

DEVELOPMENT BANK OF SEYCHELLES

DIRECTORS REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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DEVELOPMENT BANK OF SEYCHELLES
DIRECTOR'S REPORT

The directors have pleasure in submitting their report on the financial statements of Development Bank of Seychelles (the "Bank" or "DBS" for the year ended December 31, 2020).

Principal activities

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.

There has been no change in the nature of this activity for the financial year under review.

Results for the year

	<u>SCR</u>
Profit for the year	10,915,049
Dividend paid during the year	-
Retained earnings brought forward	246,002,039
Retained earnings carried forward	256,917,088

Dividends

The Bank did not declare any dividend for the year 2020 (Declared in 2018 and paid in 2019: SCR 2,115,705).

Equipment

Additions to property and equipment during the year amounted to SCR 16,898,076 comprised mainly of, Head office building renovation done at SCR 5,736,537, revaluation surplus on land and buildings amounting to SCR 2,404,212 and transfer of land V9119 & V5963 amounting to SCR 6,498,199 to property, plant and equipment from assets held for sale prior year.

All property and equipment are stated at historical cost less accumulated depreciation. The Directors are of the opinion that the carrying amount of the assets approximate their fair value and do not require any adjustments for impairment.

Statement of Directors' Responsibilities

The Board of Directors is responsible for the overall management and affairs of the Bank including its operations and the making of financing and investment decisions.

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS), the Financial Institutions Act 2004, as amended and the Regulations and Directives of the Central Bank of Seychelles and the Development Bank of Seychelles Decree 1977. 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 Board of Directors have the general responsibility of safeguarding the assets, both owned by the Bank and those that are held in trust and used by the Bank.

The Board takes note that prior to declaration of dividends, authority should be sought from the Central Bank under section 31.

The Board considers that they have met their aforesaid responsibilities.

**DEVELOPMENT BANK OF SEYCHELLES
DIRECTOR'S REPORT**

Directors and their interest in the Bank

The Directors of the bank during the year and their interests were as follows:-

Brenda Bastienne	:	Chairperson
Brian Charlette	:	Vice-Chairperson
Daniel Gappy	:	Director
Ina Barbe	:	Director
Marc Naiken	:	Director
Roy Clarisse	:	Director
Rupert Simeon	:	Director
Ashwin Bhanderi	:	Director
Nicholle Belle	:	Director (appointed effective March 25, 2019 & resigned on 30th April 2020)
Dick Labonte	:	Director (appointed effective June 15, 2020)

All directors of the Company are citizens of Seychelles.

No directors held any interest, directly or indirectly in the equity of the Company.

No contract of significance subsisted with the Company at any time during the year in which the directors had directly or indirectly, a material interest.

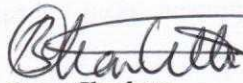
Auditors

The retiring auditors are Pool & Patel who are eligible for re-appointment.

Board Approval



Brenda Bastienne
Chairperson



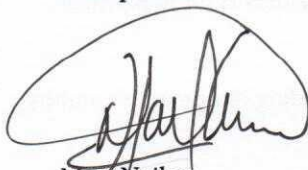
Brian Charlette
Vice-Chairperson



Daniel Gappy
Director



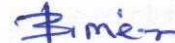
Ina Barbe
Director



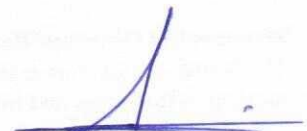
Marc Naiken
Director



Roy Clarisse
Director



Rupert Simeon
Director



Ashwin Bhanderi
Director



Dick Labonte
Director

13 July 2021

TO THE SHAREHOLDERS OF DEVELOPMENT BANK OF SEYCHELLES

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of "Development Bank of Seychelles" set out on pages 7 to 44, which comprise the statement of financial position as at December 31, 2020, and the income statement, statement of profit or loss and other 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 accompanying financial statements of the Bank give a true and fair view of the financial position of the Bank as at December 31, 2020 and of its financial performance and its cash flows for the year then ended in accordance with the, financial reporting provisions of IFRS's, Development Bank of Seychelles Decree 1977, Financial Institutions Act 2004, as amended and Regulations and Directives of the Central Bank of Seychelles.

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)* together with the ethical requirements that are relevant to our audit of the financial statements in Seychelles. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of our financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

➤ *Impairment allowance for Financial assets based on IFRS 9:*

Our audit considered impairment allowance for financial assets as a key audit matter. The materiality of the reported amounts for financial assets (and impairment allowance thereof), the subjectivity

associated with Management's impairment estimation underpinned our basis for considering it as a key audit matter.

The estimation of impairment allowance for financial assets involved complex manual calculations. Significant estimates and assumptions used by the Management in such calculations are disclosed in Notes 04.

To assess the reasonableness of the impairment allowance, our audit procedures (among others) were designed to obtain sufficient and appropriate audit evidences, included the following:

- We evaluated design effectiveness of controls over estimation of impairment of financial assets, which included assessing the level of oversight, review and approval of impairment policies by the Board Audit Committee and Management.
- We test-checked the underlying calculations and data.
- We assessed the completeness of the underlying information in financial assets used in the impairment calculations by agreeing details to the Bank's source documents and information in information technology system (IT).
- We performed procedures to ensure the competence, objectivity and independence of the Bank's Consultant.
- We assessed the adequacy of the related financial statement disclosures as set out in Note 06.

➤ *Management's use of significant judgements relating to the impacts of the evolving COVID-19 pandemic on the Bank:*

Management has assessed the impact of the evolving COVID-19 pandemic on its business and financial statements of the Bank as disclosed in Note 30.

We considered such management's assessment in the wake of the evolving COVID-19 pandemic as a key audit matter, since it involved the use of significant management judgments and estimates considering future events, circumstances and impacts on cash flows, based on available information.

We performed the following procedures, among others.

- We gained an understanding of significant judgements used by the management related to the impact of the COVID-19 pandemic on the business of the Bank.
- Obtaining the Bank's profitability and cash flow projections covering a period of not less than 12 months from the reporting period end date and challenging the key assumptions used in preparing the projections and inquiring the management plans and strategies on credit risk, liquidity risk and the exchange rate risk management evaluating the reasonability of the management plans highlighted.
- Evaluating the appropriateness of the assumptions used for the estimates and assessing whether the estimates reflected the latest economic conditions pursuant to the COVID-19 outbreak.
- Inspecting the availability of the credit facility arrangements for the Bank to manage the liquidity on a short term and long-term basis assessing the implication of these on the Bank's liquidity;
- Assessing the adequacy of the financial statements disclosures in relation to the impact of the uncertainty of COVID-19.
- Obtaining a confirmation from Government of Seychelles to ensure support in case of liquidity crisis.

➤ *Data loss and recovery of such data:*

During the year 2020 the bank encountered a ransomware attack which resulted in loss of data, such data was recovered with the help of Service provider (Intellect Design) and subsequent to the year-end bank was able bring back data to normal, we considered such loss of data as a key audit matter.

We performed the following procedures, among others.

- We gained an understanding of the loss and the impact of the same to the financial statements of the Bank.
- We considered balances of loans and advances as high risk and performed additional procedures with higher sample to address the risk.
- We obtained a confirmation from the service provider to confirm the subsequent status of the recovery process and to make sure the impacted areas due to the loss.
- We obtained management representation to confirm the loss has been recovered and for any known discrepancies.

Other Information

Our opinion on the financial statements does not cover any other information and we will not express any form of assurance conclusion thereon. Management is responsible for the other information. These financial statements do not include any other information.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

The Management is responsible for the preparation and fair presentation of the financial statements in accordance with the, financial reporting provisions of IFRS's, Development Bank of Seychelles Decree 1977, Financial Institutions Act 2004, as amended and Regulations and Directives of the Central Bank of Seychelles, and for such internal control as the management determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management is responsible for assessing the Bank'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 Management either intend to liquidate the Bank 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 process.

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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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 Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of Management 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 Bank'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 Bank 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 those charged with governance 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.

Report on Other Legal Regulatory Requirements

Financial Institutions Act 2004, as amended and Regulations and Directives of the Central Bank of Seychelles

The Financial Institutions Act 2004, as amended and Regulations and Directives of the Central Bank of Seychelles requires that in carrying out our audit, we consider and report to you the following matters. We confirm that:

- In our opinion, the financial statements have been prepared on a basis consistent with that of the preceding year and are complete, fair and properly drawn up and comply with the Financial Institutions Act 2004, as amended and Regulations and Directives of the Central Bank of Seychelles.
- The explanations or information called for or given to us by management and employees of the Bank were satisfactory.
- The Bank did not carry out any fiduciary duties during the year under review.

ACCA membership number of the engagement partner responsible for signing this independent auditors' report is 2673981.

