACCOUNTING POLICIES (CONTINUED)**

**2.4 Summary of significant accounting policies (Continued)**

**(j) Compensation benefit obligations (Continued)**

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

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

**(k) Taxation**

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

**(l) Recognition of income and expenses**

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

*Interest income and expense*

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

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest and similar income' for financial assets and 'Interest and similar expense' for financial liabilities. However, for a reclassified financial asset for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the effective interest rate from the date of the change in estimate.

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

*Other income*

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

**(m) Contingent Liabilities**

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events. A present obligation is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. The Bank does not recognise the contingent liability but discloses its existence in the financial statements.

**2. ACCOUNTING POLICIES (CONTINUED)**

**2.4 Summary of significant accounting policies (Continued)**

**(n) Cash and cash equivalents**

Cash and cash equivalents as referred to in the statement of cash flows, comprises of cash on hand, current accounts with banks on demand or with an original maturity of three months or less measured at amortised cost.

**(o) Leasing**

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

*Bank as a lessee*

Leases that do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

*Bank as a lessor*

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

**(p) Going concern**

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

**3. FINANCIAL RISK MANAGEMENT**

The Bank's activities expose it to a variety of financial risks. Its overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effect of the Bank financial performance. The Bank's risk management objective is to measure and monitor the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

**(a) Capital adequacy**

A description of the significant risks is given below together with the risk management policies applicable.

Capital includes share capital, statutory reserve and retained earnings.

The primary objectives of the Bank's capital management policy is to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong capital base and healthy capital ratios in order to support its business and to maximise shareholder value. The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities.

No changes were made in the objectives, policies, or process during the years end 31 December 2017 and 31 December 2016. Regulatory capital consists of Tier I capital, which comprises share capital, retained earnings and statutory reserve. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the Central Bank of Seychelles. The other component of regulatory capital is Tier II capital, which includes net profit after tax and general provisions. The Bank seeks to maintain a prudent balance between the different components of its capital, particularly the relative mix of Tier I and Tier II capital.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Capital adequacy (continued)

During the year 2017, in line with the Financial Institutions (Capital Adequacy) Regulations, 2010, the Bank has calculated capital adequacy, which is as follows:

	2017	2016
	SCR '000	SCR '000
Capital Base (a) (i)	265,079	248,753
Risk adjusted assets (b)	1,032,418	957,076
Capital adequacy (a/b)*100	26%	26%
Minimum Requirement	12%	12%
<b>(i) Capital Base</b>	<b>2017</b>	<b>2016</b>
	SCR '000	SCR '000
Tier 1 Capital		
Share capital	39,200	39,200
Retained earning	202,702	198,197
Total Tier 1 Capital	241,902	237,397
Tier 2 Capital		
Year-to-date net profit after tax	15,818	4,505
General Provision - see Note 6 (b)	7,358	6,851
Total Tier 2 Capital	23,176	11,356
	<b>265,078</b>	<b>248,753</b>

The Bank ascertains that it has met the requirements of Financial Institutions (Capital Adequacy) Regulations 2010, in terms of capital adequacy ratio during the year 2017.

(b) Credit risk

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

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

The table below shows the maximum exposure to credit risk for the components of the statement of financial position .

	Gross maximum exposure	Gross maximum exposure
	2017	2016
	SCR	SCR
Cash and cash equivalents	158,987,407	133,053,441
Loans and advances to customers	885,154,986	747,522,308
Held-to-maturity financial assets	-	9,915,604
Other assets	20,374,661	5,014,849
<b>Total credit risk exposure</b>	<b>1,064,517,054</b>	<b>895,506,202</b>

Commitments

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

	Gross maximum exposure	Gross maximum exposure
	2017	2016
	SCR	SCR
Undrawn commitments to lend	118,713,770	290,433,225

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

Collateral and other credit enhancements

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

Credit quality per class of financial assets

The table below shows an ageing analysis of credit quality by class of asset for all financial assets exposed to credit risk. Credit risk for loans and advances is managed by the Recovery Officers within the Collection and Recovery Department supported by a Recovery Committee subject to DBS's established policy, procedures and control relating to credit risk management. Credit quality of a producer is assessed based on a credit rating scorecard, collateral values and ability of underlying projects to service the debt. Loans and advances in arrears are regularly monitored and evaluated for restructuring when warranted. The credit classification of loans and advances is in accordance with the Financial Institution (Credit Classification and Provisioning) Regulations 2010, amended in 2011. In accordance with IAS 39 the Bank performs on-going assessment throughout the reporting period as to whether there is any objective evidence that loans and advances are impaired.

