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*Office of the Prime Minister  
Apia, Samoa*

12 November 2014

Hon. Laauli Leuatea Polataivao Fosi  
Speaker of the House  
Legislative Assembly of Samoa  
**MULINUU**

Dear Mr Speaker,

**RE: ANNUAL REPORT 2014 - DEVELOPMENT BANK OF SAMOA**

Pursuant to Section 26 of the Development Bank of Samoa Act 2010, I present to the Legislative Assembly of Samoa the Development Bank of Samoa Annual Report for the year ended 30 June 2014.

The Annual Report 2014 is submitted in accordance with Section 23 of the Public Bodies (Performance & Accountability) Act 2001.

Ma le fa'aaloalo,

Tuilaepa Fatalelo  
**PRIME MINISTER/MINISTER OF FINANCE**

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## BOARD OF DIRECTORS



**Standing (L – R):**

Sauimalae Malolo Chu Ling  
Peseta Margaret Malua  
Sofaea Alo

Director  
Director  
Director

**Seated (L – R):**

Tugaga Tevesi  
Lavea Tupa'imatuna Iulai Lavea  
Peseta Peter Tone

Director  
Chairman  
Director

**Outset:**

Loau Solamalemalo Keneti Sio

Director

## CHAIRMAN'S REPORT

The 2013/14 financial year was a tough one for the Development Bank of Samoa (DBS).

Over the years, DBS has tried its best to deliver on its mandate to provide credit financing to viable development projects intended to trigger economic activity. DBS is a vehicle to deliver not only on growth objectives but also social obligations. Following cyclone Evan in 2012, the Central Bank of Samoa channelled a credit facility through DBS to assist those who suffered damages as a result of the cyclone. This was a deliberate government policy intervention to facilitate credit access for rehabilitation and recovery efforts.

As well, last year the Central Bank again extended another facility to facilitate accommodation improvement in preparation for the SIDS meeting held in September this year.

The terms and conditions of these facilities were highly concessional when compared to normal DBS lending. For the 12 months under review a total of \$45.9million comprising of 632 developments were approved. Of this total approval, 50% or \$23million represents developments assisted under the Cyclone Evan credit facility, 20% or \$9million to the SIDS/CYG credit facility, 29% or \$13million under normal lending and 1% or \$0.9million to SACEP. These developments were funded at 72% under the concessional credit lines and 28% from loan collection. The gross portfolio was recorded at \$141million of which 95% or \$134million represents development loans. The Bank recorded its highest growth in development loans in years at 39% in 2014 and compared to 18% in 2013.

The implementation of the concessional credit facilities has enabled the Bank to grow its portfolio significantly. The concessional terms on interest and grace period have significantly affected the Bank's liquidity and financial performance. The margins generated from these credit facilities are inadequate to cover operational cost and cost of borrowings. As a result the Bank recorded a loss of \$4.9million before tax due to a significant decrease in interest income. The decline in interest income is attributed to the interest free period applied to accounts under the stimulus package and the concessional credit lines for Cyclone Evan and SIDS/CYG. These accounts represent 79% of the development portfolio and are currently on interest free period for 12 months. The due date is progressive over the next 24 months before a positive outcome is achieved.

Considering the challenges ahead, the Bank has undertaken an organisational review to seriously examine all aspects of the operation from financial performance to human resource capacity that will place the Bank on a competitive and sustainable footing going forward.

On behalf of the Board of Directors I wish to express gratitude to the Chief Executive Officer, management and staff for their effort and commitment throughout the year.

We look forward to a better performing DBS in the future.

A handwritten signature in black ink, appearing to read 'Lavea', with a large, stylized initial 'L'.

Lavea Tupaimatuna Iulai Lavea  
**CHAIRMAN – BOARD OF DIRECTORS**

## EXECUTIVE MANAGEMENT COMMITTEE



### Standing (L – R):

Pauli Prince Suhren

Luai'a Esera Maui

Afemaleta Alesana Lafi

Laeititimalu Valovalo Tusani

Tauili'ili Samuel Fruean

Muaautau Raie Silipa

Manager – Management Information Systems

Manager – Internal Audit

Deputy Chief Executive Officer – Loans Operations

Manager – Administration

Manager – Property

Manager – Finance

### Seated (L – R):

Dorothy Hazelman

Tuaopepe Esther Ah Young

Susana Laulu

Tunumafono Sinapi Sapa

Dawn Tagiilima

Talasa Poisina Atoa Saaga

Secretary to the Board & Management

Manager – Loans 1

Chief Executive Officer

Manager – Savaii Branch

Manager – Loans 1

Manager – Legal

## CHIEF EXECUTIVE OFFICER'S REPORT

The Bank's mandate is to provide credit financing to viable and sustainable projects in all sectors of the economy to enhance economic and social developments. Despite the challenges that have affected the ability to remain sustainable, the Bank has continued to respond positively to the needs of businesses as the development arm of Government to stimulate economic growth as reflected in its activities for the year ended 30 June 2014.

### 1. SIGNIFICANT DEVELOPMENT ASSISTANCES

#### (i) Cyclone Evan Credit Facility

The facilitation of the \$39million approved by Cabinet to provide immediate financial assistance to developments that were affected by the devastation of Cyclone Evan in December 2012 was completed in early 2014. A total of 174 business developments were assisted with 82% to tourism sector with Aggie Grey's Hotel representing 64%. AGHL is the second largest employer in the private sector employing over 400 employees and continues to do so whilst construction of its hotel in Apia is in progress. It is envisaged that more people will be employed once the hotel is completed. Of the \$39million, \$18million (45%) and \$21million (55%) were disbursed in 2013 and 2014 respectively. The interest rate applied is 3% plus a grace period of 12 months.

#### (ii) SIDS/CYG Credit Facility

As Samoa prepares to host the Third Small Island Development States (SIDS) conference in September 2014, Cabinet approved a further credit line of \$30million to assist hoteliers, accommodation providers and private homeowners that have been contracted to provide accommodation facilities for the delegates. The assistance will ensure that Samoa has the room capacity to host SIDS and the Commonwealth Youth Games (CYG) in 2015. At 30 June a total of 11 business developments have received funding with the remaining to be processed prior to SIDS. The interest rate applied is 5% plus a grace period of 12 months.

#### (iii) Samoa Agriculture Competitiveness Enhancement Project (SACEP)

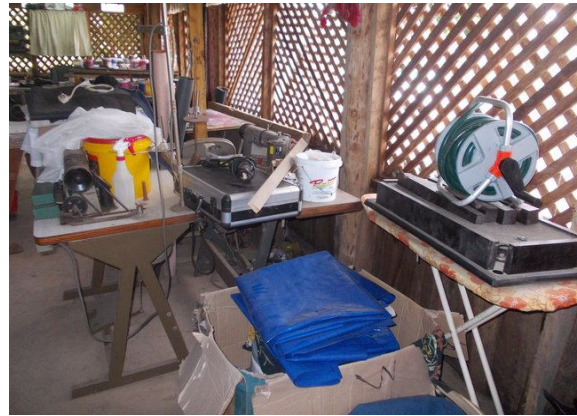
The SACEP is a matching grant scheme funded by the World Bank and implemented by Government through the Ministry of Finance, Ministry of Agriculture and SBEC. The project's objective is to revive agriculture through livestock, vegetables and fruit trees. The role of the Bank is to facilitate and fund the loan component which comprises 30% of the project cost. In January 2014, the Bank commenced appraisal of applications referred by the Steering Committee for consideration. At 30 June 2014, a total of 35 applications were received and approved to the value of \$303,699 allocated 69% to



livestock and 31% to fruit trees and vegetables. In support of the Bank's commitment to revive agriculture the interest rate was reduced to 8%.

**(iv) Normal lending assistance**

In addition to the concessional credit lines the Bank continued with its normal lending to fund new developments, expansion and upgrades to existing developments in other sectors of the economy. At the end of June a total of 494 developments were approved assistance to the value of \$12.3million.



Cyclone Evan Assistance:  
*Denzel (Upholstery, Sewing & Chemical) Services, Matautu (left)*  
*Brighthouse Motors, Lelata*



SIDS/CYG Assistance: *Return to Paradise Resort, Lefaga – Under Construction*





Normal Lending:  
*Samoa Meat Supplies, Vaoala (left) & Thor Tafunai Shop, Lufilufi (right)*



*Samoa Agricultural Competitiveness Enhancement Project (SACEP) Project*



*Livestock Farming*

## 2. OVERVIEW OF OPERATIONS AND PERFORMANCE

### (i) Lending Operations

Our lending portfolio comprised primarily of loan advances to developments in all sectors of the economy that represents 95% of total portfolio recorded of \$141million. At the end of June total loan approval recorded was \$42.9million allocated to 50% for the Cyclone Evan facility, 29% to normal lending, 20% to SIDS/CYG facility and 1% to SACEP. These approvals were funded from the respective credit facilities and loan collection. In comparison to 2013 an increase of 34% is noted. The sector representation for 2014 is depicted in the following graph.

Graph 1:

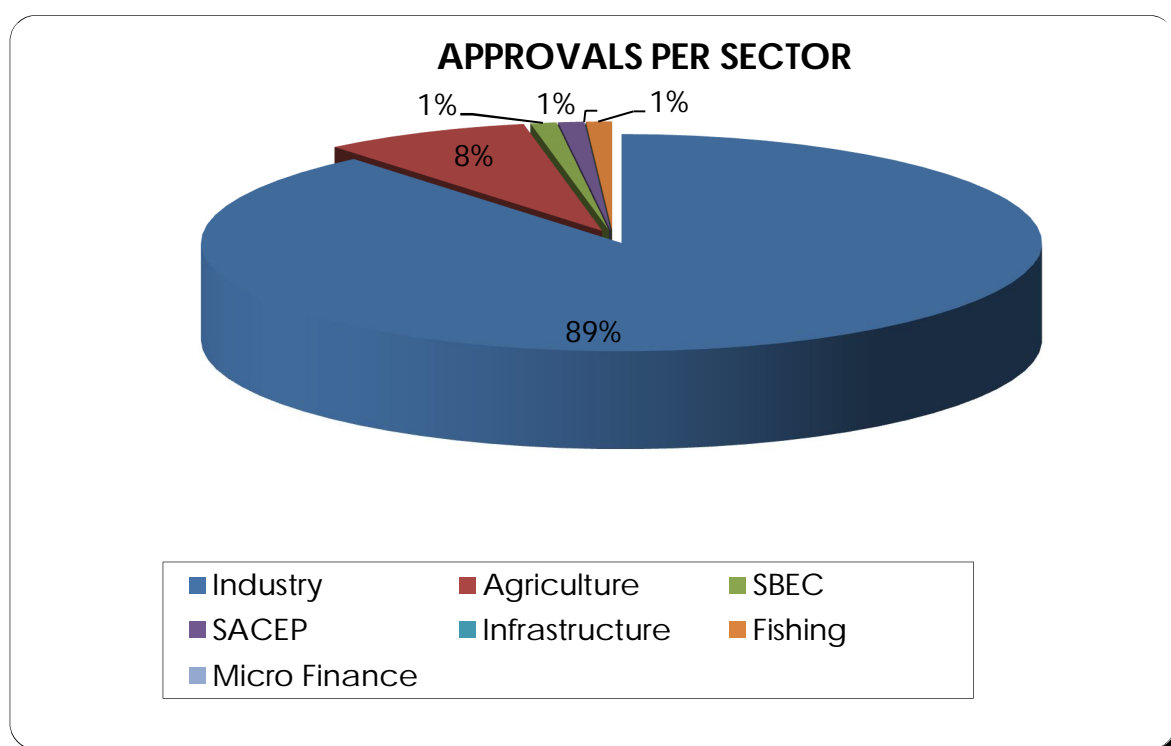
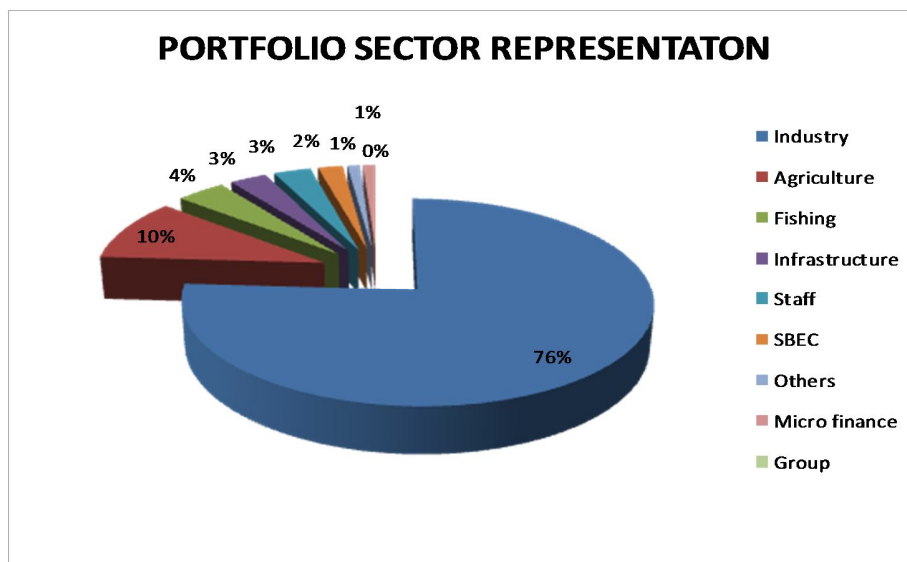


