



# DEVELOPMENT BANK OF SEYCHELLES

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Your Ref:

Our Ref: DBS/

## AUDITOR'S REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

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**Pool & Patel**  
**Chartered Accountants**

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Bernard L. Pool FCA . Suketu Patel FCA . G emma Roberts FCCA

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**INDEPENDENT AUDITOR'S REPORT**  
**DEVELOPMENT BANK OF SEYCHELLES**

We have audited the accompanying financial statements of Development Bank of Seychelles on pages 3 to 11, which comprise the balance sheet as at December 31, 2010, the income statement including cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management, under the historical cost convention and the accounting policies set out on page 6.

This report is made solely for the Bank's members as a body in accordance with the Development Bank of Seychelles Decree 1977. Our audit has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank's members as a body for our audit work, for this report or for the opinion we have formed.

**Management's Responsibility for the Financial Statements**

Management is responsible for keeping proper accounting records and for the preparation of financial statements that give a true and fair view of the bank's affairs in accordance with the accounting policies of the Development Bank of Seychelles Decree 1977, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

We have no relationship with or material interest in the bank other than in our capacity as auditors and tax and business advisors and arms length dealings with the bank in the ordinary course of business.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and that these are in accordance with the accounting records maintained by the management. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Going Concern**

In forming our opinion we have considered the disclosures made in the financial statements concerning the long term overseas loans (Note 5).

These loans which represent around 54% of the Bank's liabilities (excluding equity & reserves) are now all in arrears.

The lenders have not foreclosed nor given notice to foreclose but are together with the Paris Club Group, negotiating with the Government of Seychelles to agree a repayment plan for the loan.

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

**Opinion**

Apart from the above, in our opinion, the accompanying financial statements set out on pages 3 to 11 give a true and fair view of the financial position of Development Bank of Seychelles as at December 31, 2010, and of its financial performance and its cash flows for the year then ended in accordance with the Development Bank of Seychelles Decree 1977 and accounting principles generally followed in Seychelles.

*Pool & Patel*  
**POOL & PATEL**  
**CHARTERED ACCOUNTANTS**

Date: 24<sup>th</sup> May 2011

DEVELOPMENT BANK OF SEYCHELLES

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010  
Financial statements are prepared in Seychelles Rupees


	Note		2009
Interest income	1 (g)		
Loan	3	34,168,381	37,017,862
Bank		<u>2,357,756</u>	<u>3,344,517</u>
		36,526,137	40,362,379
Interest Expense-Overseas loans-Normal	5	(27,198)	(3,270,894)
-Penal	5	0	(5,952,224)
Interest Expense-Local loans		(3,762,084)	(8,567,450)
Interest Expenses-Bonds		<u>(2,453,567)</u>	<u>0</u>
		(6,242,849)	(17,790,568)
		30,283,288	22,571,811
Other income		<u>1,526,769</u>	<u>1,144,495</u>
Income (net)		31,810,057	23,716,306
Operating expenses			
Staff Costs		7,263,890	5,015,025
Administration expenses	7	3,765,302	3,095,068
Computer software w/off		0	730,688
Bad debts written-off		<u>234</u>	<u>82,749</u>
		(11,029,426)	(8,923,530)
Realised losses on exchange		<u>(387,126)</u>	<u>(4,809,531)</u>
Surplus before provision		20,393,505	9,983,245
Provision for depreciation	14	(662,766)	(764,550)
Provision for doubtful debts	4	(3,422,234)	(1,631,283)
Provision for unrealised exchange (losses)/gains	13	<u>511,226</u>	<u>76,541,562</u>
Profit/(loss) for the year		16,819,731	84,128,974
Retained earnings 1 January		<u>12,421,859</u>	<u>(71,707,115)</u>
Retained earnings 31 December		<u>29,241,590</u>	<u>12,421,859</u>