	2017				
	Performing		Non Performing		Total
	<30 days	30 - 89 days	90 - 179 days	180 - 364 days	>364 days
	SCR	SCR	SCR	SCR	SCR
<i>Loans and advances (gross):</i>					
Not impaired	735,787,342	23,035,322	5,217,106	2,189,700	17,616,805
Impaired	-	83,615,066	13,990,610	10,257,316	17,099,558
	<u>735,787,342</u>	<u>106,650,388</u>	<u>19,207,716</u>	<u>12,447,016</u>	<u>34,716,363</u>
Total Non-Performing *					<u>66,371,095</u>
Total Non-Performing Ratio *					<u>7%</u>

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

## (b) Credit risk (Continued)

Credit quality per class of financial assets (Continued)

	2016					Total
	Performing		Non Performing			
	<30 days	30 - 89 days	90 - 179 days	180 - 364 days	>364 days	
	SCR	SCR	SCR	SCR	SCR	
Loans and advances (gross):						
Not impaired	685,071,028	25,962,573	5,293,908	1,301,128	4,761,962	722,390,599
Impaired	-	21,972,917	7,538,075	3,015,300	5,973,926	38,500,218
	685,071,028	47,935,490	12,831,983	4,316,428	10,735,888	760,890,817
Total Non-Performing *						27,884,299
Total Non-Performing Ratio *						4%

\* For purposes of the financial statements, the non-performing loans ratio is based on loans in arrears greater than 89 days.

## Maximum exposure to credit risk

Type of collateral or credit enhancement

	Value of collateral and credit enhancements held						
	Maximum exposure to credit risk	Total	Mortgage	Vehicle	Boat and Engine	Equipment	Others
	SCR	SCR	SCR	SCR	SCR	SCR	SCR
<i>Loans and advances (gross)</i>							
2017	908,808,825	2,191,914,295	1,994,611,922	118,267,693	63,230,758	15,643,710	160,212
2016	760,890,817	862,758,958	758,690,116	77,880,648	22,546,092	3,642,102	-

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

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

## (b) Credit risk (Continued)

Age analysis of financial assets past due but not impaired:

	Total	Neither past due nor impaired	Past due but not impaired			Past due and impaired
			< 90 days	90 - 365 days	> 365 days	
<u>At December 31, 2017</u>	SCR	SCR	SCR	SCR	SCR	
Cash and cash equivalents	158,987,407	158,987,407	-	-	-	-
Loans and advances	908,808,825	735,787,342	23,035,322	7,406,806	17,616,805	124,962,550
Other assets	19,164,754	19,156,164	8,590	-	-	-
	<u>1,086,960,986</u>	<u>913,930,913</u>	<u>23,043,912</u>	<u>7,406,806</u>	<u>17,616,805</u>	<u>124,962,550</u>

Age analysis of financial assets past due but not impaired:

	Total	Neither past due or impaired	impaired			Past due and impaired
			< 90 days	90 - 365 days	> 365 days	
<u>At December 31, 2016</u>	SCR	SCR	SCR	SCR	SCR	
Cash and cash equivalents	133,053,441	133,053,441	-	-	-	-
Loans and advances	760,890,817	685,071,028	25,962,573	6,595,036	4,761,962	38,500,218
Held-to-maturity financial assets	9,915,604	9,915,604	-	-	-	-
Other assets	5,014,850	5,002,092	12,758	-	-	-
	<u>908,874,712</u>	<u>833,042,165</u>	<u>25,975,331</u>	<u>6,595,036</u>	<u>4,761,962</u>	<u>38,500,218</u>

The Banks manages its credit risk pertaining to these instrument by assessing the respective credit worthiness of the various institutions and agencies. In addition the Bank analyses various information within the public domain related to these establishments.

**Other assets**

The main component of the respective category of assets relates to the guarantee from the Government of Seychelles which currently has a credit rating of BB- from Fitch.

## (c) Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Bank is exposed with respect to foreign currency arising from trading in foreign currency and acceptances. In order to ensure adequacy of its foreign exchange requirements, foreign currency cash flow forecasts are prepared regularly, expenses monitored and actions taken accordingly.

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

3. FINANCIAL RISK MANAGEMENT (CONITINUED)

(c) Currency Risk (Continued)

(i) Concentration of assets and liabilities by currency

	SCR	Euro	US Dollars	GBP	Total
	SCR'000	SCR'000	SCR'000	SCR'000	SCR'000
<b>At December 31, 2017</b>					
<b>Assets</b>					
Cash and cash equivalents	133,276	5,999	19,712	-	158,987
Loans and advances	885,155	-	-	-	885,155
Other assets	19,866	479		30	20,375
	<u>1,038,297</u>	<u>6,478</u>	<u>19,712</u>	<u>30</u>	<u>1,064,517</u>
<b>Liabilities</b>					
Borrowings	330,216	66,506	48,697	-	445,419
DBS bonds	302,247	-	-	-	302,247
Funds under management	10,210	-	-	-	10,210
Other liabilities	3,661	-	-	-	3,661
	<u>646,334</u>	<u>66,506</u>	<u>48,697</u>	<u>-</u>	<u>761,537</u>
<b>Net assets/ (liabilities)</b>	<u>391,963</u>	<u>(60,028)</u>	<u>(28,985)</u>	<u>30</u>	<u>302,980</u>
	SCR	Euro	US Dollars	GBP	Total
	SCR'000	SCR'000	SCR'000	SCR'000	SCR'000
<b>At December 31, 2016</b>					
<b>Assets</b>					
Cash and cash equivalents	110,890	14,218	7,945	-	133,053
Loans and advances	747,522	-	-	-	747,522
Held-to-maturity financial assets	9,916	-	-	-	9,916
Other assets	6,020	69	22	23	6,134
	<u>874,348</u>	<u>14,287</u>	<u>7,967</u>	<u>23</u>	<u>896,625</u>
<b>Liabilities</b>					
Borrowings	316,668	76,704	49,652	-	443,023
DBS bonds	151,260	-	-	-	151,260
Funds under management	12,458	-	-	-	12,458
Other liabilities	2,314	-	-	-	2,314
	<u>482,700</u>	<u>76,704</u>	<u>49,652</u>	<u>-</u>	<u>609,056</u>
<b>Net assets/ (liabilities)</b>	<u>391,648</u>	<u>(62,417)</u>	<u>(41,685)</u>	<u>23</u>	<u>287,569</u>