Table 1: - Portfolio Summary

|                       | FY14    | FY13    | FY12   | FY11   | FY10   |
|-----------------------|---------|---------|--------|--------|--------|
|                       | \$000   | \$000   | \$000  | \$000  | \$000  |
| Total portfolio       | 141,002 | 105,016 | 91,701 | 91,546 | 78,248 |
| • Developments        | 133,973 | 96,258  | 81,795 | 81,035 | 69,428 |
| • Non developments    | 7,029   | 8,758   | 9,906  | 10,511 | 8,820  |
| Growth - developments | 39%     | 18%     | 0.9%   | 17%    | 9%     |

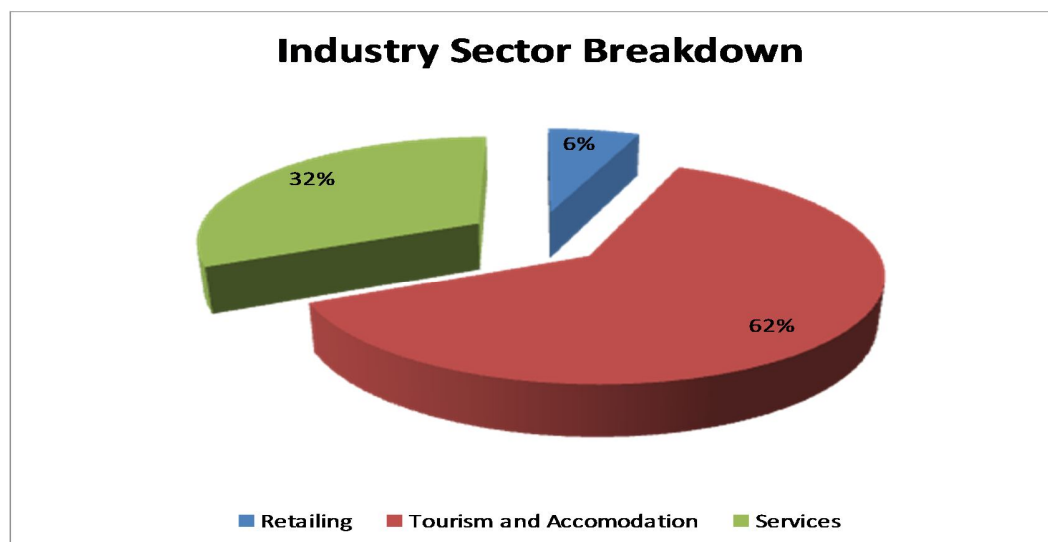
The gross portfolio at year end was recorded at \$141million. As shown in the above table 2014 recorded the highest growth in our development portfolio at 39%. The sector representation of the gross portfolio is shown in the following graph.

Graph 2:



Total development portfolio recorded at end of year was \$134million. The industry sector represents 76% of this portfolio. The tourism sector represents 53% of development portfolio and 62% of the industry sector as shown in the following graph.

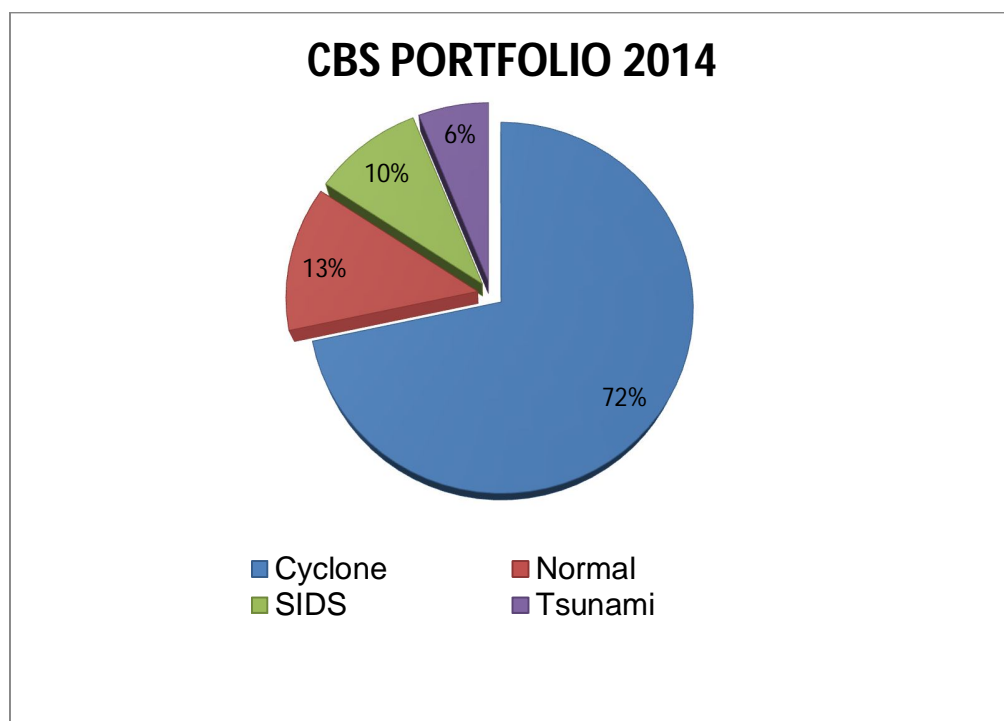
Graph 3:



In the Strategy for the Development of Samoa 2012 - 2016, tourism is highlighted as one of the prioritised sector given its contribution to GDP of over 20%. The activities in the tourism sector have been severely affected since the tsunami of 2009 and just when activity started to improve Cyclone Evan struck in December 2012. The effects of the global financial crisis and natural events in existing and potential destinations have also impacted the flow of tourists to Samoa. With government's initiatives to bring over international meetings and events these should boost tourism activity over the next 3 years. The Bank will continue to monitor the performance of the tourism sector and take immediate action to ensure its investment will be returned.

In facilitating the credit financing to development projects, a significant amount of financing was sourced from the Central Bank of Samoa at a total of \$69million of which 57% represents the Cyclone Evan facility. The continued support from CBS through concessional credit lines has enabled the funding of many developments which are crucial to economic and social development. The flexibility in the terms has enabled the Bank to manage its resources from time to time.

Graph 4:





## (ii) Financial Results

At 30 June 2014, loss before tax decreased by 22% compared to budget and increased by 39% compared to 2013.

Table 2:

|                                 | <b>2014<br/>Actual<br/>\$000</b> | <b>2014<br/>Budget<br/>\$000</b> | <b>2013<br/>Actual<br/>\$000</b> |
|---------------------------------|----------------------------------|----------------------------------|----------------------------------|
| Revenue                         | 5,343                            | 6,523                            | 8,333                            |
| Expenditure                     | 9,012                            | 11,311                           | 9,464                            |
| EBDT and foreign exchange       | (3,669)                          | (4,788)                          | (1,131)                          |
| Depreciation                    | (1,453)                          | (1,484)                          | (1,461)                          |
| Gain/(loss) on foreign exchange | 217                              | 0                                | (917)                            |
| EBT                             | (4,906)                          | (6,271)                          | (3,509)                          |

### Major movements in Revenue:

- Interest income reduced significantly by 41% and 14% compared to budget and 2013 respectively. The decrease is attributed mainly to the accounts that are currently on interest free period which accounts for 79% of total development portfolio. These accounts are covered under the following facilities. The margin on these facilities is marginal and inadequate to cover cost of operation. Nevertheless in support of the Bank's mandate, priority is focussed on development which recorded a record growth of 39% albeit the return as required of the Bank.

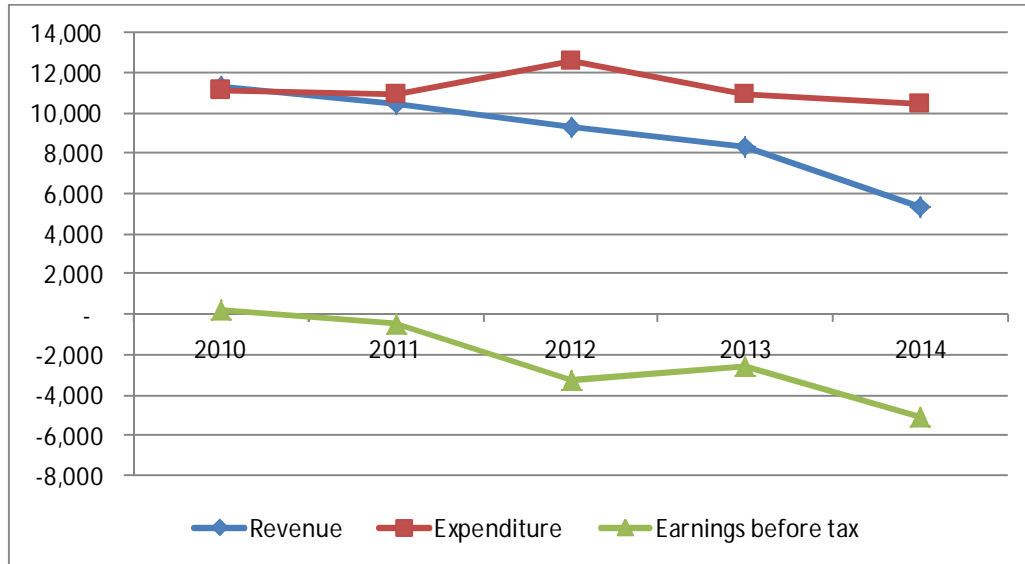
|                  | \$000          | Interest | Effective date |
|------------------|----------------|----------|----------------|
| Stimulus package | 62,853         | 8%       | July 13        |
| Cyclone Evan     | 38,417         | 3%       | Feb 13         |
| SIDS/CYG         | 5,090          | 5%       | Feb 14         |
| <b>Total</b>     | <b>106,360</b> |          |                |

- Income from loan processing increased by 5% and 17% compared to budget and 2013 respectively. The increase is consistent with the growth noted in loan approval for 2014.
- Other income decreased by 26% and 34% compared to budget and 2013. The decrease relates mainly to rental income due to reduction in rates applied whilst occupancy rate remains at 78% as in 2013. The rental rates in Apia for major buildings are competitive hence the approval to reduce rate to retain existing and attract new tenants.