Pool Patel
POOL & PATEL
CHARTERED ACCOUNTANTS

Date: 13th July 2021

DEVELOPMENT BANK OF SEYCHELLES
STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2020
 Financial statements are prepared in Seychelles Rupees '000

	Note	2020	2019
Assets			
Cash and cash equivalent	5	72,335,431	121,160,030
Loans and advances	6	834,167,598	835,470,108
Maturity investments	7	15,113,472	28,082,766
Other assets	8	67,196,617	29,551,080
Property and equipment	9	34,823,072	20,289,117
Intangible assets	10	45,751	62,928
Right to use asset	11	175,367	1,895,760
Total assets		1,023,857,308	1,036,511,789
Liabilities			
Borrowings	12	491,950,783	365,337,996
DBS bonds	13	151,174,658	302,185,619
Lease liability	14	197,781	2,006,329
Compensation benefit obligations	17	7,972,365	7,086,019
Funds under management	15	6,682,256	8,660,922
Other liabilities	16	3,972,010	2,646,710
Total liabilities		661,949,853	687,923,595
Equity			
Share capital			
Contingent reserve	18	39,200,000	39,200,000
Revaluation reserve	19	41,385,321	41,385,321
Retained earnings		24,405,046	22,000,834
Total equity		256,917,088	246,002,039
Total liabilities and equity		1,023,857,308	1,036,511,789

The notes on pages 11 to 44 are an integral part of these financial statements.



Brenda Bastienne
Chairperson



Brian Charlette
Vice-Chairperson



Daniel Gappy
Director



Ina Barbe
Director



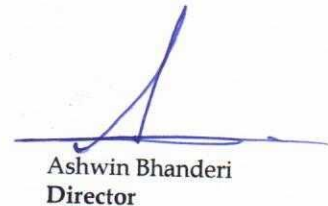
Marc Naiken
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Dick Labonte
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DEVELOPMENT BANK OF SEYCHELLES

STATEMENT OF COMPREHENSIVE INCOME - YEAR ENDED DECEMBER 31, 2020

Financial statements are prepared in Seychelles Rupees '000

	Note	2020	2019
Interest income	20	81,253,866	84,343,061
Interest expense	21	(34,886,470)	(39,291,218)
Net interest income		46,367,396	45,051,843
Other income	22	6,124,543	5,211,049
Net foreign exchange profit/ (loss)		6,145,512	(152,762)
		58,637,451	50,110,130
Non-interest expense			
Employee benefit expenses	23	(21,649,936)	(22,436,553)
Depreciation		(2,284,931)	(1,962,935)
Amortisation		(56,277)	(62,610)
Administrative expenses	24	(9,175,111)	(7,685,559)
Amortisation of right to use assets		(1,595,626)	(1,583,109)
Interest cost on lease liability		(188,346)	(309,162)
Total operating expenses		(34,950,227)	(34,039,928)
Profit from operations		23,687,224	16,070,202
Write back/(Provision) for credit impairment		(12,772,175)	(11,013,020)
Profit from continuing operations		10,915,049	5,057,182
Other comprehensive income			
Revaluation of land and building		2,404,212	-
Total other comprehensive income for the year		2,404,212	-
Total comprehensive income for the year		13,319,261	5,057,182

The notes on pages 11 to 44 are an integral part of these financial statements.

DEVELOPMENT BANK OF SEYCHELLES
STATEMENT OF CHANGES IN EQUITY - YEAR ENDED DECEMBER 31, 2020
 Financial statements are prepared in Seychelles Rupees '000

	Share capital	Contingent reserve	Revaluation reserve	Retained earnings	Total
Balance at December 31, 2018	39,200,000	41,385,321	22,000,834	243,060,562	345,646,717
Profit for the year	-	-	-	5,057,182	5,057,182
Dividend paid during the year	-	-	-	(2,115,705)	(2,115,705)
Balance at December 31, 2019	39,200,000	41,385,321	22,000,834	246,002,039	348,588,194
Profit for the year	-	-	-	10,915,049	10,915,049
Revaluation surplus	-	-	2,404,212	-	2,404,212
Dividend paid during the year	-	-	-	-	-
Balance at December 31, 2020	39,200,000	41,385,321	24,405,046	256,917,088	361,907,455

The notes on pages 11 to 44 are an integral part of these financial statements.

DEVELOPMENT BANK OF SEYCHELLES
STATEMENT OF CASH FLOWS - YEAR ENDED DECEMBER 31, 2020
Financial statements are prepared in Seychelles Rupees '000

	2020	2019
Operating activities		
Profit for the year	10,915,049	5,057,182
<i>Adjustments for:</i>		
Depreciation and Amortisation	3,936,834	3,608,654
Loss on disposal of equipment and right of use	320,110	43,020
Allowance for credit impairment	12,772,175	11,013,020
Provision for benefit obligations	3,132,064	3,424,745
Net interest on financial instruments	35,195,632	34,369,677
Foreign exchange loss/(gain) on borrowings	62,282,331	(1,947,505)
Net foreign exchange difference	(6,145,512)	152,762
Interest cost on lease liability	188,346	309,162
Operating profit before working capital changes	122,597,029	56,030,717
Changes in working capital		
(Decrease)/ increase in loans and advances	(11,469,665)	24,508,931
Decrease in other assets	(44,143,736)	(4,668,749)
Decrease in funds under management	(1,978,666)	(1,828,984)
Increase/(decrease) in other liabilities	1,325,300	(1,483,669)
Net cash generated from operations	66,330,262	72,558,246
Compensations paid	(2,245,718)	(2,686,870)
Net cash inflow from operating activities	64,084,544	69,871,376
Investing activities		
Purchase of intangible assets	(39,100)	-
Purchase of equipment	(7,995,665)	(269,429)
Purchase of financial assets at amortised costs	(15,113,472)	(28,082,766)
Proceeds from redemption of financial assets at amortised costs	28,082,766	-
Net cash inflow/(outflow) from investing activities	4,934,529	(28,352,195)
Financing activities		
Proceeds from borrowings	154,011,587	-
Interest paid	(35,662,341)	(33,014,788)
Repayment of borrowings	(90,225,383)	(67,327,542)
Proceeds from bonds issued	-	100,000,000
Bonds redeemed	(150,000,000)	(50,000,000)
Repayment of lease liability	(1,828,074)	(1,781,702)
Dividend paid	-	(2,115,705)
Net cash (outflow) from financing activities	(123,704,211)	(54,239,737)
Net change in cash and cash equivalents	(54,685,138)	(12,720,556)
Movement in cash and cash equivalents		
As at January 1,	121,160,030	134,033,348
Net decrease in cash and cash equivalent	(54,685,138)	(12,720,556)
Net foreign exchange difference	5,860,539	(152,762)
At December 31,	72,335,431	121,160,030

The notes on pages 11 to 44 are an integral part of these financial statements.

DEVELOPMENT BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Financial statements are prepared in Seychelles Rupees

1 General information

The Development Bank of Seychelles established in 1977 under the Development Bank of Seychelles Decree as a corporate body. The principal activities of the bank are as stated on page 1 of the Directors' Report. The principal place of business is situated at the Independence Avenue, Victoria, Mahe, Seychelles.

These financial statements will be submitted for consideration and approval at the forthcoming Annual General Meeting of the Shareholders of the Bank.

2 Significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS), Development Bank of Seychelles Decree 1977, Financial Institutions Act 2004, as amended and Regulations and Directives of the Central Bank of Seychelles.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4. (Critical accounting estimates and judgements.) The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

2.1.1 New accounting standards/amendments to published Standards issued but not effective at reporting date

The following new standards or amendments to standards (With early adoption permitted) which have been issued but not yet effective at the reporting date have not been applied in preparing these financial statements. The Directors are assessing the impact on the bank's financial statements.

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest Rate Benchmark Reform
- Amendments to IAS 37-Onerous Contracts - Cost of Fulfilling a Contract.
- Amendments to IAS 16-Property, Plant and Equipment: Proceeds before Intended Use.
- Amendments to IFRS 3-Reference to the Conceptual Framework.
- Annual Improvements to IFRS Standards 2018-2020.
- Amendments to IAS 1-Classification of liabilities as current or non-current.
- IFRS 17 - Insurance contracts

2.1.2 New accounting standards/amendments to published Standards issued and effective at reporting date

A number of new standards or amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the bank has not early adopted them in preparing these financial statements. The following amended/new standards have not, and are not expected to have, a material impact on the Bank in the current year or future reporting periods and on foreseeable future transactions.

- Amendment to IFRS 16-COVID-19-Related Rent Concessions
- Amendments to IFRS 3, 'Business combinations', - Definition of a business

DEVELOPMENT BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Financial statements are prepared in Seychelles Rupees

2 Significant accounting policies (cont...)

- Amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors' – Definition of material
- Amendments to IFRS 9, IAS 39 and IFRS 17: – Profit rate benchmark reform
- Amendments to the Conceptual framework
- Amendments to IFRS 4:-Extension of the Temporary Exemption from Applying IFRS 9

2.1.3 Comparative information

The previous year figures and phrases have been reclassified whenever necessary to conform to current year presentation.

2.2 Financial instruments

2.2.1 Classification and measurement of financial assets and financial liabilities

Financial assets are classified into one of the categories discussed below,

- measured at amortised cost,
- fair value through other comprehensive income (FVOCI)
- fair value through profit or loss (FVTPL)

The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where host is a financial asset in the scope of the standard, are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Business model assessment

The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect the contractual cash flows arising from the sale of assets. If neither of these are applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. Another example is the liquidity portfolio of assets, which is held by the Bank as part of liquidity management and is generally classified within the hold to collect and sell business model.

Solely payments of principal and interest test

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through Statement of Profit and Loss.

The Bank reclassifies its financial assets when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period under review.