The following table demonstrates the sensitivity of the Bank's profit before tax and equity, to a realistically possible change in the USD and EUR foreign currency exchange rates, being the main currencies used by the Bank, with all other variables held constant.

	Increase/ Decrease in foreign currency exchange rate	Euro Effect on tax and equity	US Dollar Effect on Profit before tax and equity
		SCR'000	SCR'000
2017	+5%	(3,001)	(1,449)
	-5%	3,001	1,449
2016	+5%	(3,124)	(2,085)
	-5%	3,124	2,085

3. FINANCIAL RISK MANAGEMENT (Continued)

(d) Interest risk

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

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

	Change in basis points	Effect on profit before tax 2017
Interest bearing net financial assets	+10 -10	70,392 (70,392)
	Change in basis points	Effect on profit before tax 2016
Interest bearing net financial assets	+10 -10	54,048 (54,048)

(e) Liquidity risk

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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (Continued)

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2017 based on contractual undiscounted repayment obligations.

	2017						Total
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	>5 years	
	SCR	SCR	SCR	SCR	SCR	SCR	
<b>Financial Liabilities</b>							
Undrawn commitments to lend	7,756,697	22,970,783	58,030,403	29,955,887	-	-	118,713,770
Borrowings	7,465,772	10,686,427	22,235,205	36,875,049	318,031,273	128,855,314	524,149,040
DBS bonds	-	2,520,548	56,999,080	8,065,753	276,758,471	-	344,343,852
Funds under management	10,210,173	-	-	-	-	-	10,210,173
Other liabilities	-	3,660,665	-	-	-	-	3,660,665
<b>Total financial liabilities</b>	<b>25,432,642</b>	<b>39,838,423</b>	<b>137,264,688</b>	<b>74,896,689</b>	<b>594,789,744</b>	<b>128,855,314</b>	<b>1,001,077,500</b>
	2016						Total
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	>5 years	
	SCR	SCR	SCR	SCR	SCR	SCR	
<b>Financial Liabilities</b>							
Undrawn commitments to lend	1,162,000	5,792,819	5,423,232	63,170,915	214,884,259	-	290,433,225
Borrowings	6,876,194	9,521,680	20,510,176	36,961,604	301,787,499	164,855,717	540,512,870
DBS bonds	-	2,520,548	2,438,356	5,041,096	169,583,220	-	179,583,220
Funds under management	12,494,011	-	-	-	-	-	12,494,011
Other liabilities	-	1,524,605	-	-	-	-	1,524,605
<b>Total financial liabilities</b>	<b>20,532,206</b>	<b>19,359,652</b>	<b>28,371,764</b>	<b>105,173,616</b>	<b>686,254,977</b>	<b>164,855,717</b>	<b>1,024,547,932</b>

During the year 2017, the Bank has calculated its liquidity ratio as follows:

	2017	2016
	SCR	SCR
Liquid assets (a)	158,987,407	142,969,045
Banks total liabilities (b)	766,766,516	614,761,120
Liquidity ratio (a/b)*100	21%	23%
	2017	2016
	SCR	SCR
Liquid assets (a)		
Cash and cash equivalent	158,987,407	133,053,441
Held-to-maturity financial assets	-	9,915,604
	<b>158,987,407</b>	<b>142,969,045</b>

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Fair values

Set out below is a comparison, by class, of the carrying amounts and fair value of the Bank's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

	Carrying amount		Fair value	
	2017 SCR'000	2016 SCR'000	2017 SCR'000	2016 SCR'000
<b>Liabilities</b>				
Borrowings	445,419	443,023	446,298	437,333
DBS bonds	302,247	151,260	299,370	147,073
	<b>747,666</b>	<b>594,284</b>	<b>745,668</b>	<b>584,406</b>

The management assessed that cash and short-term deposits, held-to maturity financial assets, other assets and other liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

As loans and advances hold variable interest rates, the fair value of these floating rate instruments are approximated to equal their carrying amount.

The following methods and assumptions were used to estimate the fair values:

The fair values of the Bank's interest-bearing borrowings are determined by using the discounted cash flow method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The non-performance risk as at 31 December 2017 was assessed to be insignificant.

The fair value of the bonds is based on the a discounted cash flow based on a current market rate for similar assets.