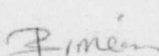
**DEVELOPMENT BANK OF SEYCHELLES**

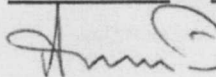
**STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010**

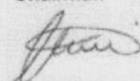
Financial statements are prepared in Seychelles Rupees


	Note		2009
<b>Assets</b>			
Cash at bank	10	51,616,209	49,709,889
Deposits with government	11	46,635,020	0
Accounts receivable	9	13,821,321	9,661,398
		<b>112,072,550</b>	<b>59,371,287</b>
Loans outstanding (gross)	4	387,704,829	308,830,382
Less: provision for irrecoverable loans	4	(29,110,384)	(25,864,200)
Loans outstanding (net)		<b>358,594,445</b>	<b>282,966,182</b>
Treasury bonds		1,235,000	1,235,000
Fixed assets	14	2,244,124	2,294,732
		<b>474,146,119</b>	<b>345,867,201</b>
<b>Liabilities</b>			
Accounts payable	12	5,365,413	2,691,917
Dividend payable		0	720,721
Long term borrowing-Overseas	5 (a)		
Caisse Francaise de Development BADEA		196,717,735 0	197,228,961 547,073
		<b>196,717,735</b>	<b>197,776,034</b>
Long term borrowing-Locally	5 (b)	10,713,647	45,197,371
Bonds Issued	5 (c)	100,000,000	0
Fund under management	8	49,001,979	3,953,544
Share Capital	6	39,200,000	39,200,000
Reserves	2	43,905,755	43,905,755
Retained Earnings		29,241,590	12,421,859
		<b>112,347,345</b>	<b>95,527,614</b>
<b>Total liabilities</b>		<b>474,146,119</b>	<b>345,867,201</b>

  
Barry Faure  
Chairman

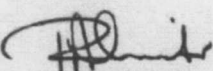
  
Rupert Simeon  
Vice- Chairman

  
Roger Toussaint  
Managing Director

  
Ina Henriette  
Member

  
Santasha Hoareau  
Member

  
Fred Houareau  
Member

  
Rosanda Alcindor  
Member

  
Serge Benstrong  
Member

24th May 2011

**DEVELOPMENT BANK OF SEYCHELLES**

**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2010**

Financial statements are prepared in Seychelles Rupees

		2009
<b>Net cash inflow from operating activities</b>		
Operating profit/(loss)	19,730,739	9,218,695
Depreciation charges	662,766	764,550
Loss on disposal of fixed assets	1,732	34,852
Profit/(loss) on exchange on interest & commitment fees	0	29,998,542
Bad debts w/off to provision	(176,050)	(51,550)
Loans to customers net of repayment	(78,874,447)	(27,964,022)
Increase in debtors	(4,159,923)	(67,272)
Increase in creditors	2,673,496	(1,166,207)
Dividend paid	(720,721)	(736,606)
	(60,862,408)	10,030,982
<b>Investing Activities</b>		
Sale/(purchase) of treasury bonds/investment	0	200,000
Receipts from sale of tangible fixed assets	3,848	500
Payments to acquire tangible fixed assets	(617,738)	(254,058)
	(613,890)	(53,558)
<b>Net cash inflow before financing</b>	<b>(61,476,298)</b>	<b>9,977,424</b>
<b>Financing</b>		
External loans net of repayment	(547,073)	(23,117,365)
Local loans net of repayment	(34,483,724)	(9,431,627)
Increase in managed funds	45,048,435	437,072
Increase in short term borrowings	100,000,000	0
<b>Net cash inflow from financing</b>	<b>110,017,638</b>	<b>(32,111,920)</b>
<b>Decrease in cash and cash equivalents</b>	<b>48,541,340</b>	<b>(22,134,496)</b>
<b>Cash &amp; cash equivalents 1 January</b>	<b>49,709,889</b>	<b>71,844,385</b>
<b>Cash &amp; cash equivalents 31 December</b>	<b>98,251,229</b>	<b>49,709,889</b>

DEVELOPMENT BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Financial statements are prepared in Seychelles Rupees

**1. Significant accounting policies**

The significant accounting policies adopted in the preparation of the financial statements of the Bank are set out below.