### Major movements in Expenditure:

- Interest on borrowings increased by 7% due to increase in borrowings received during the year of \$53.9million and fluctuation in exchange rates for EIB credit lines in EUR and USD.
- The general wage increase came into effect on 1 January 2014. However personnel cost remains the same with 2013 due to decrease in headcount of 88 in 2014 compared to 92 in 2013.
- The review of the portfolio showed that 79% represents accounts under the special facilities for the stimulus package, cyclone and SIDS/CYG. The existing provision carried from 2013 was adequate to cover 2014. Management in taking the conservative approach applied 34% of the budget allocation to ensure adequacy of cover for future losses. This has resulted in a decrease in provision for doubtful loans of 36% compared to 2013.
- Administration cost decreased by 20% compared to 2013 as a result of on-going measures to control spending and minimise cost.
- Overall expenditure decreased by 17% and 5% compared to budget and 2013 respectively.

Graph 3: Financial Performance



In summary revenue decreased by 12% and 35% compared to budget and 2013 respectively. Expenditure decreased by 17% and 5% compared to budget and 2013 respectively. As a result loss before tax decreased by 22% compared to budget and increased by 39% compared to 2013. Measures have been put into action to control cost whilst the implementation of existing facilities is in progress. The mandate of the Bank is to



promote and grow developments in all sectors for economic growth. This is reflected in the significant growth recorded at 39% on the development portfolio.

The risk appetite of the Bank differs significantly with that of commercial banks as the credit financing is made available to high risk developments with low returns that commercial banks do not normally lend to. In addition the nature of these developments are generally susceptible to challenges such as economic, social and environmental that not only impact their operations but also difficult to manage. These circumstances and factors when taken into consideration and assessment allow for terms and conditions that are affordable and accommodative than those offered by commercial banks. Consequently the outflow of cash is immediate whilst the return is dependent on the time period allowed for the development to be completed to enable the generation of income to meet loan commitments.

It is important to note that the unfavourable outcome in 2014 reflects the work in progress to assist developments during challenging times, to rebuild after the cyclone and preparation for the SIDS/CYG. The interest free period is 12 months in addition to a grace period of 12 months on payment of interest and principal. The implication is that interest generation will be progressive over the years relative to the expiration. This is a challenging time for the Bank however the expectation is that favourable outcomes will be seen in the next 3 to 5 years. The nature of the Bank limits its ability to be profitable and despite the challenges on its resources it has worked diligently to remain sustainable in order to continue with its development mandate.

### **(iii) Human Resources**

The nature of the Bank requires that our people are educated with the necessary skills to enhance their capability. Training opportunities are limited and at times costly. Nevertheless in-house training programs have been conducted with major focus on loan operations to cover loan appraisal, project management, security documentation, arrears management and debt recovery. A refresher training was also done on the Staff Instructions and time management. Management is looking at opportunities to extend the training programs to continue capacity building of our people to support our work.



Loans staff undertaking in-house appraisal and debt-recovery training

#### **(iv) Management Information Systems (MIS)**

MIS forms an integral part of the Bank's operations. As such regular upgrade to our systems is pertinent to ensure integrity and security of information. In addition it is to ensure timely processing, reporting and efficiency in service delivery.

- Major overhaul for the main servers to upgrade to the new Windows Server 2012;
- The Structured Query Language (SQL) database which forms the backbone of the Loans Management System (LMS) was upgraded to the latest standard. Manager MIS attended the training on SQL hosted by Software Factory Ltd in Suva;
- The new Business Resumption Plan (BRP) was documented to boost information assurance efforts through the Disaster Recovery and Business Continuity procedures;
- Replacement of computer hardware for staff workstations and upgraded with the Windows 7 and 8 operating systems;
- Securing an ISP contract for 12 months resulting in cost saving and increased internet data cap;
- Revamp and redesign of the website to be more comprehensive and user friendly. The new website was launched in February 2014;

#### **(v) Property Management**

The occupancy rate recorded at end of year was 78%. There were 2 new tenants acquired in addition to existing. The availability of many vacant spaces in major Government buildings with competitive rates prompted the reduction in rental rate to retain existing tenants and attract new ones. The vacant spaces are continuously being advertised on our website and media. Maintenance of the building is very costly. During the year major replacements were done to chillers, air conditions and compressors. Other services including the elevators and backup generators were regularly serviced.

#### **(vi) Membership and Partnerships**

The Bank continues to maintain its membership with the Samoa Chamber of Commerce and Samoa Association of Manufacturers and Exports. The membership with ADFIAP and ADFIP enables networking, partnership and training opportunities that are invaluable to enhance the Bank's services and operations. Despite the restriction on resources, the Bank has been able to make use of these opportunities relative to the need. The development partnership with SBEC continues to assist small businesses. The SACEP project has also enabled the Bank to work with SBEC, Ministry of Agriculture and Ministry of Finance in partnership with the World Bank. The Bank is committed to promote partnerships that are sustainable for developments. Dialogue has been initiated with Women in Business and other organisations on how this initiative may progress to better coordinate and facilitate financing assistance.

### 3. RISKS

Development Banking is a high risk business and low return given the nature of its operations. It is therefore imperative for the Bank to implement policies and procedures and implement prudent risk management strategies to mitigate the associated risks. To strengthen risk resilience a review of the existing policies and procedures is in progress to better align banking practices and processes to current situation and to the CBS Prudential Guidelines. More importantly training programs will be facilitated to enhance the capability and understanding of our staff to risk management.

### 4. FUTURE OUTLOOK

#### (i) Organisational Review

Cabinet has approved the organisational review of the Bank which will commence in September 2014. In acknowledging the significant changes in how development financing and lending have been facilitated the review will also address human resource capacity to support these changes to improve the Bank's operation and performance. The outcomes of the review will enable the Bank to better position itself to remain competitive and sustainable in facilitating its mandate to assist developments that will stimulate economic growth in all sectors.

#### (ii) Liquidity

Liquidity is a major challenge and the Bank will continuously review its strategies to remain sustainable. The facilitation of existing concessional credit lines has been a positive contribution to assist developments. However it has also caused a mismatch in the flow of cash and income generation. The minimal margin available is also inadequate to cover costs. The debt level is very high which also increases the repayment commitment every month. Therefore it is imperative for the Bank to take proactive action to ensure that these developments service their loan obligations when they fall due. The review of strategies for debt recovery and arrears management is continuously reviewed to improve cash collection and management of loan portfolio.

#### (iii) Portfolio Diversification

The sector representation of current portfolio is 52% to tourism developments. It is important for the Bank to ensure that its financing assistance is equally extended to other development sectors to stimulate economic growth. The agriculture sector needs to be developed to improve not just food security and consumption but to build up the capacity of small farmers to be semi commercial to support any value chain initiatives that are in existence. There is also a need to improve export level and this is another area the Bank will look at in order to grow its agriculture portfolio. Equally important is the small

medium businesses (SMEs) to assist our entrepreneurial people in their business developments.

## 5. THANK YOU

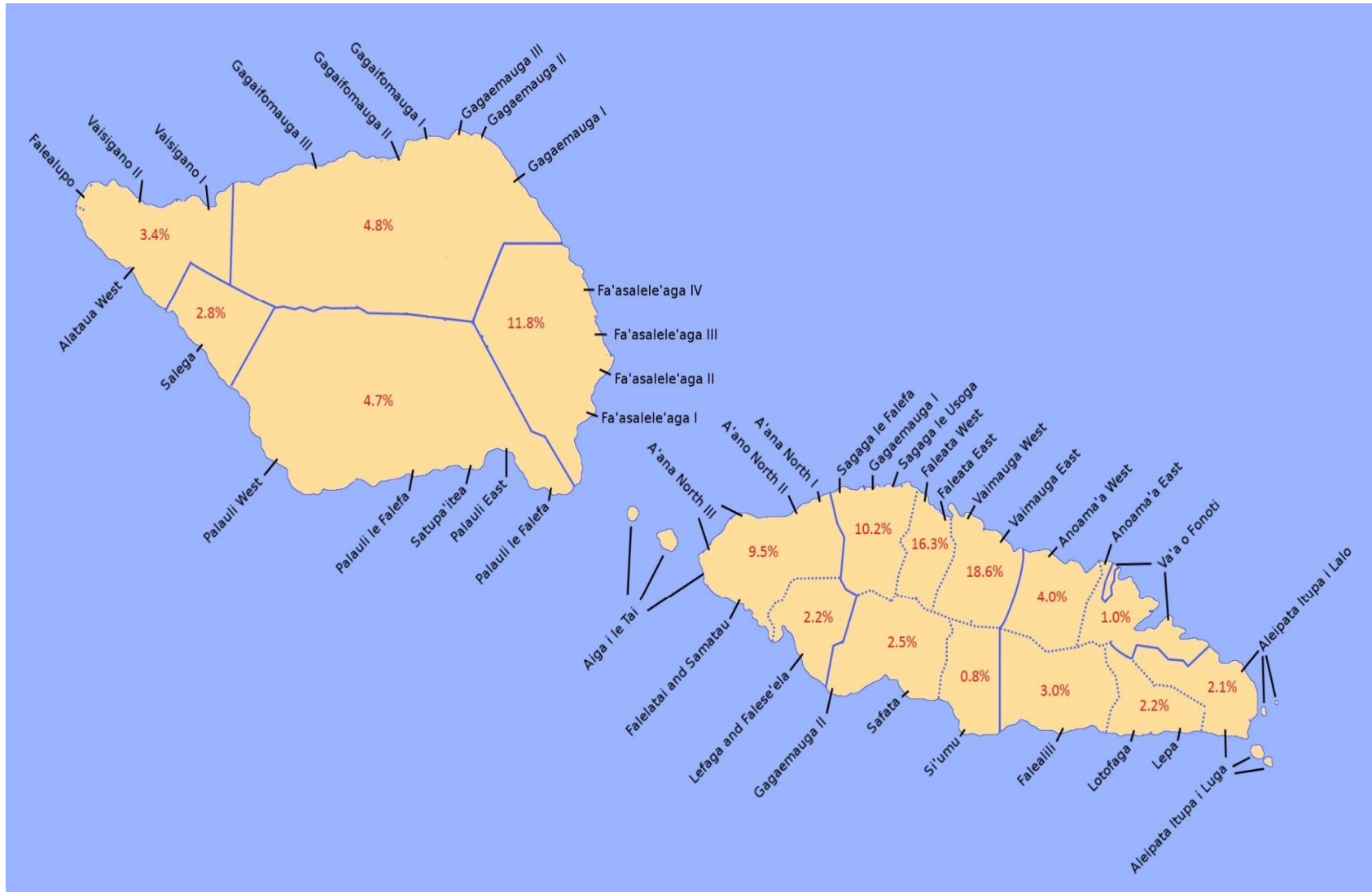
I wish to acknowledge the assistance of the Chairman and the Board of Directors. Their support and counsel have been invaluable as we work together to address and manage the financial and operating challenges encountered during the year. I thank our management and staff for their commitment and contribution that enabled the continuity of the Bank's development focus albeit the challenges surrounding our work. The development focus would not have been achieved without the continuous support of our development financiers and the Government of Samoa. Despite the setback of today, the Bank endeavours to continue with the implementation of its work plan to improve its operation and performance in the years ahead.

Ma le faaaloalo tele



Susana Laulu  
**CHIEF EXECUTIVE OFFICER**

## Geographical Representation of DBS Portfolio (By number)



DEVELOPMENT BANK OF SAMOA  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2014



DEVELOPMENT BANK OF SAMOA  
Financial Statements  
For the year ended 30 June 2014

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DEVELOPMENT BANK OF SAMOA  
Management's Report  
For the year ended 30 June 2014

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements are the responsibility of management. The financial statements have been prepared according to International Financial Reporting Standards and include amounts based on management's best estimates and judgments.