The Bank holds loans and advances, maturity investments and other short term investments to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding and are categorised at amortised cost.

DEVELOPMENT BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Financial statements are prepared in Seychelles Rupees

2 Significant accounting policies (cont...)

2.2.1 Classification and measurement of financial assets and financial liabilities (cont...)

Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows ; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

Debt instruments measured at FVOCI

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit on the principal amount outstanding.

The financial statement do not include any FVOCI investments

Equity investments

Investments in equity instruments are always measured at fair value.

For all other equity instruments, management has the ability to make an irrevocable election on initial recognition, on an instrument-by-instrument basis, to present changes in fair value in OCI rather than profit or loss. If this election is made, all fair value changes, excluding dividends that are a return on investment, will be included in OCI. There is no recycling of amounts from OCI to profit and loss (for example, on sale of an equity investment), nor are there any impairment requirements. However, the entity might transfer the cumulative gain or loss within equity. All the equity instrument for which the irrevocable option is not made are measured at fair value through profit or loss.

The financial statement do not include any equity investments

Other

All other financial assets are classified as financial assets measured at FVTPL.

2.2.2 Impairment of financial assets

The impairment is calculated with a forward-looking "Expected Credit Loss" (ECL) model and the model applies to financial assets that are not measured at FVTPL, including financing contracts, certain loan commitments and financial guarantee contracts and all other debt securities. ECL does not apply to equity investments which need to be measured at fair value.

Determining the stage of impairment

Under ECL model the Bank uses a dual measurement approach, under which the loss allowance is measured as either 12-month ECL or lifetime ECL. The measurement basis generally depends on whether there has been a significant increase in credit risk since initial recognition.

The Bank applies three-stage approach to measuring ECL on financing contracts and other financial assets measured at amortised cost. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12 months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognised.

DEVELOPMENT BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Financial statements are prepared in Seychelles Rupees

2 Significant accounting policies (cont...)

2.2.2 Financial instruments / Impairment of financial assets (cont...)

Stage 2: Lifetime ECL - not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Stage 3: Lifetime ECL - credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognised as collective or individual basis and financing revenue is calculated by applying effective profit rate to the amortised cost (net of provision) rather than the gross carrying amount.

When determining whether credit risk on a financial asset has increased significantly since the initial recognition, the Bank considers both quantitative and qualitative information and analysis based on the Bank's historical experience and expert credit risk assessment, including forward-looking information.

The Bank considers that a significant increase in credit risk occurs no later than when an asset is equal or more than 30 days past due. Where there is a significant increase in credit risk the Bank uses lifetime ECL model to assess loss allowances instead of 12-month ECL model.

The Bank considers that a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Bank in full without recourse by the Bank to actions such as realizing security (if any is held) or the financial asset is more than 90 days past due.

Calculation of expected credit loss

Loans and advances

ECL is calculated using three main components: i.e., a probability of default (PD), a loss given default (LGD) and an exposure at default (EAD). These parameters are generally derived from internally developed statistical models combined with historical, current and forward-looking customer and macro-economic data.

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

- Loss Given Default (LGD) represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

¹ - EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

The ECL is determined by projecting the PD, EAD and LGD for each future year and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future year, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

DEVELOPMENT BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Financial statements are prepared in Seychelles Rupees

2 Significant accounting policies (cont...)

2.2.2 Financial instruments / Impairment of financial assets (cont...)

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band and supported by historical analysis.

- The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.
- The 12-months ECL is equal to the discounted sum over the next 12-months of monthly PD multiply by LGD and EAD.
- Lifetime ECL is calculated using the discounted sum of monthly PD over the full remaining life multiply by LGD and
- The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.
- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies, including contracted debt sales and price.

Incorporation of forward-looking information

The Bank has established procedures to consider a range of relevant forward-looking macro-economic assumptions for the determination of unbiased general sector / industry adjustments and any related specific sector/ industry adjustments that support the calculation of ECLs. Macro-economic factors taken into consideration include but not limited to unemployment, interest rates, gross domestic product, inflation and commercial property prices and require an evaluation of both the current and forecast direction of the macro-economic cycle. Incorporating forward-looking information increases the degree of judgement required as to how changes in these macro-economic factors will affect ECLs. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

The assumptions underlying the ECL calculation - such as how the maturity profile of the PDs and how collateral values change etc. - are monitored and reviewed on a quarterly basis. The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Modifications of financial assets

The Bank sometimes renegotiates or otherwise the contractual cash flow of financing contracts. When this happens, the Bank assesses whether or not the terms are substantially different to the original terms, amongst others.

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective profit rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in the Statement of Profit or Loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in the statement of profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective profit rate (or credit-adjusted effective profit rate for purchased or originated credit-impaired financial assets).

The Bank observes a minimum probationary period of six months to confirm if the risk of default has decreased significantly before upgrading exposures within stages, i.e. from stage 3 to stage 2 or stage 2 to stage 1.

DEVELOPMENT BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Financial statements are prepared in Seychelles Rupees

2 Significant accounting policies (cont...)

2.2 Financial Instruments (cont...)

Collateral repossessed

The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank's policy.

Financial assets measured at amortised cost other than loans and advances

The model of ECL applies to other financial assets measured at amortised cost as well. The Bank had not calculated any ECL on other financial assets measured at amortised cost, due to no loss events noted in the past periods as well as based on available information, there is unlikely to have any loss due to default, therefore impairment loss for other financial assets measured at amortised cost has been estimated to be nil.

Write-off

The gross carrying amount of a financial asset is written off when the Bank has no reasonable expectations of recovering a financial in its entirety or a portion thereof. The Bank has a policy of writing off the gross carrying amount when the financial asset is 365 days of being classified as loss. The Bank expects no significant recovery from the amount written off but however, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank procedures for recovery of amounts due.

Financial liabilities

Financial liabilities issued by the Bank that are not designated at FVTPL are classified as financial liabilities at amortised cost and are subsequently measured at amortised cost using the (Effective Interest Rate) EIR method.

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 the Statement of Profit or Loss.

Derecognition of financial assets other than on modification

The Bank derecognises a financial asset where the contractual rights to cash flows from the asset expire or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when the Bank has a legal enforceable right to set off the recognised amounts and the Bank intends either to settle on a net basis, or to realise the asset and liability simultaneously.

Hedge accounting

The Bank has not applied any hedge accounting for the reporting periods covered under this financial statements.

Principal financial instruments

Financial assets and liabilities are recognised on the Bank's Statement of Financial Position when they have become a party to the contractual provisions of the instruments. The Bank's accounting policies in respect of the main financial instruments are set out below.

DEVELOPMENT BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Financial statements are prepared in Seychelles Rupees

2 Significant accounting policies (cont...)

2.2 Financial Instruments (cont...)

Cash and cash equivalents and placements

Cash and cash equivalents comprise cash in hand and highly liquid financial assets that are subject to an insignificant risk of changes in their fair value and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents include cash in hand, deposits held at call with Bank's and other short-term highly liquid investments with original maturities of 3 months or less.

Loans and advances

Loans and advances are recognised when cash is advanced to the borrowers at fair value inclusive of transaction costs.

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 rate (EIR) 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 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 as well as losses arising from impairment.

Guarantees and other obligations on account of customers

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to Bank's, financial institutions and others on behalf of customers to secure loans, overdrafts and other Banking facilities. Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of

- The amount of the expected credit loss allowance; and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the Bank are measured as the amount net of the loss allowance. The Bank has not provided any commitment for loans to be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Bank cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

Maturity Investments

Maturity investments are initially recognised at fair value plus directly attributable costs and subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses, interest income, foreign exchange gains and losses and any gain and losses on derecognition are recognised in the Statement of Profit or Loss.

DEVELOPMENT BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Financial statements are prepared in Seychelles Rupees

2 Significant accounting policies (cont...)

2.2 Financial Instruments (cont...)

Other payables

Other payables are stated at fair value and subsequently measured at amortised cost using the effective interest method.

The following table shows the measurement categories of financial instruments which are measured in amortized cost along with their carrying amounts as at 31 December 2020.

		In Seychelles Rupees (SCR '000)			
Measurement category		Gross Amount	ECL	Carrying amount 31-12-2020	Carrying amount 31-12-2019
Financial assets					
Cash and cash equivalents	Amortised cost	72,335	-	72,335	121,160
Loans and advances at amortised cost	Amortised cost	868,440	(34,272)	834,168	835,470
Investments at amortised cost	Amortised cost	15,113	-	15,113	28,083
Other assets	Amortised cost	67,197	-	67,197	29,551
Total financial assets				988,813	1,014,264
Financial liabilities					
Borrowings	Amortised cost	491,951	-	491,951	365,338
DBS bonds	Amortised cost	151,175	-	151,175	302,186
Other liabilities	Amortised cost	3,972	-	3,972	2,647
Total financial liabilities				647,097	670,170

2.3 *Equipment*

Equipment are stated at historical cost less accumulated depreciation. 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 lives as follows:

	<u>Years</u>
Buildings	10 to 25
Equipment	3 to 7
Furniture and fittings	3
Motor vehicles	4

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals of equipment are determined by comparing the proceeds with their carrying amount and are included in the Statement of Profit or Loss.