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

Fair value measurement hierarchy for assets as at 31 December 2017:

		Fair value measurement using			
		Quoted prices in active market	Significant observable input	Significant unobservable input	
Date of valuation	Total	(Level 1)	(Level 2)	(Level 3)	
	SCR '000	SCR '000	SCR '000	SCR '000	
<b>Assets measured at fair value:</b>					
<b>Recurring measurement</b>					
(i) Land and building	06/12/2016	17,525	-	-	17,525

Fair value measurement hierarchy for liabilities as at 31 December 2017:

Liabilities for which fair value are disclosed:

Borrowings	31/12/2017	446,298	-	-	446,298
DBS bonds	31/12/2017	299,370	-	299,370	-

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

### 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (f) Fair values (Continued)

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

Fair value measurement hierarchy for assets as at 31 December 2016:

		Fair value measurement using			
			Quoted prices in active market	Significant observable input	Significant unobservable input
Date of valuation	Total	(Level 1)	(Level 2)	(Level 3)	
	SCR '000	SCR '000	SCR '000	SCR '000	
Assets measured at fair value:					
Recurring measurement					
Land and building	06/12/2016	17,525	-	-	17,525
Liabilities for which fair value are disclosed:					
Borrowings	31/12/2016	437,333	-	-	437,333
DBS bonds	31/12/2016	147,073	-	147,073	-

### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

#### Critical accounting estimates and assumptions

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

#### (a) *Impairment of loans and advances*

The Bank reviews its loans and advances portfolio on a regular basis to assess whether any allowance for credit impairment losses for loans and advances should be recognised in the profit and loss. In particular, judgement is made about the amount and timing of future cash flows when determining the level of allowance required. The allowance for credit impairment losses is based on the *Financial Institutions (Credit Classifications and Provisioning) Regulations 2010, amended 2011* issued provided by the Central Bank of Seychelles. However, actual bad debt written off may differ from the amount provided as an allowance for credit impairment which will result in a higher or lower charge to profit and loss. Refer to Note 3 (b) for credit risk exposure and Note 6 (b) for reconciliation of the allowance for impairment losses and advances.

#### (b) *Revaluation of properties*

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

#### (c) *Going concern*

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(c) Long term employee benefits

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

5. CASH AND BALANCES HELD WITH OTHER BANKS

	2017	2016
	SCR	SCR
Balances with local banks	158,730,835	132,883,779
Cash on hand	256,572	169,661
	<u>158,987,407</u>	<u>133,053,441</u>

6. LOANS AND ADVANCES

	2017	2016
	SCR	SCR
Loans and advances to customers	887,496,612	740,645,260
Staff Loans	21,312,213	20,245,557
	<u>908,808,825</u>	<u>760,890,817</u>
Less: Allowances for credit impairment (see note (b) below)	(16,185,016)	(10,137,885)
Interest in Suspense	(7,468,823)	(3,230,624)
	<u>885,154,986</u>	<u>747,522,308</u>

(b) Impairment allowances for loans and advances to customers

A reconciliation of the allowance for impairment losses and advances is as follows:

	2017		
	Specific	General	Total
	SCR	SCR	SCR
At January 1,	3,287,174	6,850,711	10,137,885
Direct write off	(184,331)	-	(184,331)
Charged/ (released) to profit and loss (i)	5,724,203	507,259	6,231,462
At December 31,	<u>8,827,046</u>	<u>7,357,970</u>	<u>16,185,016</u>
	2016		
	Specific	General	Total
	SCR	SCR	SCR
At January 1,	2,840,936	4,564,128	7,405,064
Direct write off	(73,987)	-	(73,987)
Charged/ (released) to profit and loss (i)	520,225	2,286,583	2,806,808
At December 31,	<u>3,287,174</u>	<u>6,850,711</u>	<u>10,137,885</u>

Specific and general provisions are modelled on an incurred, but not reported basis using a percentages method. A general provision is applied to loans in arrears less than 30 days and a specific provision is applied to loans in arrears greater than 30 days.

A reconciliation of interest in suspense is as follows:

	2017	2016
	SCR	SCR
At January 1,	3,230,624	1,693,433
Direct write off to Loans and Advances	(350,980)	(65,833)
Charged to profit and loss (Interest Income)	4,589,179	1,603,024
	<u>7,468,823</u>	<u>3,230,624</u>

6. LOANS AND ADVANCES (CONTINUED)

(b) Impairment allowances for loans and advances to customers (continued)

All interest on non-performing credit previously accrued into income but uncollected is reversed and credited into interest in suspense account as recovery is doubtful.