Management has established and maintained accounting and internal control systems that include written policies, procedures and a comprehensive internal audit program. These systems are designed to provide reasonable assurance that our financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements, and that our assets are properly safeguarded.

The financial statements have been reviewed and approved by the board of directors on the recommendation from management.

Our independent auditors (SUA MA PAUGA & ASSOCIATES), having been appointed by the Government Controller and Auditor General, have audited our financial statements. The accompanying independent auditors' report outlines the scope of their examination and their opinion.



Susana Lau  
**Chief Executive Officer**

**Date: 31 October 2014**

**DEVELOPMENT BANK OF SAMOA**  
**Directors' Report**  
For the year ended 30 June 2014

The Directors present their report together with the financial statements of the Development Bank of Samoa ("the Bank") for the year ended 30 June 2014 as set out on the accompanying pages and the auditors' report thereon in accordance with the Public Finance Management Act 2001 and the Public Bodies and Accountability Act 2001.

**Directors**

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

|                                |   |   |
|--------------------------------|---|---|
| Lavea Tupa'imatuna Iulai Lavea | - | Chairperson and Chief Executive Officer (MOF) |
| Tugaga Tevesi                  | - | Government Appointed                          |
| Sofaea Alo                     | - | Government Appointed                          |
| Solamalemalu Keneti Sio        | - | Government Appointed                          |
| Peseta Margaret Malua          | - | Government Appointed                          |
| Sauimalae Malolo Chu Ling      | - | Government Appointed                          |
| Peseta Peter Tone              | - | Government Appointed                          |
| Leota Suatele Manusegi         | - | Resigned 30/08/13                             |
| Anauli Pofitu Fesili           | - | Deceased 7/02/14                              |

**Principal Activity**

The principal activity of the Development Bank of Samoa is to provide lending services for agricultural and commercial developments including tourism and industrial, infrastructural development, small businesses and micro projects. There has been no change in the principal activity of the Bank during the year or any of the classes of business that it operates in.

**State of Affairs**

In the opinion of the directors:

- (i) the accompanying Statement of Financial Performance, Statement of Changes in Capital and Reserves and Statement of Cash Flows are drawn up so as to give a true and fair view of the operations and results of the Bank for the year ended 30 June 2014.
- (ii) the accompanying Statement of Financial Position is drawn up so as to give a true and fair view of the state of affairs of the Bank as at 30 June 2014.

**Operating Results**

The net loss for the year, after income tax is \$4,554,594 (2013: net loss of \$2,886,838).

Signed on behalf of the board of directors in accordance with a resolution of the directors.

Dated at Apia this 31<sup>st</sup> October 2014



**DIRECTOR**



**DIRECTOR**

TELEPHONE: 27751  
FAX: 24167  
EMAIL: [info@audit.gov.ws](mailto:info@audit.gov.ws)  
Website: [www.audit.gov.ws](http://www.audit.gov.ws)

*Please address all correspondences  
to the Controller & Auditor-General*



P.O. Box 13  
APIA, SAMOA

## AUDIT OFFICE

### REPORT OF THE AUDIT OFFICE

#### DEVELOPMENT BANK OF SAMOA

We have audited the accompanying Financial Report of the Development Bank of Samoa which comprises the Statement of Financial Position as at 30 June 2014 and the Statements of Financial Performance, Cash Flows and Changes in Capital and Reserves for the year then ended, a summary of significant accounting policies and other explanatory notes. The Accounting Firm of SU'A MA PAUGA & Associates, Chartered Accountants, assisted in this audit.

#### Responsibility for the Financial Report

The Board of Directors is responsible for the preparation and fair presentation of the Financial Report in accordance with International Financial Reporting Standards. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the Financial Report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### Auditor's Responsibility

Our responsibility is to express an opinion on the Financial Report based on our audit. We conducted our audit in accordance with International Standards on Auditing. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the Financial Report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Financial Report, 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 Report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the Financial Report.

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

#### Auditor's Opinion

In our opinion, the Financial Report gives a true and fair view of the financial position of the Development Bank of Samoa as at 30 June 2014, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Our audit was completed on the 30<sup>th</sup> October 2014 and our opinion is expressed as at that date.

Apia, Samoa  
7<sup>th</sup> November 2014

  
Fuimaono Papali'i C.G. Afele  
CONTROLLER AND AUDITOR-GENERAL

DEVELOPMENT BANK OF SAMOA  
Statement of Financial Performance  
For the year ended 30 June 2014

|   | Notes  | 2014<br>\$         | 2013<br>\$         |
|---|--------|--------------------|--------------------|
| <b>Income</b>                                   |        |                    |                    |
| Income from loans:                              |        |                    |                    |
| Interest  |        | 3,836,259          | 6,554,714          |
| Loans processing fees                           |        | 789,355            | 675,614            |
| Other income                                    | 5      | 717,472            | 1,103,177          |
| <b>Total income</b>                             |        | <b>5,343,086</b>   | <b>8,333,505</b>   |
| <br><b>Expenses</b>                             |        |                    |                    |
| Administration expenses                         | 6      | 1,619,207          | 2,036,738          |
| Audit fees                                      |        | 32,588             | 54,447             |
| Directors fees and costs                        | 9      | 99,809             | 89,695             |
| Interest on borrowings                          |        | 3,636,077          | 3,408,780          |
| Personnel costs                                 | 8      | 3,061,736          | 3,050,943          |
| Provision for doubtful loans                    | 13,16  | 563,264            | 823,500            |
| <b>Total expenses</b>                           |        | <b>9,012,681</b>   | <b>9,464,103</b>   |
| <br><b>Earnings before depreciation and tax</b> |        | <b>(3,669,595)</b> | <b>(1,130,598)</b> |
| Depreciation                                    | 12     | (1,453,897)        | (1,461,251)        |
| <b>Earnings after depreciation</b>              |        | <b>(5,123,492)</b> | <b>(2,591,849)</b> |
| <br><b>Gain/ (Loss) on Foreign Exchange</b>     |        | <b>217,364</b>     | <b>(917,617)</b>   |
| <br><b>(Loss) before tax</b>                    |        | <b>(4,906,128)</b> | <b>(3,509,466)</b> |
| Income tax benefit                              | 10 (i) | 351,534            | 622,628            |
| <b>Net (loss) after income tax</b>              |        | <b>(4,554,594)</b> | <b>(2,886,838)</b> |

The accompanying notes form an integral part of the above financial statement.

**DEVELOPMENT BANK OF SAMOA**  
**Statement of Financial Position**  
For the year ended 30 June 2014

|                                   | Notes    | 2014<br>\$         | 2013<br>\$         |
|-----------------------------------|----------|--------------------|--------------------|
| <b>CAPITAL AND RESERVES</b>       |          |                    |                    |
| Authorised and paid up capital    | 22       | 50,000,000         | 50,000,000         |
| Government of Samoa reserve       | 23       | 10,765,495         | 9,332,379          |
| Retained losses                   |          | (10,682,786)       | (6,128,192)        |
| <b>TOTAL CAPITAL AND RESERVES</b> |          | <b>50,082,709</b>  | <b>53,204,187</b>  |
| <b>ASSETS</b>                     |          |                    |                    |
| Cash and cash equivalents         | 14       | 5,984,056          | 1,914,254          |
| Term deposits                     | 15       | 66,987             | 65,416             |
| Other receivables and prepayments | 16       | 2,440,022          | 2,014,886          |
| Due from shareholders             | 18       | 128,875            | 63,462             |
| Income tax credit                 | 10 (v)   | 43,026             | 36,824             |
| Equity investments                | 11       | 400,000            | 400,000            |
| Loans to customers                | 13,24    | 123,822,192        | 86,656,632         |
| Land held for resale              | 17       | 1,272,321          | 1,272,321          |
| Property and equipment            | 12       | 46,389,710         | 47,586,959         |
| Deferred tax assets               | 10 (iii) | 3,286,375          | 2,934,841          |
| <b>Total assets</b>               |          | <b>183,833,564</b> | <b>142,945,595</b> |
| <b>LIABILITIES</b>                |          |                    |                    |
| Other creditors and accruals      | 21       | 1,539,050          | 1,677,240          |
| Term borrowings                   | 19,24    | 116,963,868        | 71,538,375         |
| Term liability to managed funds   | 20       | 15,247,937         | 16,525,793         |
| <b>Total liabilities</b>          |          | <b>133,750,855</b> | <b>89,741,408</b>  |
| <b>NET ASSETS</b>                 |          | <b>50,082,709</b>  | <b>53,204,187</b>  |

Signed on behalf of the Board:



DIRECTOR



DIRECTOR

The accompanying notes form an integral part of the above financial statement.



DEVELOPMENT BANK OF SAMOA  
Statement of Changes in Capital and Reserves  
For the year ended 30 June 2014

|   | Notes | Issued<br>and<br>paid up<br>capital | Government<br>of<br>Samoa<br>Reserve | Retained<br>earnings<br>/(losses) | Total             |
|---|-------|-------------------------------------|--------------------------------------|-----------------------------------|-------------------|
| Balance as at 30 June 2012  |       | 50,000,000                          | 7,947,683                            | (3,241,354)                       | 54,706,329        |
| Net loss after tax  |       | -                                   | -                                    | (2,886,838)                       | (2,886,838)       |
| Transfer from long term liability<br>to managed funds to Government<br>of Samoa reserve | 23    | -                                   | 1,384,696                            | -                                 | 1,384,696         |
| <b>Balance as at 30 June 2013</b>   |       | <b>50,000,000</b>                   | <b>9,332,379</b>                     | <b>(6,128,192)</b>                | <b>53,204,187</b> |
| Net loss after tax  |       | -                                   | -                                    | (4,554,594)                       | (4,554,594)       |
| Transfer from long term liability<br>to managed funds to Government<br>of Samoa reserve | 23    | -                                   | 1,433,116                            | -                                 | 1,433,116         |
| <b>Balance as at 30 June 2014</b>   |       | <b>50,000,000</b>                   | <b>10,765,495</b>                    | <b>(10,682,786)</b>               | <b>50,082,709</b> |

The accompanying notes form an integral part of the above financial statement.

DEVELOPMENT BANK OF SAMOA  
Statement of Cash Flows  
For the year ended 30 June 2014

|  | Notes | 2014<br>\$          | 2013<br>\$         |
|--|-------|---------------------|--------------------|
| <b>Cash flows from operating activities</b>                |       |                     |                    |
| Interest on loans  |       | 2,606,466           | 4,496,897          |
| Service fees and other income                              |       | 2,592,269           | 2,202,268          |
| Bad debts recovered  |       | 13,497              | 77,578             |
| Interest on term deposits                                  |       | 1,848               | 1,535              |
| Interest on borrowings                                     |       | (3,666,863)         | (3,456,914)        |
| Cash paid to suppliers and employees                       |       | (6,360,556)         | (5,930,659)        |
| Income taxes paid  |       | (6,202)             | (5,140)            |
| Payments (to) Government of Samoa                          |       | (335,236)           | (102,756)          |
| <b>Net cash inflow/(outflow) from operating activities</b> |       | <b>(5,154,776)</b>  | <b>(2,717,191)</b> |
| <b>Cash flows from investing activities</b>                |       |                     |                    |
| Loan principal collections                                 |       | 12,321,787          | 17,516,481         |
| Proceeds from sale of property, plant & equipment          |       | -                   | 20,050             |
| Dividend from Tropic Resort                                |       | 64,000              | -                  |
| Loan principal disbursements                               |       | (48,477,239)        | (23,526,399)       |
| Purchase of fixed assets                                   | 12    | (259,538)           | (130,263)          |
| <b>Net cash (outflow) from investing activities</b>        |       | <b>(36,350,990)</b> | <b>(6,120,131)</b> |
| <b>Cash flows from financing activities</b>                |       |                     |                    |
| Proceeds from long term borrowings                         |       | 53,961,524          | 15,030,177         |
| Repayment of long term borrowings                          |       | (8,384,385)         | (7,416,350)        |
| <b>Net cash inflow from financing activities</b>           |       | <b>45,577,139</b>   | <b>7,613,827</b>   |
| <b>Net change in cash and cash equivalents</b>             |       | <b>4,071,373</b>    | <b>(1,223,495)</b> |
| Cash and cash equivalents at beginning of year             |       | 1,979,670           | 3,203,165          |
| <b>Cash and cash equivalents at end of year</b>            |       | <b>6,051,043</b>    | <b>1,979,670</b>   |
| <b>Represented by;</b>                                     |       |                     |                    |
| Cash and cash equivalents                                  | 14    | 5,984,056           | 1,914,254          |
| Term deposits  | 15    | 66,987              | 65,416             |
|  |       | <b>6,051,043</b>    | <b>1,979,670</b>   |

The accompanying notes form an integral part of the above financial statement.