DEVELOPMENT BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Financial statements are prepared in Seychelles Rupees

2 Significant accounting policies (cont...)

2.4 Leases

The Bank leases some buildings to run its offices and the period varies from 2 - 4 years, with an option to renew.

2.4.1 Right-of-use

Right-of-use asset is measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost comprising,

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

2.4.2 Lease liability

Lease liability is measured at the present value of the remaining lease payments, discounted using the general market banks incremental borrowing rate.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of profit on the remaining balance of the liability for each period.

2.5 Intangible asset

Acquired computer software licenses are capitalised on the basis of costs incurred to acquire and bring to use the specific software. They are amortised over a useful life of 3 years.

2.6 Impairment of non-financial assets

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.7 Retirement benefit obligations

The Bank contributes to a defined contribution plan as well as has several other long term benefit Schemes. They are, Compensation - end of contract, Gratuity, Compensation - retirement, Long service award scheme and Performance incentive.

The cost of compensation - retirement plan has been determined using the method as per the Seychelles Employment Act and management has estimated that the amount of liability provided will not be materially different had it been computed by an external Actuary.

The other additional plan's cost of compensation has been determined using Bank defined calculations as stated in Note 17 to this financial statements.

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

2.8 Taxation

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

DEVELOPMENT BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Financial statements are prepared in Seychelles Rupees

2 Significant accounting policies (cont...)

2.9 Foreign currencies

Functional and presentation currency

Items included in the financial statements are measured using Seychelles Rupee (SCR), the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements of the Bank are presented in Seychelles Rupee, which is its functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on 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 Statement of Profit or Loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date the fair value was determined.

2.11 Revenue recognition

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.

Interest income and expense

For all financial instruments measured at amortised cost, interest income or expense is recorded at the effective interest rate, which 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 revise their estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

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 EIR 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.

The interest income/ interest expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities. For credit-impaired financial assets, the interest income is calculated by applying the effective interest rate to the amortised cost of the credit-impaired financial assets i.e., the gross carrying amount less the allowance for expected credit losses.

Fees and commission income

Fees and commissions are recognised on an accrual basis when the service has been provided. Commission and fees arising from negotiating, or participating in the negotiations of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction.

Other income

Other income is recognised as it accrues.

DEVELOPMENT BANK OF SEYCHELLES

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2 Significant accounting policies (cont...)

2.12 Provisions

Provisions are recognised, where the company has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. The company recognises a provision for onerous contracts when the expected benefit to be derived from a contract are less than the unavoidable costs of meeting the obligation under the contract.

3 Financial risk management

The Bank's activities expose it to a variety of financial risks. Its overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effect of the Bank's financial performance.

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

3.1 Strategy in using financial instruments

The Bank borrows money from local and foreign banks and issues bonds locally and seeks to earn above average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

The Bank also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standing.

3.2 Capital adequacy

Capital adequacy ratio is closely monitored in line with the requirements of the Financial Institutions Act 2004, as amended and those of the Central Bank of Seychelles. The ratio is given as follows:

	2020 SCR '000	2019 SCR '000
Capital base:		
Tier I Capital	285,202	282,261
Tier II Capital	17,110	11,903
Total capital base (a)	302,312	294,164
Risk weighted assets (b)	1,070,870	1,017,098
Capital adequacy ratio (a/b) %	28%	29%
Minimum Requirement (%)	12%	12%

The Bank has adhered to the capital requirements of the Central Bank of Seychelles for the year under review.

3.3 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank is mainly exposed to credit risk from financing activity. Impact of credit risk of COVID-19 is disclosed in Note 30.

DEVELOPMENT BANK OF SEYCHELLES

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3 *Financial risk management (cont...)*

Portfolio classification and establishing groups of assets with similar credit risk characteristics □

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

The Bank also complies with the Financial Institutions (Credit Classification and Provisioning) Regulations, gazetted in 2010 and amended in 2011 which require the classification of its credits into specific categories and gives guidance on the minimum provisioning required for each category.

Assessment of significant increase in credit risk

When determining whether the risk of default has increased significantly since initial recognition, the Bank considers both quantitative and qualitative information and analysis based on the Bank's historical experience and expert credit risk assessment, including forward-looking information.

The Bank uses the number of days past due (DPD) to determine significant in credit risk. Credit ratings are assigned to facilities granted by sectors upon initial recognition based on available information. Credit risk is deemed to have increased significantly if credit ratings have deteriorated at the reporting date. In addition, as a backstop, the Bank considers that significant increase in credit risk occurs when an assets is more than 30 DPD.

Credit quality per class of financial assets

An ageing analysis of credit quality by class of asset for all financial assets exposed to credit risk has been performed. Credit risk for loans and advances is managed by the Credit department subject to Bank's established policy, procedures and control relating to credit risk management. Credit quality is assessed based on a credit rating evaluation, 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.

Collateral and other credit enhancements

Exposure to credit risk is also managed, in part, by obtaining and monitoring collateral in the form of government guarantee for SME loans, 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.

Exposure to credit risk

The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk are approved by the Board of Directors with discretionary limits set for the Bank's Management.

The table that follow shows the maximum exposure of financial assets to credit risk for the components of the Statement of Financial Position.

	2020	2019
	SCR '000	SCR '000
Cash and cash equivalents	72,335	121,160
Loans and advances at amortised cost	834,168	835,470
Investments at amortised cost	15,113	28,083
Other assets	67,197	29,551
Total credit risk exposure	988,813	1,014,264

DEVELOPMENT BANK OF SEYCHELLES

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3 *Financial risk management (cont...)*

Calculation of Expected Credit Loss (ECL)

Immediately after initial recognition, an expected credit loss allowance is recognised for loans and receivable at amortised cost as previously explained under note (2.2.2).

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. Detailed below is the Bank's maximum credit risk exposure for commitments. The maximum exposure to credit risk relating to the commitments is the full amount which amounted to SCR 112,738,347 (2018: SCR 140,263,475).

Loan commitments provided by the Bank are measured as the amount of the loss allowance. For loan commitments, the loss allowance is recognised as a provision. However for the contracts that include both a loan and an undrawn commitment and the Bank cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected losses are recognised as a provision.

An analysis of the Bank's maximum exposure to credit risk per class of financial asset, internal rating and 'stage', at the reporting date, without taking account of any collateral held and other credit enhancements is as disclosed below:

Class of financial asset	Year ended 2020				2019
	At amortised cost				Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL-not credit impaired	Stage 3 Lifetime ECL- credit impaired	Total	
<i>Loans and advances</i>					
Pass	619,556	-	-	619,556	690,038
Special Mention	-	146,503	-	146,503	87,809
Substandard	-	-	18,499	18,499	16,556
Doubtful	-	-	31,999	31,999	44,109
Loss	-	-	64,734	64,734	31,542
Total amount committed (note 6)	619,556	146,503	115,232	881,291	870,054
Cumulative allowance for credit impairment	(374)	(1,972)	(31,926)	(34,272)	(26,066)
Carrying amount	619,182	144,531	83,306	847,019	843,988
<i>Commitments</i>					
Gross (note 25)	112,738	-	-	112,738	140,263
Cumulative allowance for credit impairment	(656)	-	-	(656)	(434)
Carrying amount	112,082	-	-	112,082	139,829
Total Non-Performing Non-Performing Ratio				115,232 13%	92,207 11%

* The stage allocation above is solely based on CBS guidelines and based on number of days due.

* The non-performing loans ratio is based on loans in arrears greater than 89 days.

DEVELOPMENT BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Financial statements are prepared in Seychelles Rupees

3 *Financial risk management (cont...)*

Credit quality and provisioning requirements

Credit quality of loans and advances

	2020 SCR '000	2019 SCR '000
Neither past due nor impaired	619,556	690,038
Past due but not impaired	146,503	87,809
Impaired	115,232	92,207
Gross loans and advances	881,291	870,054
Less: Allowances for credit impairment	(34,272)	(26,066)
Fair value of collaterals of past due but not impaired	847,019	843,988

Loans and advances that are past due but not impaired are classified as such where net current market value of supporting security is sufficient to cover all principal, interest and other amounts (including legal, enforcement, realisation costs, etc.) due on the facility.

3.4 *Currency risk*

Currency risk is defined as the risk that movements in foreign exchange rates adversely affect the value of the Bank's foreign currency positions. The latter 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. Impact of currency risk of COVID-19 is disclosed in Note 30.