Bad Debts (written off)/ recovered:

	2017	2016
	SCR	SCR
Bad Debts Recovered	3,073,578	1,992,623
Loans Written Off to profit and loss	(188,193)	(2,094,941)
Total Bad Debts (written off)/ recovered (ii)	2,885,385	(102,318)
Total allowance for credit impairment credited / (charged) to profit and loss:		
(i) Allowance for credit impairment credited to profit and loss	(6,231,462)	(2,806,808)
(ii) Bad Debts (written off)/ recovered	2,885,385	(102,318)
	(3,346,077)	(2,909,126)

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

	Number of loans	2017		2016	
		SCR	%	SCR	%
Small Medium Enterprises loan scheme	543	487,790,096	53.67%	369,079,334	48.51%
Services	122	99,589,571	10.96%	114,101,257	15.00%
Tourism	55	116,109,518	12.78%	104,725,772	13.76%
Building and construction	69	100,885,209	11.10%	70,012,224	9.20%
Agriculture	13	21,391,095	2.35%	22,767,743	2.99%
Manufacturing	10	28,282,974	3.11%	21,401,975	2.81%
Staff (*)	123	21,312,213	2.35%	20,245,557	2.66%
Transport	19	9,317,794	1.03%	13,280,603	1.75%
Agriculture and horticulture	3	7,958,060	0.88%	8,275,986	1.09%
Process manufacturing industry	8	4,953,674	0.55%	5,131,968	0.67%
Fisheries	18	4,103,238	0.45%	4,683,677	0.62%
Trade	10	2,909,261	0.32%	3,152,775	0.41%
Community, social and personal	1	2,465,602	0.27%	2,552,421	0.34%
Former staff	12	1,718,925	0.19%	1,415,612	0.19%
Professional, Scientific and Technical Service	1	21,594	0.00%	63,913	0.01%
	1,007	908,808,825	100.00%	760,890,817	100.00%
Less: Allowances for credit impairment		(16,185,016)	(1.78)%	(10,137,885)	(1.33)%
Interest in Suspense		(7,468,823)	(0.82)%	(3,230,624)	(0.42)%
		885,154,986	97.40%	747,522,308	98.24%

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

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

**7. HELD-TO-MATURITY FINANCIAL ASSETS**

	2017	2016
	SCR	SCR
Treasury bills		
Balance at January 1,	9,915,604	14,774,934
Additions	-	9,872,000
Interest	84,396	118,670
Maturity	(9,872,000)	(14,576,760)
Interest received	(128,000)	(273,240)
Balance at December 31,	-	9,915,604

(a) Remaining terms of maturity of held-to-maturity financial assets are as follows:

	2017	2016
	SCR	SCR
- Less than 1 year	-	9,915,604

(b) Held-to-maturity financial assets are denominated in Seychelles Rupees.

(c) The fair value disclosures are provided in Note 3 (f).

**8. OTHER ASSETS**

	2017	2016
	SCR	SCR
Recovery on Financial Guarantee Contract (a)	14,090,161	1,062,943
Prepayments	1,138,201	1,047,742
Other receivables (b)	5,146,299	4,023,095
	20,374,661	6,133,780

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

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

9. PROPERTY AND EQUIPMENT

(a)	Land and Building	Equipment	Furniture and Fittings	Motor Vehicles	Total
	SCR	SCR	SCR	SCR	SCR
<b>COST OR VALUATION</b>					
At January 1, 2016	14,606,666	3,455,592	1,285,299	1,159,317	20,506,874
Additions	11,458	183,014	197,526	336,720	728,719
Disposals	(5,750)	(468,292)	(86,411)	-	(560,453)
Transfer	-	(19,168)	19,168	-	-
Reclassification (a)	2,525,000	-	-	-	2,525,000
Revaluation adjustment	387,626	-	-	-	387,626
<b>At December 31, 2016</b>	<b>17,525,000</b>	<b>3,151,146</b>	<b>1,415,582</b>	<b>1,496,037</b>	<b>23,587,766</b>
Additions	-	1,026,394	190,604	299,167	1,516,165
Disposals	-	(1,163,299)	(80,201)	(504,317)	(1,747,817)
<b>At December 31, 2017</b>	<b>17,525,000</b>	<b>3,014,241</b>	<b>1,525,985</b>	<b>1,290,887</b>	<b>23,356,114</b>
<b>DEPRECIATION AND IMPAIRMENT</b>					
At January 1, 2016	748,398	2,980,658	1,081,829	936,983	5,747,868
Charge for the year	757,681	209,934	147,183	92,000	1,206,798
Disposal adjustment	(1,447)	(451,203)	(74,052)	-	(526,703)
Transfer	-	(3,194)	3,194	-	-
Eliminated on revaluation	(1,431,021)	-	-	-	(1,431,021)
<b>At December 31, 2016</b>	<b>73,611</b>	<b>2,736,195</b>	<b>1,158,154</b>	<b>1,028,983</b>	<b>4,996,942</b>
Charge for the year	882,980	419,263	153,081	250,972	1,706,296
Disposal adjustment	-	(1,153,814)	(78,941)	(504,317)	(1,737,072)
<b>At December 31, 2017</b>	<b>956,591</b>	<b>2,001,644</b>	<b>1,232,294</b>	<b>775,638</b>	<b>4,966,167</b>
<b>NET CARRYING AMOUNT</b>					
<b>At December 31, 2017</b>	<b>16,568,409</b>	<b>1,012,598</b>	<b>293,692</b>	<b>515,249</b>	<b>18,389,947</b>
<b>At December 31, 2016</b>	<b>17,451,389</b>	<b>414,952</b>	<b>257,429</b>	<b>467,054</b>	<b>18,590,824</b>

- (a) The property has been reclassified from non-current assets held for sale.
- (b) The Bank's land and buildings are stated at their revalued amounts, being their fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The revaluation was performed by Blackburn Consulting (Pty) Ltd, an independent professionally qualified chartered surveyor on December 6, 2016. The revaluation resulted in a gain of SCR 1,818,648 in the year ended 31 December 2016.