DEVELOPMENT BANK OF SAMOA  
NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 30 June 2014

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**1. General information**

The Development Bank of Samoa (the Bank) provides lending facilities for the industrial, agricultural, commercial, infrastructure, small businesses and micro projects in Samoa.

The Bank was established by the Development Bank Act 1974. It is governed by a 7 member board of directors (the Board) chaired by the Chief Executive Officer of the Ministry of Finance. The Board also includes representatives from the Private Sector, Commerce and Agriculture appointed by Government.

The Bank's main office is located on the 2<sup>nd</sup> and 6<sup>th</sup> Floors of the Development Bank Building, Savalalo and its postal address is P. O. Box 1232.

The Bank is designated as a public trading body under the Public Bodies and Accountability Act 2001. As a public beneficial body, the Bank is required to follow the requirements of the Public Finance Management Act 2001.

These financial statements were authorised for issue by the Board of Directors on 31 October 2014

**2. Statement of significant accounting policies**

The principal accounting policies applied 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.

**a. Statement of compliance**

These financial statements have been prepared in accordance with the requirements of the Public Finance Management Act 2001 which requires the adoption of *International Financial Reporting Standards* issued by the International Accounting Standards Board (IASB).

**b. Basis of preparation**

The financial statements of the Development Bank of Samoa ("the Bank") have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial assets and liabilities. The financial statements are prepared in Samoan Tala (SAT).

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates. 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.

Certain interpretations and amendments to existing standards have been published that became effective during the current financial period. The Bank has assessed the relevance of all such new interpretations and amendments, and has adopted the following, which are relevant to its operations.

DEVELOPMENT BANK OF SAMOA  
NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 30 June 2014

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**b. Basis of preparation (continued)**

**(a) New and amended standards adopted by the group**

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2013 that would be expected to have a material impact on the Bank.

**(b) New standards and interpretations not yet adopted**

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank, except the following set out below:

*Amendment to IAS 1, 'Financial statement presentation'* regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

*IFRS 13, 'Fair value measurement'*, aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.

*IFRS 9, 'Financial instruments'*, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

The Bank is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015. The Bank will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the group.

**c. Functional and presentation currency**

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency is the Samoan Tala (SAT).

DEVELOPMENT BANK OF SAMOA  
NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 30 June 2014

**d. Foreign currency transactions**

Transactions in foreign currencies are translated to functional currency at exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the exchange rates ruling at the dates the fair value was determined.

The following significant exchange rates applied at the reporting date:

|             | 2014   | 2013   |
|-------------|--------|--------|
| <b>Euro</b> | 3.1949 | 3.1949 |
| <b>USD</b>  | 2.3100 | 2.4178 |

**e. Financial assets**

The Bank classifies its financial assets in the following categories; loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Bank's loans and receivables comprise 'Loans to customers', 'Cash on hand and at banks' and 'Term deposits'.

**f. Revenue recognition**

*Interest income*

Interest income on investments, loans and advances is recognised as it accrues. Interest on impaired loans is recognised as income only when received.

*Fees and charges*

Fees and charges are brought to account when they are earned. Fees on impaired loans are recognised as income only when received.

**g. Dividend income**

Dividend revenue from equity investments is recognised when the shareholders' rights to receive payment have been established.

DEVELOPMENT BANK OF SAMOA  
NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 30 June 2014

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**h. Loans**

Loans are disclosed net of lending provisions. Term loans are carried at principal balances outstanding plus interest accrued.

*Policies adopted in classifying loans*

Each customer account is graded individually using established guidelines. Critical factors include collectibility of all principal and interest based on the contractual agreement and the security offered by the borrower.

*Impaired assets*

The Bank has disclosed components of its loan portfolio that have been classified as impaired assets. The following broad categories have been used in classifying impaired assets:

- **Non-accrual loans**  
A loan is classified as non-accrual if there is reasonable doubt over the ultimate recoverability of the principal or interest based on the contractual agreement. Non-accrual loans are those where interest and fees receivable, are not realised in the income statement but are recognised only when received.
- **Past due loans**  
Facilities that are classified under past due are loans that are more than 30 days in arrears but which are not non-accrual.

**i. Impairment of loans**

Loan accounts are reviewed throughout the year to assess the provision for bad and doubtful loan requirements. The collectability of loans and advances is assessed and specific provision is made for any doubtful accounts.

The determination of the amount of specific provision is based on many factors including credit evaluation of the borrowers, value of security and collateral held, current economic conditions and past experience.

When a loan is uncollectible, it is written off against the related provision for bad and doubtful loans. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

*Specific provisions*

Specific provision is maintained to cover identified doubtful debts. All known bad debts are written off in the year in which they are identified. The specific provision requirement (representing new and increased specific provisions less specific releases) is transferred from the general provision to the specific provision.

Recoveries, representing excess transfers to the specific provision, are credited to the general provision.

*General Provision*

The annual charge against profits for bad and doubtful debts reflects new general provisions. General Provision is maintained on all loans based on the general assessment of the loan portfolio and is calculated annually. The general provision is based on a percentage and is reviewed on a yearly basis.

If, in a subsequent period, the amount of the provision decreases and the decrease can be related objectively to an event occurring after the provision was recognised (such as an improvement in the



DEVELOPMENT BANK OF SAMOA  
NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 30 June 2014

debtor's credit rating), the previously recognised provision is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

**j. Impairment of equity investment**

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments a significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the assets are impaired.

**k. Property and equipment**

*Multi-use property*

The Development Bank Building is comprised of six floors of which one and a half floors are occupied by the Bank for the delivery of their financial services and administrative purposes. The other floors are rented out as operating leases to tenants. For the purposes of accounting policy and treatment this building is referred to as a multi-use property as an insignificant portion of the property is held for use by the Bank in the delivery of its financial services and for administrative purposes.

The building is initially measured at cost, including transaction costs and continues to be measured at cost and revaluation less any subsequent accumulated depreciation and accumulated impairment losses until disposal.

All property (land and buildings) valuations when undertaken shall be by independent registered valuers. Fair value is based on appropriate market evidence using earnings capitalisation, discounted cash flow analysis, comparable sales transactions or a combination of these methods. The valuations are adjusted if necessary, for any difference in the nature, location or condition of the asset. Revaluations are performed every 3 to 5 years.

When a revaluation increases the carrying value of a property, the increase is recognised directly in the property valuation reserve.

*All other property, plant and equipment*

All other items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The costs of the day to day servicing of the property, plant and equipment are recognised in profit and loss as incurred.

*Depreciation*

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The rates at which depreciation is charged are as follows:

|                                  |          |
|----------------------------------|----------|
| • Building on freehold land      | 50 years |
| • Building – offsite centre      | 20 years |
| • In built building equipment    | 20 years |
| • Office furniture and equipment |          |
| Office furniture and equipment   | 20.00%   |
| Office machines and safe         | 20.00%   |
| Computer development             | 20.00%   |
| Computers                        | 20.00%   |
| Radio telephone equipment        | 20.00%   |
| • Motor vehicles                 | 20.00%   |

The residual value is reassessed annually.

DEVELOPMENT BANK OF SAMOA  
NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 30 June 2014

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**k. Property and equipment (continued)**

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other (losses)/gains in the income statement.

**l. Land held for resale**

Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at the lower of the Bank's carrying amount of fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, these assets are carried at the lower of their new cost basis or fair value less cost to sell. Costs of significant property improvements are capitalised, whereas costs relating to holding property are expensed. The portion of interest costs relating to development of real estate is capitalised. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell. They are classified as non-current assets until the Board has approved a sale of selected properties at which time they are classified into current assets.

**m. Equity investments**

Equity investments in companies that are not subsidiaries or associates are carried at the lower of cost and net realisable value.

**n. Leases**

*Bank as lessor*

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

*Bank as lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**o. Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances of cash on hand and at bank including short term deposits which are subject to an insignificant risk of conversion to cash.

**p. Value added goods and services tax (VAGST)**

As a financial institution, the Bank is exempt from VAGST. The Bank however, is allowed to collect VAGST on rental income and claim VAGST on maintenance and other related costs of the building.

**q. Income tax**

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

DEVELOPMENT BANK OF SAMOA  
NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 30 June 2014

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**Income Tax (continued)**

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which unused tax losses and credits can be utilised.

**r. Provisions**

A provision is recognised in the balance sheet when the Bank has a present legal or constructive obligation as a result of a past event, and it is more likely than not that an outflow of economic benefits will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

**s. Accounts payable**

Accounts payables are recognised when the Bank becomes obliged to make future payments resulting from the purchase of goods and services. Trade payables are recognised at cost which is the fair value of the consideration to be paid in the future for goods and services received. Given the short term nature of most payables, the carrying amounts approximate fair value.

**t. Employee benefits**

The Bank contributes towards the Samoa National Provident Fund, a defined contribution plan in accordance with local legislation and to which it has no commitment beyond the payment of contribution. Obligations for contributions to the defined contribution plan are recognised immediately in profit or loss.

Liabilities for annual leave is accrued and recognised in the balance sheet. Annual leave are recorded at the undiscounted amount expected to be paid for the entitlement earned.

Short term benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus if the Bank has a present obligation or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be measured reliably.

**u. Borrowings**

Loans payable are recognised initially at fair value, net of transaction costs incurred. Loans payable are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

**v. Comparatives**

Where necessary previous periods comparatives have been changed to conform to the presentation of financial information for the current year.

**DEVELOPMENT BANK OF SAMOA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 30 June 2014

**3. Capital management**

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the balance sheet, are:

- To comply with the capital requirements set by the regulators of the Central Bank of Samoa;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored regularly by the Bank's management, based on the guidelines implemented by the Central Bank of Samoa (the Authority), for supervisory purposes. The required information is filed with the Authority on a quarterly basis.

The Authority requires the bank to: (a) hold the minimum level of the regulatory capital of 12.5%, and (b) maintain a ratio of total regulatory capital to the risk-weighted asset (the 'Basel ratio') at or above the minimum of 25%.

The Bank's regulatory capital is divided into two tiers:

- Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings; and
- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available for sale.

Investments in associates are deducted from Tier 1 and Tier 2 capital to arrive at the regulatory capital.