Concentration of assets and liabilities by currency

At 31 December 2020 (SCR '000)	SCR	Euro	USD	GBP	Others	Total
Assets						
Cash and cash equivalents	60,706	7,173	4,456	-	-	72,335
Loans and advances	834,168	-	-	-	-	834,168
Maturity investments	-	-	15,113	-	-	15,113
Other assets	67,197	-	-	-	-	67,197
Property & equipment	34,823	-	-	-	-	34,823
Intangible assets	46	-	-	-	-	46
Right to use asset	175	-	-	-	-	175
	997,115	7,173	19,569	-	-	1,023,858
Liabilities						
Borrowings	291,537	135,447	64,967	-	-	491,951
DBS bonds	151,175	-	-	-	-	151,175
Lease liability	198	-	-	-	-	198
Compensation benefit obligations	7,972	-	-	-	-	7,972
Funds under management	6,682	-	-	-	-	6,682
Other liabilities	3,972	-	-	-	-	3,972
	461,536	135,447	64,967	-	-	661,950
Net on balance sheet position	535,579	(128,274)	(45,398)	-	-	361,908
Off balance sheet position						
Undrawn commitments	112,738	-	-	-	-	112,738
Less : Allowance for credit impairment	(656)	-	-	-	-	(656)
Net off balance sheet position	112,082	-	-	-	-	112,082

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Financial statements are prepared in Seychelles Rupees

3 Financial risk management (cont...)

3.4 Currency risk (cont...)

At 31 December 2019 (SCR '000)	SCR	Eur	USD	GBP	Others	Total
Assets						
Cash and cash equivalents	78,528	25,104	17,528	-	-	121,160
Loans and advances	835,470	-	-	-	-	835,470
Maturity investments	28,083	-	-	-	-	28,083
Other assets	29,551	-	-	-	-	29,551
Property & equipment	20,289	-	-	-	-	20,289
Intangible assets	63	-	-	-	-	63
Right to use asset	1,896	-	-	-	-	1,896
	993,880	25,104	17,528	-	-	1,036,512
Liabilities						
Borrowings	247,278	73,147	44,913	-	-	365,338
DBS bonds	302,186	-	-	-	-	302,186
Lease liability	2,006	-	-	-	-	2,006
Compensation benefit obligations	7,086	-	-	-	-	7,086
Funds under management	8,661	-	-	-	-	8,661
Other liabilities	2,647	-	-	-	-	2,647
	569,864	73,147	44,913	-	-	687,924
Net on balance sheet position	424,016	(48,043)	(27,385)	-	-	348,588
Off balance sheet position						
Undrawn commitments	140,263	-	-	-	-	140,263
Less : Allowance for credit impairment	(434)	-	-	-	-	(434)
Net off balance sheet position	139,829	-	-	-	-	139,829

Sensitivity analysis

If exchange rates had been 1% higher/lower and all other variables were held constant as at year- end, the Bank's results would have been increased/decreased as follows:

	2020	2019
	SCR '000	SCR '000
Impact on results	± 61	± 2

As stipulated in the Financial Institutions (Foreign Currency Exposure) Regulations, 2009, banks are required to have a total "Long Position (LP) and Short Position (SP)" as a percentage of capital of not more than 30%. The SP ratio of the bank was 49.2%. As per the letter dated March 8, 2021, Central bank of Seychelles has increased the threshold to 50% due to the Covid-19 pandemic.

3.5 Liquidity risk

The Bank is exposed to daily calls on its available cash resources from borrowings, from loan draw down, from margin and other calls. The bank maintains cash resources to meet all of these needs based on experience. The bank sets limits on the minimum proportion of maturing funds available to meet such calls.

On the other hand, the Bank also complies with the Central Bank of Seychelles' requirement for all banks to maintain liquid assets in an amount which shall not, as a daily average each month, be less than 20% of the Bank's total liabilities under the Financial Institutions (Liquidity Risk Management) Regulations, 2009 as amended in 2012. The liquidity ratio of the bank was 22% (2019: 23%).

DEVELOPMENT BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Financial statements are prepared in Seychelles Rupees

3 Financial risk management (cont...)

3.5 Liquidity risk (cont...)

As at 31 December 2020 (SCR '000)	< 3 months	3 - 6 months	6 - 12 months	1 - 3 years	> 3 years	Non-maturity items	Total
Assets (Net of impairment)							
Cash and cash equivalents	72,335	-	-	-	-	-	72,335
Loans and advances	5,663	2,849	5,755	59,660	794,513	-	868,440
Maturity investments	-	-	15,113	-	-	-	15,113
Other assets	-	-	-	-	-	67,197	67,197
Property & equipment	-	-	-	-	-	34,823	34,823
Intangible assets	-	-	-	-	-	46	46
Right to use asset	-	-	-	-	-	175	175
	77,998	2,849	20,868	59,660	794,513	102,241	1,058,130
Less allowances for credit impairment							(34,272)
							1,023,857
Liabilities							
Borrowings	60,030	25,948	52,394	224,672	128,907	-	491,951
DBS bonds	1,175	50,000	-	50,000	50,000	-	151,175
Lease liability	198	-	-	-	-	-	198
Compensation benefit obligations	-	-	-	-	-	-	-
Funds under management	-	-	-	-	-	7,972	7,972
Other liabilities	-	-	-	-	-	6,682	6,682
	61,402	75,948	52,394	274,672	178,907	18,627	661,950
Maturity gap	16,596	(73,099)	(31,526)	(215,012)	615,606	83,614	396,180
As at 31 December 2019 (SCR '000)							
	< 3 months	3 - 6 months	6 - 12 months	1 - 3 years	> 3 years	Non-maturity items	Total
Assets (Net of impairment)							
Cash and cash equivalents	121,160	-	-	-	-	-	121,160
Loans and advances	4,569	796	5,165	73,064	777,942	-	861,536
Maturity investments	-	28,083	-	-	-	-	28,083
Other assets	-	-	-	-	-	29,551	29,551
Property & equipment	-	-	-	-	-	20,289	20,289
Intangible assets	-	-	-	-	-	63	63
Right to use asset	-	-	-	-	-	1,896	1,896
	125,729	28,879	5,165	73,064	777,942	51,799	1,062,578
Less allowances for credit impairment							(26,066)
							1,036,512
Liabilities							
Borrowings	20,113	17,447	35,822	166,183	125,773	-	365,338
DBS bonds	-	-	-	201,348	100,838	-	302,186
Lease liability	2,006	-	-	-	-	-	2,006
Compensation benefit obligations	-	-	-	-	-	-	-
Funds under management	-	-	-	-	-	7,086	7,086
Other liabilities	-	-	-	-	-	8,661	8,661
	22,119	17,447	35,822	367,531	226,611	18,394	687,924
Maturity gap	103,610	11,432	(30,657)	(294,467)	551,331	33,405	348,588

DEVELOPMENT BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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3 Financial risk management (cont...)

3.6 Interest rate risk

Interest rate risk refers to the potential variability in the Bank's financial condition owing to changes in the level of interest rates. It is the Bank's policy to apply variable interest rates to lending and borrowing.

Interest sensitivity of assets and liabilities - repricing analysis

As at 31 December 2020 (SCR '000)	< 3 months	3 - 6 months	3 - 12 months	1 - 3 years	> 3 years	Non-interest bearing	Total
Assets							
Cash and cash equivalents	25,531	-	-	-	-	46,804	72,335
Loans and advances	868,440	-	-	-	-	-	868,440
Maturity investments	-	-	15,113	-	-	-	15,113
Other assets	-	-	-	-	-	67,197	67,197
Property & equipment	-	-	-	-	-	34,823	34,823
Intangible assets	-	-	-	-	-	46	46
Right to use asset	-	-	-	-	-	175	175
	893,971	-	15,113	-	-	149,045	1,058,130
Less allowances for credit impairment							(34,272)
							1,023,857
Liabilities							
Borrowings	60,030	25,948	52,394	224,672	128,907	-	491,951
DBS bonds	1,175	50,000	-	50,000	50,000	-	151,175
Lease liability	198	-	-	-	-	-	198
Compensation benefit obligations	-	-	-	-	-	7,972	7,972
Funds under management	-	-	-	-	-	6,682	6,682
Other liabilities	-	-	-	-	-	3,972	3,972
	61,402	75,948	52,394	274,672	178,907	18,627	661,950
Interest sensitivity gap	832,569	(75,948)	(37,281)	(274,672)	(178,907)	130,418	361,907
As at 31 December 2019 (SCR '000)							
	< 3 months	3 - 6 months	3 - 12 months	1 - 3 years	> 3 years	Non-interest bearing	Total
Assets							
Cash and cash equivalents	71,707	-	-	-	-	49,453	121,160
Loans and advances	861,536	-	-	-	-	-	861,536
Maturity investments	-	28,083	-	-	-	-	28,083
Other assets	-	-	-	-	-	29,551	29,551
Property & equipment	-	-	-	-	-	20,289	20,289
Intangible assets	-	-	-	-	-	63	63
Right to use asset	-	-	-	-	-	1,896	1,896
	933,243	28,083	-	-	-	101,252	1,062,578
Less allowances for credit impairment							(26,066)
							1,036,512
Liabilities							
Borrowings	20,113	17,447	35,822	166,183	125,773	-	365,338
DBS bonds	-	-	-	201,348	100,838	-	302,186
Lease liability	2,006	-	-	-	-	-	2,006
Compensation benefit obligations	-	-	-	-	-	7,086	7,086
Funds under management	-	-	-	-	-	8,661	8,661
Other liabilities	-	-	-	-	-	2,647	2,647
	22,119	17,447	35,822	367,531	226,611	18,394	687,924
Interest sensitivity gap	911,124	10,636	(35,822)	(367,531)	(226,611)	82,858	348,588

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Financial statements are prepared in Seychelles Rupees

3 *Financial risk management (cont...)*

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Financial statements are prepared in Seychelles Rupees

3 *Financial risk management (cont...)*

3.6 *Interest rate risk (cont...)*

Sensitivity analysis

If interest rates had been 1% higher/lower and all other variables were held constant as at year-end, the Bank's results would have been increased/decreased as follows:

	2020	2019
	SCR '000	SCR '000
Impact on results	±463	±451

4 *Critical accounting estimates and judgements*

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the Banking disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

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.