**(a) Statement of compliance**

The financial statements are prepared in accordance with the requirements of the Development Bank of Seychelles Decree 1977.

**(b) Measurement basis and accounting policies applied**

The measurement basis used is historical cost.

The accounting policies have been consistently applied by the Bank and are consistent with those of the previous year.

**(c) Foreign currency**

Transactions in currencies other than Seychelles Rupee are converted at the rate of exchange ruling at the transaction date. At the balance sheet date, foreign currency monetary assets and liabilities are converted at the rate of exchange ruling at that date. Resulting exchange differences are recognised in the profit and loss account.

**(d) Property, plant and equipment**

Items of property, plant and equipment are stated at the lower of historical cost and recoverable amount and are depreciated using the straight line method over their estimated useful lives. Freehold land is not depreciated.

The rates of depreciation used are based on the following useful lives:

Buildings	10 - 25 years
Plant and equipment	3 - 6 years
Furniture, and fittings	3 years

Assets are depreciated or amortised from the date of acquisition.

Expenditure on repairs or maintenance of property, plant and equipment made to restore or maintain future economic benefits expected from the assets is recognised as an expenses when incurred.

**(e) Investments**

*Valuation*

Investments classified as non-current assets are carried at cost.

**(f) Borrowing costs**

Borrowing costs are recognised as an expense in the period in which they are incurred.

**(g) Revenue recognition**

Interest income is recognised as it accrues unless collectibility is in doubt.

DEVELOPMENT BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Financial statements are prepared in Seychelles Rupees

**2. Reserves**

The movement in the reserves was as follows:-

		2009
(i) Contingency reserve		
Balance 1.1.2010	39,583,919	39,583,919
Balance 31.12.2010	39,583,919	39,583,919
(ii) E.I.B. Special Reserve		
Balance 1.1.2010	1,801,401	1,801,401
Balance 31.12.2010	1,801,401	1,801,401
(iii) Foreign Exchange Equalisation Fund-(FEEF)		
Provision for FEEF on E.I.B. Loan No. 4		
Balance 1.1.2010	2,520,435	2,520,435
Balance 31.12.2010	2,520,435	2,520,435
	<b>43,905,755</b>	<b>43,905,755</b>

**3. Loan interest**

Interest calculations are computed on reducing monthly balances on the assumption that loan repayment instalments are made on time. Whenever necessary penal interest is charged to adjust for late payment. This is done on final payment of the loan and is not accrued for in the period to which the interest relates.

**4. Loans to borrowers**

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

		2009
Long term loans (exceeding 7 years)	233,608,409	211,208,485
Medium term loans (between 2 & 7 years)	152,255,082	96,641,285
Short term loans (not exceeding 2 years)	1,841,338	980,612
	387,704,829	308,830,382
Less provision against private sector loans which may prove irrecoverable	(29,110,384)	(25,864,200)
	<b>358,594,445</b>	<b>282,966,182</b>

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

		2009
Balance 1 January 2010	25,864,200	24,284,467
Extra provision required during the year	3,422,234	1,631,283
Bad debts written off against provision	(176,050)	(51,550)
Balance 31 December 2010	<b>29,110,384</b>	<b>25,864,200</b>

Loans approved but not disbursed by the balance sheet date amounted to R 184,646,351 (prior year R 63,178,314).