The table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended 30 June 2014 and 30 June 2013. During those years, the Bank has complied with all of the externally imposed capital requirements.

|                      | 2014<br>\$'000 | 2013<br>\$'000 |
|----------------------|----------------|----------------|
| Tier 1 Capital       | 55,383         | 51,591         |
| Tier 2 Capital       | 13,005         | 13,725         |
| Risk Weighted Assets | 184,937        | 151,673        |
| Calculated Ratios:   |                |                |
| Tier 1 capital       | 30%            | 34%            |
| Tier 2 capital       | 7%             | 9%             |

**4. Critical accounting estimates and judgments**

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

*(a) Impairment losses on loans and advances*

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical

**DEVELOPMENT BANK OF SAMOA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 30 June 2014

loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions

used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

*(b) Impairment of available-for-sale equity investments*

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

*(c) Income taxes*

Deferred tax assets and liabilities have been offset in accordance with IAS 12 Income Taxes. Deferred tax has been calculated on the assumption that there will be no change in tax law or circumstances of the Bank that will result in tax losses not being available to the Bank in the future.

**5. Other income**

Details of other income are specified as follows:

|                                      |  | 2014    | 2013      |
|--------------------------------------|--|---------|-----------|
|                                      |  | \$      | \$        |
| Interest on term deposits            |  | 1,848   | 1,535     |
| Bad debts recovered                  |  | 13,497  | 77,578    |
| Interest on equity investments       |  | 32,000  | 28,000    |
| Rent income                          |  | 553,830 | 845,108   |
| Other income                         |  | 116,297 | 150,956   |
| Gain on Foreign Currency Translation |  | 217,364 | -         |
| Total other income                   |  | 934,836 | 1,103,177 |

Rent income earned from tenants on the DBS building for the year was \$553,830 tala (2013: \$845,108). Not included is rental and electricity income of \$450,535 tala (2013: \$549,537) and \$457,342 tala (2013: \$287,185) from the Development Bank of Samoa offices that also occupy the DBS building. Therefore total rental income from a budgetary and internal management perspective equates to \$1,461,707 tala (2013: \$1,681,830).

Gain on foreign currency translations is the gain on conversion of principal balances for credit lines EEC, EIB6 and EIB7 using rates at balance sheet date.

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**6. Administration expenses**

Details of administration expenses are specified as follows:

|                                      | 2014             | 2013             |
|--------------------------------------|------------------|------------------|
|                                      | \$               | \$               |
| Advertising and promotion            | 86,719           | 66,677           |
| Computer and internet costs          | 129,537          | 114,527          |
| Guarantee fees to Government         | 387,071          | 490,494          |
| Insurance                            | 206,483          | 214,095          |
| Interest on savings                  | 1,694            | 3,013            |
| Other staff costs                    | 13,662           | 33,049           |
| Printing and stationeries            | 54,633           | 55,463           |
| Rent                                 | 10,800           | 10,800           |
| Repairs and maintenance              | 70,544           | 99,704           |
| Travel - local                       | 78,105           | 60,767           |
| Travel - overseas                    | 29,983           | 44,679           |
| Vehicle repairs & maintenance        | 64,720           | 68,174           |
| Vehicle running costs                | 62,041           | 67,166           |
| Other administration expenses        | 420,321          | 698,002          |
| Loss on disposal of Asset            | 2,894            | 10,129           |
| <b>Total administration expenses</b> | <b>1,619,207</b> | <b>2,036,739</b> |

Rent paid on leased property for the year was \$10,800 tala. Not included is rental expense of \$450,535 tala (2013: \$549,537) and electricity expense of \$457,342 tala (2013: \$287,185) for the Development Bank of Samoa offices that occupy the DBS building. Therefore total rental expense from a budgetary and internal management perspective equates to \$907,877 tala (2013: \$836,722).

**7. Operating lease commitments**

The total future minimum lease payments under operating lease rentals are payable as follows:

|                  | 2014          | 2013          |
|------------------|---------------|---------------|
|                  | \$            | \$            |
| Less than 1 year | 10,800        | 10,800        |
|                  | <u>10,800</u> | <u>10,800</u> |

During the current period, amount of \$10,800 (2013: \$10,800) for the Bank were recognised as an operating expense in the income statement in respect of operating leases.

**8. Personnel costs**

Details of personnel costs are specified as follows:

|                                 | 2014             | 2013             |
|---------------------------------|------------------|------------------|
|                                 | \$               | \$               |
| Gross salaries and wages        | 2,802,836        | 2,858,937        |
| Long service leave entitlements | 85,623           | 26,144           |
| Accident Compensation Levy      | 28,880           | 27,845           |
| National Provident Fund         | 144,398          | 138,016          |
| <b>Total personnel costs</b>    | <b>3,061,736</b> | <b>3,050,942</b> |

The average number of persons employed including part-timers during the year is 88 (2013: 92).



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Long service leave entitlements relate to staff who have reached certain years of service in accordance with the provisions of the Staff Instructions.

**9. Directors, Audit Committee and executive management compensation**

**i. Directors**

The Directors of the Bank during the financial period comprise of:

|                               |   |  |
|-------------------------------|---|--|
| Lavea Tupaimatuna Iulai Lavea | - | Chairperson and CEO, Ministry of Finance |
| Tugaga Tevesi                 | - | Government appointed                     |
| Sofaea Alo                    | - | Government appointed                     |
| Peseta Margaret Malua         | - | Government appointed                     |
| Sauimalae Malolo Chu Ling     | - | Government appointed                     |
| Loau Keneti Sio               | - | Government appointed                     |
| Peseta Peter Tone             | - | Government Appointed                     |
| Leota Suatele Manusegi        | - | Resigned 30/08/13                        |
| Anauli Pofitu Fesili          | - | Deceased 7/02/14                         |

Directors fees, benefits and board expenses of \$99,809 (2013: \$89,695) were paid during the year including sitting allowances. Directors appointed from Government Corporations and Ministries do not receive director's fee except for sitting allowances. Government regulations specify that directors' fees are \$1,625 per quarter and the sitting allowance is \$250 per meeting.

**ii. Audit Committee**

The Audit Committee during the financial period comprise of:

|                           |   |                        |
|---------------------------|---|------------------------|
| Sofaea Alo                | - | Chair person           |
| Sauimalae Malolo Chu Ling | - | Director               |
| Loau S Keneti Sio         | - | Director               |
| Esera Maui                | - | Manager Internal Audit |

**iii. Risk Management Committee**

The Risk Management Committee during the financial period comprise of:

|                       |   |                         |
|-----------------------|---|-------------------------|
| Peseta Margaret Malua | - | Chair person            |
| Susana Laulu          | - | Chief Executive Officer |
| Talasa Saaga          | - | Manager Legal           |
| Jenifer Ula Fruean    | - | Independent member      |

**iv. Board costs**

Board of Directors expenses are as follows:

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|  | 2014          | 2013          |
|--|---------------|---------------|
|  | \$            | \$            |
| Directors fees and allowances            | 53,200        | 38,000        |
| Audit committee allowances               | 1,403         | 2,067         |
| Risk management committee allowances     | -             | 2,900         |
| Membership fees                          | 5,000         | 5,000         |
| Meeting expenses                         | 3,363         | 3,024         |
| Other cost                               | 36,843        | 38,704        |
| <b>Total Board of Directors expenses</b> | <b>99,809</b> | <b>89,695</b> |

v. *Key management personnel costs*

Details of the remuneration of key members of management during the year were as follows:

|   | 2014           | 2013           |
|---|----------------|----------------|
|   | \$             | \$             |
| Salaries and short-term employment benefits | 407,752        | 466,255        |
| <i>Employers contribution to:</i>           |                |                |
| National provident fund                     | 22,071         | 19,525         |
| Accident compensation commission            | 4,414          | 3,915          |
| <b>Total key management personnel costs</b> | <b>434,237</b> | <b>489,695</b> |

10. **Income tax**

(i) *Major components of income tax (expense)/benefit*

|   | 2014        | 2013        |
|---|-------------|-------------|
|   | \$          | \$          |
| Current income tax (expense)/benefit  | 1,676,189   | 1,692,709   |
| Current income tax benefit not recognised   | (1,676,189) | (1,692,709) |
| Deferred tax expense/(income) on origination<br>and reversal of temporary differences | 351,534     | 400,538     |
| Recognition of deferred tax balances  | -           | 222,090     |
| Income tax (expense)/benefit recognised   | 351,534     | 622,628     |

(ii) *Reconciliation between accounting profit/(loss) and income tax (expense)/ benefit*

|   | 2014        | 2013        |
|---|-------------|-------------|
|   | \$          | \$          |
| Net (Loss)/Profit                           | (4,906,128) | (3,509,466) |
| Prima facie income tax benefit at 27%       | (1,324,655) | (947,556)   |
| Income tax benefit not recognised           | 1,676,189   | (344,616)   |
| Income tax (expense)/benefit not recognised | 351,534     | (1,292,172) |

(iii) *Movement in net deferred tax assets is as follows*

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|   | Opening<br>balance | Charged to<br>income/additions | Closing<br>balance |
|---|--------------------|--------------------------------|--------------------|
| <i>Temporary differences</i>            | \$                 | \$                             | \$                 |
| Property, plant and equipment           | (148,499)          | (306,504)                      | (455,003)          |
| Provision for doubtful debts            | 3,021,841          | 670,197                        | 3,692,039          |
| Provision for annual leave              | 61,498             | (12,159)                       | 49,339             |
| Unrealised Gain on currency translation | 0                  | 0                              | 0                  |
| Current year deferred tax asset on loss | 0                  | 0                              | 0                  |
| Net deferred tax assets                 | <u>2,934,840</u>   | <u>351,534</u>                 | <u>3,286,375</u>   |

**10. Income tax continued**

*(iv) Deferred tax assets on net losses not recognised*

The movement in unrecognised deferred tax assets is as follows:

|  | 2014             | 2013             |
|--|------------------|------------------|
|  | \$               | \$               |
| Opening balance of unrecognised tax losses | 3,318,410        | 1,625,701        |
| Unrecognised Tax on Loss                   | <u>1,676,189</u> | <u>1,692,709</u> |
| Closing balance of unrecognised tax losses | <u>4,994,599</u> | <u>3,318,410</u> |

*(v) Income tax credit (from withholding tax on interest income)*

|                              | 2014          | 2013          |
|------------------------------|---------------|---------------|
|                              | \$            | \$            |
| Balance brought forward      | 36,824        | 31,684        |
| Withholding tax for the year | <u>6,202</u>  | <u>5,140</u>  |
| Balance carried forward      | <u>43,026</u> | <u>36,824</u> |

**11. Equity investments**

Details of equity investments are specified as follows:

|                                 | 2014                  | 2013                  |
|---------------------------------|-----------------------|-----------------------|
|                                 | \$                    | \$                    |
| Tropic Resort Ltd (15% shares)  | <u>400,000</u>        | <u>400,000</u>        |
| <b>Total equity investments</b> | <u><b>400,000</b></u> | <u><b>400,000</b></u> |

It is the considered view of the Directors that the equity investment is not impaired. There was an option in the contract for the owner to buy back shares if the contract expires. In 2013, the Tropic Resort agreed to buy back the preference share at the cost of \$520,000 but the Directors requested continuation of the investment. No formal agreement has been signed to effect the continuation but the investment is still valid.