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

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

- (c) The total cost relating to fully depreciated assets still in use amounts to SCR 2,652,272 as at December 31, 2017 (2016: SCR 4,092,039).
- (d) Cash outflow for the purchase of equipment assets was SCR 1,516,165 (2016: SCR 728,719).
- (e) The Bank does not have any of its assets pledged as securities.
- (f) Fair value measurement disclosures for revalued land and buildings are provided in Note 3 (f).

9. PROPERTY AND EQUIPMENT (CONTINUED)

(g) Significant unobservable valuation input:

	Price per square metre
2017	SCR 130 - SCR 22,000
2016	SCR 130 - SCR 22,000

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

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

	2017	2016
	SCR	SCR
Cost	6,269,469	6,269,469
Accumulated depreciation and impairment	(5,393,217)	(5,318,300)
<b>Net carrying amount</b>	<b>876,252</b>	<b>951,169</b>

10. INTANGIBLE ASSETS

	SCR
<b>(a) COST</b>	
At January 1, 2016	4,591,508
Additions	5,000
<b>At December 31, 2016</b>	<b>4,596,508</b>
Additions	145,496
Disposals	(158,911)
<b>At December 31, 2017</b>	<b>4,583,093</b>
<b>AMORTISATION</b>	
At January 1, 2016	4,570,095
Amortisation	13,943
<b>At December 31, 2016</b>	<b>4,584,038</b>
Amortisation	12,750
Disposals	(158,911)
<b>At December 31, 2017</b>	<b>4,437,877</b>
<b>NET CARRYING VALUE</b>	
<b>At December 31, 2017</b>	<b>145,216</b>
At December 31, 2016	12,470

(b) Intangible assets comprise of software and licenses.

(c) The total cost relating to fully depreciated assets still in use amounts to SCR 4,415,168 as at December 31, 2017 (2016: SCR 4,574,078).

(d) Cash outflow for the purchase of intangible assets was SCR 145,496 for the current year (2016: SCR 5,000).

11. BORROWINGS

(a)	Interest rate	Maturity	2017	2016
	%		SCR	SCR
Nouvobanq S.I.M.B.C	4.75% + 3 months Euribor	2018	5,306,091	12,069,971
Nouvobanq S.I.M.B.C	5% + 3 months Euribor	2020	37,953,450	41,939,174
BADEA bank loan	4%	2023	13,244,429	15,441,670
Seychelles Government (ADF Bilateral)	2.75%	2027	82,464,928	86,360,605
Seychelles Government (EIB) (*)	1.93%	2023	7,160,204	7,160,014
Barclays Bank Seychelles	Barclays Bank Prime Lending Rate - 4.75%	2023	54,687,500	64,062,500
Nouvobanq S.I.M.B.C	S.I.M.B.C's Prime Lending rate of 10% less 2%	2023	39,701,847	46,052,506
Seychelles Government (EIB) (*)	1.73%	2024	22,470,259	22,469,544
Seychelles Government (EIB) (*)	1.66%	2025	42,018,463	-
Al Salam Bank Bahrain	6.80%	2021	35,452,170	34,210,226
Mauritius Commercial Bank Seychelles	Euro Libor 3 months + margin 5.5%	2024	23,246,509	22,694,641
Mauritius Commercial Bank Seychelles	MCB base rate 10.5% minus margin of 2.75%	2024	22,042,874	24,466,194
Al Salam Bank Seychelles	6.90%	2024	59,670,352	66,096,333
<b>Total borrowings</b>			<b>445,419,076</b>	<b>443,023,379</b>

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

The loans are secured by the Government of Seychelles.

(b) Reconciliation of borrowings:	2017	2016
	SCR	SCR
Balance at January 1,	443,023,379	258,899,126
Proceeds from borrowings	41,687,059	219,002,862
Interest charges	23,957,939	19,690,372
Repayment of interest	(24,179,856)	(17,908,360)
Repayment of principal	(52,079,007)	(37,218,708)
Foreign exchange differences	13,009,562	558,088
Balance at December 31,	<b>445,419,076</b>	<b>443,023,379</b>

12. DBS BONDS

	2017	2016
	SCR	SCR
At January 1,	151,260,274	125,412,671
Redeemed during the year	-	(125,000,000)
Issued during the year	150,000,000	150,000,000
Interest expense	13,225,670	7,976,163
Interest payments	(12,239,369)	(7,128,561)
<b>At December 31,</b>	<b>302,246,575</b>	<b>151,260,274</b>

- (a) Interest rates on the above bonds ranges between 6% and 7.5% (2016: 6% and 7.5%).
- (b) The bonds are guaranteed by the Government of Seychelles.
- (c) The currency profile and maturity terms of the bonds are detailed in Note 3.