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 as follows:

Impairment losses on financial assets

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a life time ECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs; and

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4 *Critical accounting estimates and judgements (cont...)*

Impairment losses on financial assets (cont...)

- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

Calculation of Loss allowance

When measuring ECL the Bank uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Impairment of other assets

At each financial reporting year end, Bank's Management reviews and assesses the carrying amounts of other assets and where relevant, write them down to their recoverable amounts based on best estimates.

Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated.

The Bank monitors financial assets measured at amortised cost prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

Significant increase in credit risk

In assessing whether the credit risk of an asset has significantly increased the Bank considers qualitative and quantitative reasonable and supportable forward-looking information.

Useful lives and residual values of equipment

Determining the carrying amounts of equipment requires the estimation of the useful lives and residual values of these assets which carry a degree of uncertainty. The Directors have used historical information relating to the Bank and the relevant industry in which it operates in order to best determine the useful lives and residual values of equipment.

Retirement benefit obligations

The cost of defined benefit pension plans has been determined using the method as per the Seychelles Employment Act and Management has estimated that the amount of liability provided will not be materially different had it been computed by an external Actuary.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

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4 *Critical accounting estimates and judgements (cont...)*

Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from for example, a stock exchange and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Bank is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily quoted equity investments classified as trading securities.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Limitation of sensitivity analysis

The sensitivity analysis demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the Bank's assets and liabilities are actively managed. Other limitations include the use of hypothetical market movements to demonstrate potential risk that only represent the Bank's views of possible near-term market changes that cannot be predicted with any certainty.

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NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2020

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5 Cash and Cash equivalents

	2020	2019
Balances with local banks	72,915,596	121,073,255
Cash in hand	28,806	86,775
Allowance for credit impairment	(608,971)	-
	72,335,431	121,160,030

6 Loans and advances

	2020	2019
Loans and advances to customers	862,029,653	847,549,119
Staff loans	19,262,213	22,504,874
	881,291,866	870,053,993
Less : Allowance for credit impairment (See below)	(34,272,274)	(26,066,209)
Interest in Suspense	(12,851,994)	(8,517,676)
	834,167,598	835,470,108

6.1 Loans and advances by credit quality

	Stage 1 12-month ECL	Stage 2 lifetime ECL not credit impaired	Stage 3 lifetime ECL credit impaired	As at 31 December 2020	As at 31 December 2019
Loans and advances					
Loans and advances	469,960,015	251,949,150	159,382,701	881,291,866	870,053,993
Allowance for credit impairment	(374,147)	(1,972,247)	(31,925,880)	(34,272,274)	(26,066,209)
	469,585,868	249,976,903	127,456,821	847,019,592	843,987,784

6.2 Allowance for credit impairment

	2020	2019
Cumulative allowance for credit impairment		
Loans and advances	26,066,209	16,701,579
Undrawn commitments	433,980	190,579
As at January 1,	26,500,189	16,892,158
Provision reversal up to the write off made	(2,807,026)	(1,234,190)
Expected loss charge for the year	11,235,007	10,842,221
Loans and advances	34,272,274	26,066,209
Undrawn commitments	655,896	433,980
As at December 31,	34,928,170	26,500,189
Amounts directly recognised in profit and loss		
Bad debts recovered	(917,758)	(1,622,198)
Loans written off to profit or loss	1,845,955	1,792,998
Net bad debts (written off)/recovered	928,197	170,800

Total allowance for credit impairment credited/(charged) to profit or loss:

Expected loss charge for the year	11,235,007	10,842,221
Net bad debts (written off)/recovered	928,197	170,799
Expected loss charge for the year - Cash and cash equivalent (Note 5)	608,971	-
	12,772,175	11,013,020

DEVELOPMENT BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2020

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6 *Loans and advances (Continued)*

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

	Number of loans	2020	%	2019	%
SME loan scheme	560	514,966,524	58.43%	496,188,089	57.03%
Services	83	60,668,486	6.88%	67,825,989	7.80%
Tourism	55	99,760,900	11.32%	89,567,700	10.29%
Building and construction	77	116,215,615	13.19%	120,440,962	13.84%
Agriculture	7	17,580,486	1.99%	16,980,981	1.95%
Manufacturing	10	29,617,136	3.36%	28,712,874	3.30%
Staff (*)	116	19,262,213	2.19%	22,504,874	2.59%
Transport	10	4,009,066	0.45%	5,080,057	0.58%
Agriculture and horticulture	3	6,803,424	0.77%	6,651,750	0.76%
Manufacturing industry	3	101,113	0.01%	5,895,835	0.68%
Fisheries	11	4,725,404	0.54%	4,806,682	0.55%
Trade	6	1,390,018	0.16%	1,819,427	0.21%
Community, social and personal	1	2,148,550	0.24%	2,264,255	0.26%
Former staff (*)	11	1,102,248	0.13%	1,314,518	0.15%
Covid relief scheme	24	2,940,682	0.33%	-	0.00%
	953	881,291,866	100%	870,053,993	100%
Less : Allowance for credit impairment		(34,272,274)	-3.89%	(26,066,209)	-3.00%
Interest in suspense		(12,851,994)	-1.46%	(8,517,676)	-0.98%
		834,167,598	0%	835,470,108	96%

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% and Staff loans range from 3.75% to 11.5%. 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% to 11.5%.

7 *Maturity investments*

	2020	2019
As at January 1,		
Additions	28,082,766	-
Interest accrued	15,109,443	25,200,000
Maturity	4,029	2,882,766
As at December 31,	(28,082,766)	-
	15,113,472	28,082,766

The bank has invested in SCR and USD fixed deposits in local banks with a maturity of 6 - 12 months.

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NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2020

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8 *Other assets*

	2020	2019
Deposits (a)	60,385,925	11,565,745
Prepayments	169,132	4,582,174
Other receivables (b)	6,641,560	6,904,962
Land Parcel V9119/V5963	-	6,498,199
	67,196,617	29,551,080

- (a) The Bank contracted loans with Nouvobanq S.I.M.B.C, Mauritius Commercial Bank and Al salam Bank of Bahrain 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 12 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 & Small Business Financing Agency Fund. In addition it includes subsidies interest for Small and Medium Enterprise loans 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*

	Land and buildings	Equipment	Furniture and fittings	Motor vehicles	Total
Cost					
As at January 1, 2019	20,600,000	3,348,336	1,499,006	1,290,887	26,738,229
Additions	-	173,300	96,129	-	269,429
Disposals	(62,497)	-	(41,200)	-	(103,697)
As at December 31, 2019	20,537,503	3,521,636	1,553,935	1,290,887	26,903,961
Additions	12,234,737	1,493,179	765,948	-	14,493,864
Disposals	(78,253)	(359,407)	(166,976)	-	(604,636)
Revaluation	2,404,212	-	-	-	2,404,212
As at December 31, 2020	35,098,199	4,655,408	2,152,907	1,290,887	43,197,401
Accumulated depreciation					
As at January 1, 2019	93,333	2,421,278	1,225,032	972,943	4,712,586
Charge for the year	1,120,000	529,088	154,875	158,972	1,962,935
Disposals	(19,478)	-	(41,199)	-	(60,677)
As at December 31, 2019	1,193,855	2,950,366	1,338,708	1,131,915	6,614,844
Charge for the year	1,361,720	465,902	298,337	158,972	2,284,931
Disposals	(72,157)	(288,488)	(164,801)	-	(525,446)
As at December 31, 2020	2,483,418	3,127,780	1,472,244	1,290,887	8,374,329
Net book value					
As at December 31, 2020	32,614,781	1,527,628	680,663	-	34,823,072
As at December 31, 2019	19,343,648	571,270	215,227	158,972	20,289,117

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9 *Property and equipment (Continued)*

- (a) 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, 2020. The revaluation resulted in a gain of SCR 2,404,212 for the year.

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.

- (b) Cash outflow for the purchase of equipment assets was SCR 14,493,864 (2019: SCR 269,429).

- (c) The Bank does not have any of its assets pledged as securities.

10 *Intangible assets*

	2020	2019
Cost		
As at January 1,		
Additions	4,620,858	4,620,858
As at December 31	<u>39,100</u>	<u>-</u>
	4,659,958	4,620,858
Accumulated amortisation		
As at January 1,		
Amortisation	4,557,930	4,495,320
As at December 31,	<u>56,277</u>	<u>62,610</u>
	4,614,207	4,557,930
Net book value as at December 31,	<u>45,751</u>	<u>62,928</u>

- (a) Intangible assets comprise of software and licenses.

- (b) Cash outflow for the purchase of intangible assets was SCR 39,100 for the current year (2019: Nil).