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**12. Property and equipment**

Details of property and equipment are specified as follows:

|                                  | Land &<br>buildings | Fixtures &<br>Fittings | Furniture &<br>equipment | Motor<br>vehicles | Total      |
|----------------------------------|---------------------|------------------------|--------------------------|-------------------|------------|
| <i>Gross carrying amount</i>     |                     |                        |                          |                   |            |
| Balance as at 1 July 2012        | 50,990,920          | 0                      | 5,558,319                | 846,769           | 57,396,008 |
| Additions                        |                     |                        | 130,263                  | -                 | 130,263    |
| Internal transfers to/(from)     |                     |                        | -                        | -                 |            |
| Disposals                        | -                   | -                      | (37,548)                 | (77,765)          | (115,313)  |
| Balance as at 30 June 2013       | 50,990,920          | 0                      | 5,651,034                | 769,004           | 57,410,958 |
| Additions                        | -                   | 124,604                | 54,935                   | 80,000            | 259,539    |
| Internal transfers to/(from)     | -                   |                        | -                        | -                 | -          |
| Disposals                        | -                   |                        | (79,255)                 | -                 | (79,255)   |
| Balance as at 30 June 2014       | 50,990,920          | 124,604                | 5,626,714                | 849,004           | 57,591,242 |
| <i>Accumulated depreciation</i>  |                     |                        |                          |                   |            |
| Opening balance 1 July 2012      | 5,094,898           | -                      | 3,069,695                | 365,596           | 8,530,189  |
| Disposals                        | -                   |                        | (37,548)                 | (47,586)          | (85,134)   |
| Depreciation charge for the year | 996,906             | 0                      | 327,103                  | 137,242           | 1,461,251  |
| Balance as at 30 June 2013       | 6,091,804           | 0                      | 3,359,250                | 455,252           | 9,906,306  |
| Disposals                        | -                   |                        | (76,361)                 | -                 | (76,361)   |
| Depreciation charge for the year | 996,657             | 2,559                  | 327,111                  | 127,570           | 1,453,897  |
| Balance as at 30 June 2014       | 7,088,461           | 2,559                  | 3,610,000                | 582,822           | 11,283,842 |
| WIP Savaii Office                | 82,310              |                        |                          |                   | 82,310     |
| Net carrying amount 30 June 2013 | 44,981,426          |                        | 2,291,784                | 313,752           | 47,586,959 |
| Net carrying amount 30 June 2014 | 43,984,769          | 122,045                | 2,016,714                | 266,182           | 46,389,710 |

The land and buildings are used as security for the loan with the ANZ Bank which has been reclassified as managed funds under term liability. On 14 March 2012, Cabinet approved for UTOS to refinance the loan from ANZ Bank (refer Note 20). Work in Progress relates to the Bank's new Office in Savaii.

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**13. Loans to customers**  
**Gross loans analysis**

|                                   | 2014<br>\$                | 2013<br>\$                |
|-----------------------------------|---------------------------|---------------------------|
| Portfolio under Stimulus Packages | 58,574,470                | 61,985,119                |
| Other Loans                       | <u>82,427,932</u>         | <u>43,031,071</u>         |
| Gross loans                       | <u><b>141,002,402</b></u> | <u><b>105,016,190</b></u> |
| Gross loans                       | 141,002,402               | 105,016,190               |
| Less: Specific provision          | (7,906,230)               | (7,751,643)               |
| : General provision               | (6,307,135)               | (3,304,119)               |
| : Interest suspended              | <u>(2,966,845)</u>        | <u>(7,303,796)</u>        |
| <b>Total Loans</b>                | <u><b>123,822,192</b></u> | <u><b>86,656,632</b></u>  |
| Non current portion of loans      | 110,560,924               | 73,013,797                |
| Current portion of loans          | <u>13,261,268</u>         | <u>13,642,835</u>         |
|                                   | <u><b>123,822,192</b></u> | <u><b>86,656,632</b></u>  |

*Refer Notes 27 for Portfolio on Stimulus Packages*

**Provision for doubtful loans analysis**

|   | 2014<br>\$               | 2013<br>\$               |
|---|--------------------------|--------------------------|
| <b>Specific provision</b>                                   |                          |                          |
| Balance at the beginning of the year                        | 7,751,643                | 7,642,919                |
| Charge to income statement                                  | -                        | 503,097                  |
| Transfer from Interest Suspended                            | 1,511,661                | 28,033                   |
| Write off as bad debts against provision for doubtful debts | <u>(1,357,074)</u>       | <u>(422,406)</u>         |
|   | <u>7,906,230</u>         | <u>7,751,643</u>         |
| <b>General provision</b>                                    |                          |                          |
| Balance at the beginning of the year                        | 3,304,119                | 3,275,537                |
| Charge to income statement                                  | 412,000                  | 215,614                  |
| Write off as bad debts against provision for doubtful debts | (41,959)                 | (187,032)                |
| Transfer to/(from) interest suspended                       | <u>2,632,976</u>         | <u>-</u>                 |
|   | <u>6,307,136</u>         | <u>3,304,119</u>         |
| <b>Interest Suspended</b>                                   |                          |                          |
| Opening balance   | 7,303,796                | 5,594,169                |
| Additional Interest suspended                               | 87,505                   | 2,763,315                |
| Recovered   | (279,819)                | (1,025,655)              |
| Transfer to provision                                       | <u>(4,144,637)</u>       | <u>(28,033)</u>          |
|   | <u>2,966,845</u>         | <u>7,303,796</u>         |
| <b>Total provision for doubtful debts</b>                   | <u><b>17,180,211</b></u> | <u><b>18,359,558</b></u> |

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**13. Loans to customers (continued)**

***Impaired and past due assets analysis***

|   | 2014               | 2013               |
|---|--------------------|--------------------|
|   | \$                 | \$                 |
| <i>Non accrual loans with specific provision for impairment</i> |                    |                    |
| Gross   | 10,814,415         | 4,070,468          |
| Less suspended interest   | <u>(1,364,719)</u> | <u>(3,359,745)</u> |
|   | 9,449,696          | 710,723            |
| less specific provision   | <u>-</u>           | <u>-</u>           |
|   | <u>9,449,696</u>   | <u>710,723</u>     |
| <br><i>Past due loans</i>                                       |                    |                    |
|   | 2014               | 2013               |
|   | \$                 | \$                 |
| Gross   | 18,081,138         | 29,177,010         |
| less suspended interest   | <u>(2,966,845)</u> | <u>(7,303,796)</u> |
|   | <u>15,114,293</u>  | <u>21,873,214</u>  |

**14. Cash and cash equivalents**

Details of cash and cash at bank are as follows:

|                           | 2014                    | 2013                    |
|---------------------------|-------------------------|-------------------------|
|                           | \$                      | \$                      |
| Cash at banks             | 5,979,026               | 1,909,224               |
| Petty cash                | 5,030                   | 5,030                   |
| <b>Total cash at bank</b> | <b><u>5,984,056</u></b> | <b><u>1,914,254</u></b> |

**15. Term deposits**

Details of term deposits are specified as follows:

|               | 2014          | 2013          |
|---------------|---------------|---------------|
|               | \$            | \$            |
| Term deposits | <u>66,987</u> | <u>65,416</u> |

Term of the deposit is 3 months at the rate of 2.8% matured on 13 September 2014.



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**16. Other receivables and prepayments**

Details of other receivables and prepayments are specified as follows:

|                              | 2014                    | 2013                    |
|------------------------------|-------------------------|-------------------------|
|                              | \$                      | \$                      |
| Dividend- Tropic Resort      | 32,000                  | 64,000                  |
| Prepayments                  | 155,603                 | 140,858                 |
| Tenants rent and power       | 233,219                 | 205,524                 |
| Other debtors and accruals   | 103,216                 | 427,459                 |
| Ministry of Finance          | 1,931,500               | 1,313,285               |
| Provision for doubtful debts | (15,516)                | (136,240)               |
|                              | <u><b>2,440,022</b></u> | <u><b>2,014,886</b></u> |

The balance under MOF represent 50% of the lost interest on Stimulus Packages to be financed by the government as approved per FK (13)13 and FK (13)25.

**17. Land held for resale**

The list below summarises the land now owned by the Bank in lieu of foreclosed loans. These are not included as part of the Bank's property, plant and equipment but disclosed separately.

|      | 2014                    | 2013                    |
|------|-------------------------|-------------------------|
|      | \$                      | \$                      |
| Land | <u><b>1,272,321</b></u> | <u><b>1,272,321</b></u> |

**18. Due from shareholder**

Details of due from shareholder are specified as follows:

|  | 2014                  | 2013                 |
|--|-----------------------|----------------------|
|  | \$                    | \$                   |
| Opening Balance  | 63,462                |                      |
| Exchange difference arising under the European-Economic Community Loan (Note 19) | 65,413                | 63,462               |
| <b>Total due from Government at year end</b>                                     | <u><b>128,875</b></u> | <u><b>63,462</b></u> |

The Government of Samoa has agreed to take the exchange risk arising from the European Economic Community Loan.

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**19. Long term borrowings**

The Borrowings arranged by the Government of Samoa are payable in Samoan tala and therefore no exchange risk arises. The borrowings from the European Economic Community are payable in European Currency unit, and the Government of Samoa is responsible for the exchange risk due to exchange fluctuations (refer Note 18).

Where certain covenants of the Asian Development Bank loans have not been complied with, maturity dates for repayment could be accelerated. The Development Bank of Samoa has complied as at 30 June 2014 with these covenants. Interests paid on borrowings for the year amounted to \$3,636,077 (2013:\$3,408,780).

|                         | <b>Current</b>    | <b>Term</b>        | <b>2014</b>        | <b>2013</b>       | <b>rate per</b> |
|-------------------------|-------------------|--------------------|--------------------|-------------------|-----------------|
|                         | <b>\$</b>         | <b>\$</b>          | <b>Total</b>       | <b>Total</b>      | <b>annum</b>    |
|                         |                   |                    | <b>\$</b>          | <b>\$</b>         |                 |
| IDA 15820               | 376,954           | 3,345,616          | 3,722,570          | 3,934,499         | 6%              |
| ADB 6th Credit Line     | 446,114           | 1,629,415          | 2,075,529          | 2,521,643         | 6%              |
| EEC                     | 110,538           | 424,855            | 535,393            | 639,204           | 1%              |
| EIB GL IV               | 903,542           | -                  | 903,542            | 1,807,205         | 6%              |
| EIB GL V                | 1,322,773         | 1,322,773          | 2,645,546          | 3,968,320         | 6%              |
| EIB GL VI               | 1,876,629         | 12,450,894         | 14,327,523         | 16,114,709        | 5.5%            |
| EIB GL VII              | 683,045           | 7,443,149          | 8,126,194          | 4,219,594         | 3.9%            |
| NPF 2                   | 916,320           | 8,937,168          | 9,853,488          | 10,053,726        | 8%              |
| NPF 3                   | 291,746           | 7,078,028          | 7,369,774          | 6,088,330         | 8%              |
| NPF3 FT                 | 72,112            | 2,451,626          | 2,523,738          | 2,593,678         | 6%              |
| CBS Tsunami Credit Line | 1,033,046         | -                  | 1,033,046          | 2,183,278         | 3%              |
| CBS 2                   | 337,685           | 2,533,747          | 2,871,432          | 3,203,689         | 3%              |
| CBS 3                   | 546,395           | 4,117,710          | 4,664,105          | 5,210,500         | 3%              |
| CBS 4 Evan              | 2,074,514         | 36,737,474         | 38,811,988         | 9,000,000         | 1%              |
| CBS 5 SIDS              | 527,153           | 16,972,847         | 17,500,000         |                   | 3%              |
| <b>TOTAL</b>            | <b>11,518,566</b> | <b>105,445,302</b> | <b>116,963,868</b> | <b>71,538,375</b> |                 |

**Terms and conditions and principal repayment terms**

**IDA 15820** –The repayment program was agreed with the Ministry of Finance (formerly Treasury) to be at \$253,635 per month starting in May 1997 till settlement. There is flexibility in this program which allows the Bank to manage repayment to its cash flow position. Payments are to meet accrued interest first.

**ADB 6<sup>th</sup>** - Interest to be paid quarterly starting 1st September 2004 with principal repayments starting 1st September 2006, final payment 1st June 2018. Repayment amounts are \$146,875 per quarter.