13. FUNDS UNDER MANAGEMENT

	2017	2016
	SCR	SCR
Credit Guarantee Scheme (a)	870,134	870,134
EU Fisheries and ADF (b)	79,570	229,542
Photovoltaic project (c)	9,260,469	11,358,377
	<b>10,210,173</b>	<b>12,458,053</b>

- (a) This fund was created from a donation made by Frederick Ebert Stiftung (a private foundation in the West of Germany). The objective of the fund is to support small entrepreneurs and young graduates from the Polytechnic on ventures not exceeding SCR 150,000. The fund is repayable on demand.
- (b) This pertains to funds received on behalf of EU Fisheries Development Fund and Agricultural Development Fund loan schemes, which have not yet been transferred to these respective loan schemes. The Bank has been given the mandate of administering these funds on behalf of the Government. The funds are repayable on demand.
- (c) This relates to balance held on behalf of the government with regards to the Photovoltaic project. The Government introduced the project in 2014 with the aim of intensifying efforts to reduce the country's dependency on fossil fuel by encouraging the use of renewable energy. The Bank is managing this fund on behalf of the Government. The funds are repayable on demand.

14. OTHER LIABILITIES

	2017	2016
	SCR	SCR
Trade payables (a)	2,917,950	738,217
Other payables and accruals (b)	742,715	1,576,207
	<b>3,660,665</b>	<b>2,314,424</b>

- (a) Trade payables consist mainly of retention amounts due upon completion of construction contracts, to which the Bank has a current obligation for services rendered and invoiced by the construction companies.
- (b) Other payables consist mainly of sundry creditors and personal contribution deposited by the producers toward the financing of total project costs.

15. COMPENSATION BENEFIT OBLIGATIONS

	2017	2016
	SCR	SCR
Compensation -end of contract (i)	1,212,882	2,042,900
Gratuity (ii)	273,333	220,917
Compensation -retirement (iii)	2,863,121	2,611,423
Long service award scheme (iv)	816,625	829,750
Performance incentive (v)	64,066	-
	<b>5,230,027</b>	<b>5,704,990</b>

(i) COMPENSATION - END OF CONTRACT

	2017	2016
	SCR	SCR
At January 1,	2,042,900	1,506,649
Charged to profit or loss	1,238,675	1,407,126
Benefits paid	(2,068,693)	(870,875)
<b>At December 31,</b>	<b>1,212,882</b>	<b>2,042,900</b>

End of contract compensation represents the Bank's obligation to pay compensation to employees on fixed term contracts upon the termination of their contracts. The contracts are for a minimum period of 2 years.

(ii) GRATUITY

	2017	2016
	SCR	SCR
At January 1,	220,917	118,389
Charged to profit or loss	89,666	172,528
Benefits paid	(37,250)	(70,000)
<b>At December 31,</b>	<b>273,333</b>	<b>220,917</b>

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

(iii) COMPENSATION - RETIREMENT

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

(a) Amount recognised to profit or loss:

	2017	2016
	SCR	SCR
Current service cost	222,328	363,718
Interest cost	174,104	145,445
Actuarial loss	67,107	(104,335)
	<b>463,539</b>	<b>404,829</b>

15. COMPENSATION BENEFIT OBLIGATIONS (CONTINUED)

(iii) COMPENSATION - RETIREMENT (CONTINUED)

	2017	2016
	SCR	SCR
At January 01,	2,611,423	2,221,445
Current service cost	222,328	363,718
Interest cost	174,104	145,445
Benefits paid	(211,841)	(14,850)
Actuarial loss	67,107	(104,335)
At December 31,	2,863,121	2,611,423

(c) The principal actuarial assumptions used were as follows:

	2017	2016
Discount rate	6.50%	6.87%
Future salary increases	6.00%	6.00%
Retirement age	63	63

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

	2017	2016
	SCR	SCR
Discount rate - increase by 1%	(477,742)	(435,759)
Discount rate - decrease by 1%	610,069	360,204
Future salary - increases by 1%	606,849	554,704
Future salary - decreases by 1%	(483,773)	(442,621)
Retirement age - increases by 5 years	(66,581)	(188,762)
Retirement age - decreases by 5 years	68,167	108,295

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

(iv) LONG SERVICE AWARD SCHEME

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

	2017	2016
	SCR	SCR
At January 1,	829,750	-
Charged to profit or loss	39,375	994,750
Benefits paid	(52,500)	(165,000)
At December 31,	816,625	829,750

(v) PERFORMANCE INCENTIVE

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

	2017	2016
	SCR	SCR
At January 1,	-	-
Charged to profit or loss	149,201	-
Benefits paid	(85,135)	-
At December 31,	64,066	-

16. SHARE CAPITAL

	2017	2016
	SCR	SCR
<i>Authorised shares</i>		
At January 1, and December 31,	40,000,000	40,000,000
	2017	2016
	SCR	SCR
<i>Issued and fully paid shares</i>		
At January 1, and December 31,	39,200,000	39,200,000

17. CONTINGENT RESERVE

	2017	2016
	SCR	SCR
At January 1, and December 31,	41,385,321	41,385,321

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

18. CONTINGENT LIABILITIES

There were no contingent liabilities as at December 31, 2017 (2016: Nil).