11 *Right to use asset*

	2020	2019
Cost		
As at January 1,		
Additions	3,478,869	3,478,869
Disposals	475,068	-
As at December 31,	<u>(1,624,958)</u>	<u>-</u>
	2,328,979	3,478,869
Accumulated amortisation		
As at January 1,		
Amortisation	1,583,109	-
Disposal	1,595,626	1,583,109
As at December 31,	<u>(1,025,123)</u>	<u>-</u>
	2,153,612	1,583,109
Net book value as at December 31,	<u>175,367</u>	<u>1,895,760</u>

DEVELOPMENT BANK OF SEYCHELLES

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12 Borrowings

	Interest rate	Maturity	2020	2019
Nouvobanq S.I.M.B.C	4.75% + 3 months Euribor	2020	-	12,650,585
Al Salam Bank Bahrain	6.80%	2021	54,689,082	35,705,906
BADEA bank loan	4%	2023	10,275,885	9,206,977
Barclays bank Seychelles	Prime lending rate - 4.75%	2023	26,562,500	35,937,500
Nouvobanq S.I.M.B.C	5%	2023	17,850,547	25,798,728
Barclays bank of Seychelles	Prime lending rate - 4.75%	2023	24,166,667	34,166,667
Seychelles Government (EIB) - 1	1.91%	2023	3,681,810	4,863,056
Seychelles Government (EIB) - 2	1.73%	2024	13,390,126	17,069,169
Mauritius Commercial bank of Seychell MCB base rate		2024	20,661,125	15,584,243
Mauritius Commercial bank of Seychell Euro libor 3 months + margin 5.5%		2024	14,277,888	17,415,059
Al Salam Bank Seychelles	6.90%	2024	37,602,548	45,431,797
Seychelles Government (EIB) - 3	1.66%	2025	31,896,774	38,666,861
Seychelles Government (ADF Bilateral)	2.75%	2027	66,920,790	72,841,448
Seychelles Government (Grant)	Interest fee	2024	45,238,095	-
Nouvobanq S.I.M.B.C	4.5% + 3 months Euribor	2025	121,169,078	-
Private Sector Relief Scheme	Interest fee	8 years from disbursement	3,567,868	-
			491,950,783	365,337,996

The loans are secured by the Government of Seychelles except for loan from Al Salam Bank Bahrain.

Reconciliation of borrowings:

	2020	2019
As at January 1,		
Proceeds from borrowings	365,337,996	433,550,622
Interest charges	154,011,587	-
Repayments of interest	19,418,564	16,063,606
Repayment of principal	(18,874,312)	(15,001,185)
Foreign exchange (gain)/loss	(90,225,383)	(67,327,542)
As at December 31,	62,282,331	(1,947,505)
	491,950,783	365,337,996

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 (gain)/loss incurred during 2020 was SCR 57,890,767 (SCR 2019: 1,947,505).

13 DBS Bonds

	2020	2019
As at January 1,		
Redeemed during the year	302,185,619	251,893,151
Issued during the year	(150,000,000)	(50,000,000)
Interest expense	-	100,000,000
Interest payments	15,777,068	18,306,071
As at December 31,	(16,788,029)	(18,013,603)
	151,174,658	302,185,619

- Interest rates on the above bonds ranges between 6% and 7.5% (2019: 6% and 7.5%).
- The bonds are guaranteed by the Government of Seychelles.
- The currency profile and maturity terms of the bonds are detailed in Note 3.

DEVELOPMENT BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2020

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14 *Lease liability*

	2020	2019
As at January 1,		
Additions	2,006,329	3,478,869
Disposals	475,068	-
Interest cost	(643,888)	-
Payments made	188,346	309,162
As at December 31,	(1,828,074)	(1,781,702)
	197,781	2,006,329

14.1 *Minimum lease payments payable on lease commitment is as follows,*

	Future minimum lease payments	Interest cost	Present value of minimum lease payments 31-12-2020	Present value of minimum lease payments 01-01-2020
Within 1 year	201,699	3,918	197,781	1,781,729
Later than 1 year	-	-	-	224,600
As at December 31,	201,699	3,918	197,781	2,006,329

14.2 *Amounts recognised in the statement of profit or loss,*

	2020	2019
Amortisation charge of right to use asset	1,595,626	1,583,109
Interest cost	188,346	309,162
	1,783,972	1,892,271

15 *Funds under management*

	2020	2019
Credit guarantee scheme (a)	870,134	870,134
EU fisheries, ADF and SBFA (b)	1,320,473	127,470
Photovoltaic project (c)	2,741,238	5,841,575
Green climate fund (d)	1,750,411	1,821,743
	6,682,256	8,660,922

- (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. Further during 2019, Bank's management and Government of Seychelles signed an agreement on 12th April 2019 to transfer the management of Small Business Finance Agency fund to the Bank upon the Government taking the decision to close down the SBFA fund and transfer the management of those loans under that scheme to the Bank.
- (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.

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15 Funds under management (Cont...)

- (d) This fund was created under the United Nations Framework Convention on Climate Change. The objective of the fund is to assist in the hiring of consultants and procurement of services to build capacity of the coordination and management unit that will have the responsibility of coordinating with other ministries, NGO's and stakeholders on the Green Climate Fund.

16 Other liabilities

	2020	2019
Trade payable (a)	472,502	116,161
ECL provision on off-balance sheet items	655,896	433,980
Other payables and accruals (b)	2,843,612	2,096,569
	3,972,010	2,646,710

- (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.

17 Compensation benefit obligations

	2020	2019
Compensation - end of contract (a)	2,386,392	2,005,481
Gratuity (b)	234,417	313,417
Compensation -retirement (c)	4,395,744	3,682,524
Long service award scheme (d)	882,875	880,750
Performance incentive (e)	72,937	203,847
	7,972,365	7,086,019

(a) Compensation - end of contract

	2020	2019
As at January 1,	2,005,481	2,276,223
Charged to profit or loss	1,532,005	1,781,111
Benefits paid	(1,151,094)	(2,051,853)
At December 31,	2,386,392	2,005,481

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.

(b) Gratuity

	2020	2019
As at January 1,	313,417	247,666
Charged to profit or loss	62,336	140,751
Benefits paid	(141,336)	(75,000)
At December 31,	234,417	313,417

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

(c) Compensation - Retirement

	2020	2019
As at January 1,	3,682,524	2,867,018
Current service cost	1,293,623	1,110,154
Benefits paid	(580,403)	(294,648)
As at December 31,	4,395,744	3,682,524

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17 Compensation benefit obligations (Continued)

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.

<i>(d) Long service award scheme</i>	2020	2019
As at January 1,	880,750	823,278
Charged to profit or loss	227,125	154,972
Benefits paid	(225,000)	(97,500)
As at December 31,	882,875	880,750

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.

<i>(e) Performance incentive</i>	2020	2019
As at January 1,	203,847	133,957
Charged to profit or loss	16,975	237,757
Benefits paid	(147,885)	(167,867)
As at December 31,	72,937	203,847

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.

18 Share capital

	2020	2019
Authorised share		
As at December 31,	40,000,000	40,000,000
Issued and fully paid shares		
As at December 31,	39,200,000	39,200,000

19 Contingent reserve

	2020	2019
As at 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.

20 Interest income

	2020	2019
Cash and short term funds	768,265	1,016,085
Interest on financial assets at amortized cost	943,315	296,959
Loans and advances	86,150,860	86,880,164
Interest in suspense	(6,608,574)	(3,850,147)
	81,253,866	84,343,061

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21 Interest expense

	2020	2019
Interest on borrowing and loan arrangement fees	19,109,402	20,985,147
Interest on DBS bonds	15,777,068	18,306,071
	34,886,470	39,291,218

22 Other income

	2020	2019
Management fees	6,262,100	4,823,766
Fees from loans and advances	77,508	312,304
Application fees	105,045	117,999
(Loss)/Gain on disposal of Property and equipment & right of use asset	(320,110)	(43,020)
	6,124,543	5,211,049

23 Employee benefit expenses

	2020	2019
Salaries and wages	17,253,559	16,548,115
Pension costs	495,968	428,359
Compensation benefit obligation	3,132,064	3,283,207
Directors fees and committee allowance	363,091	573,273
Other staff costs	405,254	1,603,599
	21,649,936	22,436,553

24 Administrative expenses

	2020	2019
Auditors' remuneration	269,100	253,000
Bank charges	1,117,191	326,246
Communication costs	647,648	409,588
Donations	35,000	150,813
Insurance expenses	119,496	105,434
Legal and professional fees	773,938	882,215
Maintenance costs	2,257,861	1,078,947
Membership fees	433,635	416,614
Office expenses	623,068	493,305
Promotion and advertising costs	371,396	443,874
Rental expenses	824,479	852,972
Travelling expenses	134,243	554,473
Utilities costs	394,696	441,844
Other administration expenses	1,173,360	1,276,234
	9,175,111	7,685,559

25 Capital commitments

Loans and advances approved but yet disbursed as at December 31, 2020 totaled to SCR 112,738,347 (2019: 140,263,475). Their expected credit loss is SCR 655,869 (2019: SCR 433,980). All capital commitments are classified in stage one.

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26 *Related party transactions*

During the year ended 31 December 2020, there were the followings following between the bank and its related parties.

	Relationship	2020	2019
(a) Borrowings			
<u>Government of Seychelles</u>			
As at January 1,		133,440,534	146,711,220
Additions (Government advance)		50,000,000	-
Interests	Shareholder	2,894,351	2,750,189
Repayments		(25,207,288)	(16,020,875)
At December 31,		161,127,597	133,440,534
<u>Nouvobanq - SIMBC</u>			
As at January 1,		38,449,313	57,974,093
Additions		100,443,720	-
Interests	Government related (*)	3,772,795	4,015,120
Repayments		(33,370,113)	(21,612,935)
At December 31,		139,019,626	38,449,313

(*) The Government of Seychelles holds shares in both Development bank of Seychelles and Nouvobanq.