DEVELOPMENT BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Financial statements are prepared in Seychelles Rupees

5. Loan repayable  
(a) Overseas loans

	Balance 31.12.2010	Repayment period	1st Repayment due	Rate of interest per annum	Scheduled Yearly Repayment
Caisse Francaise de Development					
Loan No. 2	4,085,910	10 years	31.10.1990	4.5%	1,020,910
Loan No. 3	2,436,292	10 years	31.10.1991	4.5%	464,050
Loan No. 4	2,441,347	10 years	31.10.1991	4.5%	464,050
Loan No. 5	4,419,372	9 years	30.04.1994	5.0%	1,031,221
Loan No. 6	4,102,267	10 years	31.10.1994	4.5%	464,050
Loan No. 7	9,786,415	10 years	31.10.2000	5.0%	978,641
Loan No. 8	7,543,586	8 years	31.10.1998	4.5%	942,948
Loan No. 9	2,933,736	5 years	31.10.1993	6.99%	1,113,720
	<b>37,748,925</b>				
Provision for unrealised exchange losses on capital outstanding	63,774,263				
Interest & commitments fees accrued and exchange loss thereon as at 31.12.2009	95,194,547				
	<b>196,717,735</b>				

The loans and interest thereon are stated at the amount translated in Seychelles rupees on the actual date of receipt although repayment thereof must be made in the currency of the original loan.

The loans from the Caisse Francaise de Development are guaranteed by the Seychelles Government.

The Bank has been advised by the Government that the loans from Caisse Francaise de Development together with other Government debt are being re-negotiated with the Paris Club Group.

The Bank has therefore not revalued the interest on Caisse Francaise de Development loans as at 31 December 2010, nor has interest been accrued there on.

No agreement has yet been signed either with Caisse Francaise de Development or the Government of Seychelles in regard to the above.

(b) Local loans

	Balance 31.12.2010	Repayment period	1st Repayment due	Rate of interest per annum	Scheduled Yearly Repayment
Barclays Bank (Seychelles) Ltd	1,556,779	7 years	31.07.06	14.82%	12,564,954
Nouvobanq	9,156,868	7 years	24.04.06	8.25%	5,434,123
	<b>10,713,647</b>				

(c) Bonds issued

Balance 31.12.2010	Repayment period	Rate of interest per annum
50,000,000	2 years	5%
50,000,000	3 years	5.5%
<b>100,000,000</b>		

**DEVELOPMENT BANK OF SEYCHELLES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

Financial statements are prepared in Seychelles Rupees

**6. Share capital**

The share capital of the bank is as follows:-	1 Jan 2010	31 Dec 2010
Authorised		
400,000 shares of R 100 each	<u>R 40,000,000</u>	<u>R 40,000,000</u>
Issued and fully paid		
Share of R 100 each	<u>R 39,200,000</u>	<u>R 39,200,000</u>

**7. Administration costs**

Included within the figure of R 3,765,302 is:

			2009
(i)	Auditors Remuneration	74,750	69,671
(ii)	Professional fees	286,005	122,750
(iii)	Directors fees	<u>179,400</u>	<u>172,350</u>

**8. Fund under management**

This comprises of the following funds:

			2009
(i)	Fisheries fund	170,596	170,596
(ii)	Credit guarantee scheme	c 870,134	870,134
(iii)	MAF (GTZ) fund	d 55,329	55,329
(iv)	SFA Fund	3,200	3,200
(v)	Agriculture Development Fund	a 1,887,301	2,854,744
(vi)	Seychelles Fishing Authority Fund	b 40,094,067	(459)
(vii)	Concessionary Loans Scheme Fund (CCA)	e 5,921,362	0
		<u>49,001,979</u>	<u>3,953,544</u>

**(a) Agricultural development fund**

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

**(b) Seychelles fishing authority fund**

This is a revolving fund for the Seychelles Fishing Authority which is managed by the Bank and for which it charges a processing fee of 2%.

**(c) Credit guarantee scheme**

This fund of R 870,134 comprises of 4 years of annual contribution of R 60,000 each from Frederick Ebert Stiftung (a private foundation in West Germany) the Social security division and Development Bank of Seychelles for the first three years and R 300,000 each for the fourth year together with interest accrued annually and deposits received from borrowers. The objective of this fund is to support small entrepreneurs and young graduates from the polytechnic on ventures not exceeding R 150,000.