19. INTEREST INCOME

	2017	2016
	SCR	SCR
Cash and short term funds	936,439	560,540
Interest on held to maturity investment securities	84,396	118,670
Loans and advances	83,289,541	63,731,043
Interest in suspense	(4,589,179)	(1,603,024)
	79,721,197	62,807,229

20. INTEREST EXPENSE

	2017	2016
	SCR	SCR
Interest on borrowings and loan arrangement fees	24,591,025	20,922,036
Interest on DBS bonds	13,225,670	7,976,163
	37,816,695	28,898,199

21. OTHER INCOME

	2017	2016
	SCR	SCR
Management fees	1,000,764	1,040,586
Fees from loans and advances	397,574	629,842
Application fees	275,445	1,113,095
Gain on disposal of equipment, furniture and motor vehicle	318,796	-
Rental income	-	100,000
	1,992,579	2,883,523

22. EMPLOYEE BENEFIT EXPENSES

	2017	2016
	SCR	SCR
Salaries and wages	13,287,035	14,002,752
Pension costs (i)	232,347	240,486
Compensation benefit obligations	1,980,456	2,979,233
Directors fees and committee allowances	378,144	425,250
Other staff costs (ii)	1,341,752	1,140,491
	<u>17,219,733</u>	<u>18,788,213</u>

- (i) The Bank contributes to a statutory defined contribution scheme. Contributions are determined by local statute and are currently limited to 2% of gross salary per employee per month. The Bank's contributions to the scheme is charged to the profit and loss in the year in which they relate to.
- (ii) Other staff costs consist of staff training, staff welfare and uniforms.

23. OTHER OPERATING EXPENSES

	2017	2016
	SCR	SCR
Utilities costs	520,474	535,203
Communication costs	536,147	566,956
Maintenance costs	1,002,261	750,544
Legal and professional fees	892,757	606,000
Donations	156,410	250,541
Bank charges	857,680	446,011
Auditors' remuneration	200,000	143,750
Insurance expenses	114,521	110,496
Travelling expenses	847,220	568,534
Rental expenses	820,480	845,280
Office expenses	523,845	554,523
Promotion and advertising costs	58,659	592,722
Membership fees	329,263	241,267
Loss on disposal of equipment and property	-	1,258,751
Other administrative expenses	293,284	370,947
	<u>7,153,001</u>	<u>7,841,523</u>

(a) Lease arrangements

Operating lease commitments - Bank as lessee

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

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

	2017	2016
	SCR	SCR
Lease commitments		
Within one year	656,018	704,063
After one year but not more than 5 years	37,163	
More than 5 years	-	-
	<u>693,181</u>	<u>704,063</u>

## 24. CAPITAL COMMITMENTS

Loans and advances approved but not yet disbursed or partially disbursed as at December 31, 2017 totalled to SCR 118,713,770 (2016: 290,433,225).

## 25. RELATED PARTY TRANSACTIONS

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

(a) Borrowings	Relationship	2017	2016
		SCR	SCR
<u>Government of Seychelles</u>			
Balance at January 01,	Shareholder	115,990,163	96,870,554
Proceeds received		41,687,059	22,340,362
Interests		3,711,516	3,208,142
Repayments		(7,274,884)	(6,428,895)
Balance at December 31,		<u>154,113,854</u>	<u>115,990,163</u>
<u>Nouvobanq - S.I.M.B.C</u>			
		2017	2016
		SCR	SCR
Balance at January 01,	Government related (*)	100,061,651	71,596,885
Proceeds received		-	50,000,000
Interests		5,444,755	6,258,915
Repayments		(30,468,732)	(27,338,402)
Exchange differences		7,923,714	(455,747)
Balance at December 31,		<u>82,961,388</u>	<u>100,061,651</u>

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

(b) Interest subsidy		2017	2016
		SCR	SCR
<u>Government of Seychelles</u>			
Interest subsidy on SME loan scheme	Shareholder	<u>17,643,123</u>	<u>11,605,817</u>

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

(c) Salaries and other benefits	Relationship	2017	2016
		SCR	SCR
Key management salaries	Key management	2,624,584	2,684,823
Directors remuneration	Directors	378,144	425,250
End of contract settlement	Key management	956,681	337,434
End of contract provision	Key management	340,367	683,937
Long service award scheme settlement	Key management	-	45,000
Long service award scheme provision	Key management	62,125	87,750

25. RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Outstanding balances

Recovery on Financial Guarantee Contract	Shareholder	14,090,161	1,062,943
Borrowings	Shareholder	(154,113,854)	(115,990,163)
Borrowings	Government related	(82,961,388)	(100,061,651)
Loans and advances	Key management	5,389,800	3,169,264
Loans and advances	Directors	9,248,635	6,966,675

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

26. EVENTS AFTER THE REPORTING PERIOD

There is no event subsequent to the date of statement of financial position which may have a material effect on the financial statement as at 31 December 2017.