	2020	2019
(b) Interest subsidy		
<u>Government of Seychelles</u>		
Interest subsidy on SME loan scheme	21,050,614	19,561,578

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 5,548,187.

	Relationship	2020	2019
(c) Salaries and other benefits			
Personal salaries	Key management personnel	1,650,652	1,428,665
Remuneration	Directors	363,091	573,273
End of contract settlement	Key management personnel	2,151,122	2,074,994
End of contract provision	Key management personnel	85,310	65,291
Long service award scheme settlement	Key management personnel	37,500	60,000
Long service award scheme provision	Key management personnel	272,250	154,971
(d) Outstanding balances			
Recovery on financial Guarantee contract	Shareholder	60,385,925	11,565,745
Borrowings	Shareholder	161,127,597	133,440,534
Borrowings	Government related	139,019,626	38,449,313
Loans and advances	Key management personnel	5,098,216	5,863,164
Loans and advances	Directors	9,300,354	10,422,538

In 2015 due to organization restructuring, the Bank created a new position to head their departments. The heads of the departments are known as key management personnel.

27 *Contingent liabilities*

There were no contingent liabilities as at December 31,2020 (2019 : Nil).

28 *Events after reporting date*

There were no events after reporting date which require disclosure as at December 31,2020.

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29 Fair Value of Financial Instruments

29.1 The following table provides an analysis of assets and liabilities measured at fair value and not measured at fair values as at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorized. These amounts were based on the values recognised in the Statement of Financial Position:

	Level 1 Quoted prices in active market	Level 2 Significant observable input	Level 3 Significant unobservable	Total Fair Value	Total Carrying Amount
As at 31 December 2020					
<u>Financial assets not measured at fair values</u>					
Cash and cash equivalents	-	72,335,431	-	72,335,431	72,335,431
Loans and advances	-	-	834,167,598	834,167,598	834,167,598
Financial assets at amortised cost	-	-	15,113,472	15,113,472	15,113,472
Other assets	-	-	67,196,617	67,196,617	67,196,617
Total	-	72,335,431	916,477,687	988,813,118	988,813,118
<u>Financial liabilities not measured at fair values</u>					
Borrowings	-	-	491,950,783	491,950,783	491,950,783
DBS bonds	-	-	151,174,658	151,174,658	151,174,658
Other liabilities	-	-	3,972,010	3,972,010	3,972,010
Total	-	-	670,170,325	670,170,325	670,170,325

As at 31 December 2019 (SCR)

Financial assets not measured at fair values

Cash and cash equivalents	-	121,160,030	-	121,160,030	121,160,030
Loans and advances	-	-	835,470,108	835,470,108	835,470,108
Financial assets at amortised cost	-	-	28,082,766	28,082,766	28,082,766
Other assets	-	-	29,551,080	29,551,080	29,551,080
Total	-	121,160,030	893,103,954	1,014,263,984	1,014,263,984

Financial liabilities not measured at fair values

Borrowings	-	-	365,337,996	365,337,996	365,337,996
DBS bonds	-	-	302,185,619	302,185,619	302,185,619
Other liabilities	-	-	2,646,710	2,646,710	2,646,710
Total	-	-	670,170,325	670,170,325	670,170,325

29.2 Methodologies and assumptions used to determine fair value of financial instruments which are not already recorded at fair value in the Statement of Financial Position are as follows.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost (eg. fixed rate financing contracts, due to other customers, subordinate liabilities) are estimated based on the Discounted Cash Flow approach. This approach employs the current market interest rates of similar financial instruments as a significant unobservable input in measuring the fair value and hence it is categorised under Level 3 in the fair value hierarchy.

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29 Fair Value of Financial Instruments (Continued)

Sensitivity of significant unobservable inputs used to measure fair value of fixed rate financial instruments.

A significant increase/(decrease) in the market interest rate would result in lower/(higher) fair value being disclosed.

Assets for which fair value approximates carrying value

For financial assets and liabilities with short term maturities or with short term re-pricing intervals, it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings deposits which do not have a specific maturity.

30 The Impact of COVID 19

The sudden shock arisen from the outbreak of the COVID -19 globally since January 2020 has caused massive economic disruption leading to uncertainty in the whole world. Seychelles became exposed to this risk in April 2020 and as an immediate precautionary measure the Government imposed island wide lockdown. As Government announced that Banks are an essential Service Provider led the Bank to operate with critical functions to ensure uninterrupted service to its valued customers.

Liquidity was a major concern requiring daily monitoring of cash flow. All possible cost reduction measures were initiated to secure available liquid assets. The bank temporarily halted new lending and focused on recovery of the credits. All these timely measures were key to maintain a healthy liquidity position during the hard times of outbreak. Meantime the Central bank of Seychelles (CBS) issued circular on debt moratorium which caused direct impact to the credit collection of the Bank. The Bank established procedures to ensure all moratorium requests are properly collected and attended individually to ensure the Covid - 19 impacted customers are provided the required relief.

After the strict measures taken by the government the situation seemed to slowly go back to normal up to December 2020, followed by a sharp bounce back of infections with the second wave starting in early January 2021. Although the promising news about vaccines emerged sooner than expected the impact of the pandemic, on the coming reporting year can be significant, due to large downturn of the economies (specially tourism), the persisting uncertainty about further development of the pandemic and the widespread effect on revenue, liquidity and financial markets adding significant uncertainties to the financial results and outlook.

The Bank has assessed the probable impact stemming from Covid - 19 outbreak and the key assessments are listed

- Based on the available information and management's best judgement, it is determined the going concern assumptions remain appropriate in preparing Financial Statements for the year ended 31 December 2020.
- Despite the challenging environment of having difficulties in collecting the dues and the difficulties in getting funding lines from other banks, the Bank was able to maintain a stable liquidity position and safeguard the interest of the stakeholders.
- The unutilised credit facilities, the available excess investment and already negotiated funding lines were sufficient to a cushion and absorb any sudden liquidity shocks.
- A more prudent cost control mechanism was in place which ensured an effective cost structure in the Bank.
- Expecting continues support from Government of Seychelles in case of any difficulties in liquidity position and going concern of the Bank.

There is a considerable degree of judgement involved in making the above assessments. The underline assumptions are also subject to certain level of uncertainty and are mostly out of the control of the Bank. Hence the actual economic conditions are likely to be different from the anticipated events. The effect of those differences may have significant impact on accounting judgement and estimates included in these financial statements.

The Management evaluated the key assumptions used in the above estimates and judgements under probable stress scenarios such as, retention ratio of fixed deposits, ratio of credit collection and re-imposing of CBS liquid asset requirement.

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30 The Impact of COVID 19 (Continued)

After evaluating the above, and after due consideration of the range and likelihood of outcomes, the management is satisfied that the Bank has adequate resources to continue in operational existence for the foreseeable future and continue to adopt the going concern basis in preparing and presenting these financial statements.

Risk management

The subsequent adverse economic effects have caused financial stress among the customers which may lead to elevated levels of credit risk in the short term. The Bank's risk management framework strives to manage the outcomes of such adverse economic and market conditions proactively, whilst achieving the risk-return objectives of the Bank.

The Bank has maintained a stable liquidity position despite the challenging times arising from COVID 19 outbreak and closely monitoring the position on daily basis and takes necessary measures to safeguard of the Bank. The Bank introduced more rigour to the processes already in place to manage its liquid assets including cost saving measures. These actions taken will help to maintain suitable liquidity position while ensuring the interest of Bank's stakeholders despite disruptive effect on liquidity which may arise due to the continuously evolving nature of the pandemic.

Primarily as a result of limited inflows of foreign exchange due to reduced tourism activities, the Seychelles Rupee has experienced a devaluation of approximately 54% from April 2020. The Bank would continue to manage the risk through various currency risk management strategies.

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 NOTES TO THE FINANCIAL STATEMENTS - YEAR ENDED DECEMBER 31, 2020

FIVE YEAR FINANCIAL SUMMARY

	2020	2019	2018	2017	2016
Statement of financial position					
Share capital	39,200,000	39,200,000	39,200,000	39,200,000	39,200,000
Authorised	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000
Issued and fully paid	39,200,000	39,200,000	39,200,000	39,200,000	39,200,000
Retained earnings	256,917,088	246,002,039	243,060,562	218,520,784	202,702,390
Net assets employed	296,117,088	285,202,039	282,260,562	257,720,784	241,902,390
Statement of income					
Profit (loss) before taxation	10,915,049	5,057,182	26,446,317	15,818,393	4,505,434
Taxation	-	-	-	-	-
Profit/(loss) after taxation	10,915,049	5,057,182	26,446,317	15,818,393	4,505,434
Dividends	-	(2,115,705)	-	-	-
Transfer to statutory reserve	-	-	-	-	1,818,648
Retained Profit	10,915,049	2,941,477	26,446,317	15,818,393	4,505,434
Retained earnings 1 January	246,002,039	243,060,562	218,520,784	202,702,391	198,196,957
Adjustment on applying IFRS 09	-	-	(1,906,539)	-	-
Restated retained earnings - 31 December	256,917,088	246,002,039	243,060,562	218,520,784	202,702,391