Total guarantee that can be provided under the scheme should not exceed three times the value of fund. Guarantee provided as at Balance sheet date amounts to R 2,401,286.

**(d) M.A.F/GTZ fund**

This fund represents proceeds from the sale of agricultural equipment donated by GTZ, a german state owned company. The fund is managed by DBS on behalf of the Ministry of Agriculture & Fisheries. It will be utilised for the purchase of equipment for sale, or eventually for other purposes in accordance with agreement between GTZ and M.A.F.

**DEVELOPMENT BANK OF SEYCHELLES**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

Financial statements are prepared in Seychelles Rupees

**8. Fund under management (cont...)**

**(e) Concessionary Loans Scheme fund**

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

**9. Accounts receivable**

Included in this item is the sum of R 10,539,428 which represents the balance outstanding on loans made to staff members. These loans are granted on preferential terms and conditions.

**10. Cash at Bank**

The amount of R 51,616,209 is made up as follows:-

	R	2009
DBS bank accounts	44,248,798	47,319,473
Amount held in trust for:-		
Agriculture Development Fund-(ADF)	1,432,731	2,390,416
Concessionary Loans Scheme-(CLS)	5,934,680	0
	<b>51,616,209</b>	<b>49,709,889</b>

**11. Deposits with government**

The amount of R 46,635,020 is made up as follows:-

	R	2009
DBS bank accounts	6,540,953	0
Amount held in trust for:-		
Fisheries EU Fund-(SFA)	40,094,067	0
	<b>46,635,020</b>	<b>0</b>

**12. Accounts payable**

Provision for staff gratuity & compensation  
Other payables & accruals

	R	2009
Provision for staff gratuity & compensation	1,913,726	1,044,325
Other payables & accruals	3,451,687	1,647,592
	<b>5,365,413</b>	<b>2,691,917</b>

The provision refers to gratuity and compensation payable to the Bank's staff, other than contract staff, on their attaining 15 years continuous service with either the bank, other parastatal companies or the Seychelles Government.

**13. Provision for exchange differences**

This is made up as follows:-

	R	2009
Realised losses on loans repaid	387,126	4,809,531
Decrease in balance sheet provisions	(511,226)	(46,543,020)
Decrease in exchange difference on interest accrued (not provided 2010)	0	(29,998,542)
	<b>(124,100)</b>	<b>(71,732,031)</b>

DEVELOPMENT BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Financial statements are prepared in Seychelles Rupees

14. Fixed assets

	Freehold Property	Furniture & Fittings	Office Equipment	Motor Vehicle	Total
<b>COST</b>					
At 1 January 2010	6,114,594	636,686	3,214,263	462,317	10,427,860
Additions	22,500	138,493	179,745	277,000	617,738
Disposals	0	(55,589)	(972,028)	0	(1,027,617)
At 31 December 2010	<u>6,137,094</u>	<u>719,590</u>	<u>2,421,980</u>	<u>739,317</u>	<u>10,017,981</u>
<b>DEPRECIATION</b>					
At 1 January 2010	4,418,051	465,726	2,849,278	400,073	8,133,128
Additions	224,627	118,472	274,338	45,329	662,766
Disposals	0	(51,080)	(970,957)	0	(1,022,037)
At 31 December 2010	<u>4,642,678</u>	<u>533,118</u>	<u>2,152,659</u>	<u>445,402</u>	<u>7,773,857</u>
Net book value	<u>1,494,416</u>	<u>186,472</u>	<u>269,321</u>	<u>293,915</u>	<u>2,244,124</u>
At 31 December 2009	<u>1,696,543</u>	<u>170,960</u>	<u>364,985</u>	<u>62,244</u>	<u>2,294,732</u>