**EEC** - 15th November 1989 to 15<sup>th</sup> May 2019. Repayment amounts are \$65,274tala per 6 monthly.

**EIB GL IV** - 25th September 2004 to 25th September 2014. Repayment amounts are \$903,603tala per annum. Loan will be settled in September 2014

**EIB GL V**- 15th November 2006 to 15th November 2015. Repayment amounts are \$1,322,773tala per annum

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**EIB GL VI** - 15th September and 15th March until 2020. Repayments are biannually commencing September 2009. Repayment amount is approximated at \$2.6million tala per annum.

**EIB GL VII** – Biannual interest repayment commenced in February 2012 at US\$5,060.09 per six months. Principal repayment started on 30 July 2013 at approximately \$650k every six months.

**NPF 2** - Monthly repayment of \$37,350 effective September 2010 to cover interest and increase to \$83,000 after 12 months to cover interest and principal. Term is 22 years. Interest is 8%

**NPF 3** – New \$10million loan approved in March 2012, repayment started in February 2013. Maturity is 15 years at \$74,333 per month. Interest is 8%

**NPF 3 FT**- Part of NPF3 but at a recorded interest rate of 6%, repayment of \$18,628 per month for 20 years

**CBS 1**–Tsunami Credit Line, Maximum maturity of 5 years with 12 months grace period on both principal and interest. Monthly repayment of \$100,000

**CBS2** - Maximum maturity of 5 plus 5 years with 3 months grace period on both principal and interest. Repayment of \$35,318 commenced in July 2011.

**CBS 3**- Credit for other developments, repayment of \$57,936 per month for interest and principal. Term is 5 plus 5 years

**CBS CYCLONE EVAN CREDIT LINE**- New Loan approved by Cabinet for Cyclone Evan Rehabilitation for Hotels and Other developments. Total Loan approved is \$39 million. Interest is 1% and term is 15years with one year grace period. Repayments amount and term proportionate to amount of disbursement.

**CBS 5 -SIDS CREDIT LINE**- A new \$30million credit line approved by the Cabinet to finance accommodations for the SIDS Conference and Commonwealth Youth Games. Interest is 3% and term is 15years. Repayment amount and maturity is proportionate to amount and date of disbursement

**Covenants with the European Investment Bank loans (EIB)**

The covenants with the EIB loan are as follows:

- Total capital to total assets ratio shall be above 25% (note that total assets in the calculation includes the provision for doubtful debts).
- Non-performing loans to total loans portfolio shall not exceed 10%
- Provision for loan losses to non-performing loan portfolio shall not be less than 90%
- Liquidity ratio shall not be less than 1.2:1

As of 30 June 2014, the Bank has complied with all of the four covenants as prescribed in the terms and conditions of the loans as follows;

- Total capital to assets is \$27% (2013: 37%)-complied
- Non-Performing Loans to total loans is 5% (2013: 2%)-complied
- Provision for loan losses to non-performing loans is 237% (2013: 960%)-complied
- Liquidity ratio is 2.3:1 (2013: 1.6:1)-complied

The Bank has been in regular communication with EIB on financial position and ratio compliance. EIB is aware and the Bank has provided all information and explanations required with regards to compliance with all finance ratios. The Bank continues to update EIB on the progress every 6 months and EIB approved waiver on compliance until 2014

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**20. Long term liability to managed funds**

The bank managed on behalf of the Government of Samoa and other agencies the following funds:

|   | 2014<br>\$        | 2013<br>\$        |
|---|-------------------|-------------------|
| Micro Credit Scheme                               | 1,000,000         | 1,000,000         |
| Loan with UTOS                                    | 14,247,934        | 15,525,793        |
| <b>Total managed funds</b>                        | <b>15,247,934</b> | <b>16,525,793</b> |
| Micro Credit Scheme transferred to term liability | 1,000,000         | 1,000,000         |
| Transferred to long term liability                | 15,525,795        | 16,733,157        |
| Transferred to capital and reserves               | (1,277,858)       | (1,207,364)       |
| <b>Long term liability</b>                        | <b>15,247,937</b> | <b>16,525,793</b> |

The Micro Credit Scheme is part of the ADB Project to assist small business developments for women at grass root level. The scheme was recorded initially as borrowing from the Government of Samoa under the ADB assistance. In September 2008, Government approved to transfer the administration of this scheme to the Bank and the balance to be utilized as a revolving fund for lending to micro projects. The capped amount is \$1million tala and the balance has been transferred to managed funds as term liabilities.

In July 2009, Government approved and took over the commitment to pay for the Bank's loan with ANZ Bank with monthly repayment of \$196,328.68. On 18 June 2010, the Ministry of Finance approved the reclassification of this loan from borrowings to managed funds under term liabilities. This change will have a significant positive impact on the Bank's financial performance and also reflects the significance of Government's assistance to the Bank's profitability as well as centralizing the management of Government's funds. On 14 March 2012, Cabinet approved for UTOS to refinance the loan from ANZ Bank and Government will make payments direct to UTOS. The term is 13 years at 7.5% with monthly repayments of \$200,000. The treatment of Government's contribution remains as capital injection.

At 30 June 2014, \$2,400,000 has been contributed to loan repayments and interest expense totalled \$1,122,142. This resulted in net contribution by Government of \$1,277,858 which has been transferred to Government reserves per Note 23.

**21. Other creditors and accruals**

Details of other creditors and accruals are specified as follows:

|   | 2014<br>\$       | 2013<br>\$       |
|---|------------------|------------------|
| Provision for long service leave and annual leave | 182,738          | 227,772          |
| Portfolio credits                                 | 101,592          | 109,191          |
| Accrued interest on borrowings                    | 476,408          | 507,191          |
| Savings on micro credit scheme                    | 56,620           | 142,815          |
| Guarantee fees                                    | 387,071          | 490,494          |
| Other creditors and accruals                      | 298,971          | 145,843          |
| Provision for Audit fee                           | 35,650           | 53,934           |
| <b>Total other creditors and accruals</b>         | <b>1,539,050</b> | <b>1,677,240</b> |

Savings represent interest of 1.75% which is credited to savings accounts under the micro credit scheme.

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**22. Authorised and paid-up capital**

Details of authorised and paid-up capital are specified as follows:

|  | 2014                     | 2013                     |
|--|--------------------------|--------------------------|
|  | \$                       | \$                       |
| Authorised capital 50,000,000 ordinary shares @ \$1 par value each | <u>50,000,000</u>        | <u>30,000,000</u>        |
| Issued and paid up capital   | <u>50,000,000</u>        | <u>50,000,000</u>        |
| <b>Issued and paid up capital end of financial year</b>            | <b><u>50,000,000</u></b> | <b><u>50,000,000</u></b> |

All ordinary shares rank equally with one vote attached to each fully paid ordinary share.

Cabinet approved increase of Government authorised capital to a maximum of \$80million to ensure fund disburse for development projects are in line with the Development Bank of Samoa Act 2010.

**23. Government of Samoa reserve**

Details of Government of Samoa reserve fund are specified as follows:

|  | 2014                     | 2013                    |
|--|--------------------------|-------------------------|
|  | \$                       | \$                      |
| Opening balance                            | 9,332,379                | 7,947,683               |
| Add: Transfer from Managed Funds (Note 20) | 1,277,858                | 1,207,364               |
| Add: Guarantee fee capitalised             | <u>155,258</u>           | <u>177,332</u>          |
| <b>Closing balance</b>                     | <b><u>10,765,495</u></b> | <b><u>9,332,379</u></b> |

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**24. Maturity analysis**

The following analysis of monetary assets and liabilities is based on contractual terms.

|               | At Call   | 1 day to<br>3 months | Over 3<br>months<br>to a year | Over 1<br>year to<br>5 years | Over 5<br>years | Total         |
|---------------|-----------|----------------------|-------------------------------|------------------------------|-----------------|---------------|
| <b>2014</b>   |           |                      |                               |                              |                 |               |
| Cash          | 5,984,056 |                      |                               |                              |                 | 5,984,056     |
| Term deposits |           | 66,987               |                               |                              |                 | 66,987        |
| Loans         | 795,404   | 2,577,585            | 9,888,279                     | 36,948,536                   | 90,792,598      | 141,002,402   |
| Borrowings    |           | (3,221,245)          | (11,290,961)                  | (59,885,449)                 | (42,566,481)    | (116,964,136) |
| Total         | 6,779,460 | (576,673)            | (1,402,682)                   | (22,936,913)                 | 48,226,117      | 30,089,309    |
| <b>2013</b>   |           |                      |                               |                              |                 |               |
| Cash          | 1,914,254 | -                    | -                             | -                            | -               | 1,914,254     |
| Term deposits | -         | 65,416               | -                             | -                            | -               | 65,416        |
| Loans         | 787,877   | 3,165,998            | 10,476,836                    | 36,760,539                   | 35,465,382      | 86,656,632    |
| Borrowings    | -         | (3,716,498)          | (5,472,168)                   | (36,362,098)                 | (25,987,613)    | (71,538,377)  |
| Total         | 2,702,131 | (485,084)            | 5,004,668                     | 398,441                      | 9,477,769       | 17,097,925    |

**25. Risk management policies**

This section outlines the Bank's exposure to financial risks and describes the methods used by management to control and monitor these risks. The primary risks are those of credit risk, liquidity risk and market risk of interest rate and foreign exchange risk.

**Credit risk**

Credit risk refers to the risk that a customer will default on its contractual obligations resulting in financial loss to the Bank. The Bank's primary exposure to credit risk arises from its lending activities and or in issues of guarantees.

The Bank has strict policy guidelines in dealing with credit worthy customers and obtaining sufficient collateral security to mitigate the risk of financial loss. Credit risk is closely monitored by the Lending Division and Internal Audit through regular independent reviews designed to test quality of credit exposures and to ensure compliance with Bank policies. These reviews are administered by the Audit Committee. The enactment of the Development Bank of Samoa Act 2010 enable formation of the Risk Management Committee which plays an active role of reviewing credit risk.



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**Credit risk concentrations**

The Bank lends to various development sectors. The concentration of credit risk in relation to these development sectors is set out below:

|                | 2014               | 2013               |
|----------------|--------------------|--------------------|
|                | \$                 | \$                 |
| Industrial     | 106,975,481        | 71,421,984         |
| Agriculture    | 13,557,737         | 11,391,394         |
| Fishing        | 6,070,713          | 4,156,282          |
| Infrastructure | 4,868,831          | 4,974,673          |
| Staff          | 3,928,986          | 4,746,070          |
| SBEC           | 2,957,221          | 3,074,094          |
| Others         | 1,788,209          | 4,011,923          |
| Micro-finance  | 855,226            | 1,214,544          |
| Group          | -                  | 25,226             |
|                | <u>141,002,404</u> | <u>105,016,190</u> |

**CBS Credit Lines**

|                                     |                   |                   |
|-------------------------------------|-------------------|-------------------|
| CBS Cyclone Evan Credit Line        | 38,018,068        | 8,850,730         |
| CBS Normal Credit Line Facility     | 6,727,555         | 8,395,595         |
| CBS SIDS & Commonwealth Youth Games | 5,090,885         | -                 |
| CBS Tsunami                         | 3,239,734         | 3,586,375         |
|                                     | <u>53,076,242</u> | <u>20,832,700</u> |

**Foreign exchange risk**

Foreign exchange risk is the risk to earnings and value caused by a change in foreign exchange rates. Foreign exchange risk is mainly on sale of foreign currency relating to borrowings with the European International Bank (EIB). The level of exposure is monitored at maturities and market conditions.

*Sensitivity analysis*

The movement of Euro and USD by 5%, 10% or 15% against WST at 30 June 2014 would have affected the foreign exchange gain/ loss by the amounts as shown below. The analysis assumes that all other variables, in particular interest rates remain constant.

|             | Carrying amounts |            |
|-------------|------------------|------------|
|             | 2014             | 2013       |
| <b>Euro</b> | 14,862,916       | 16,753,913 |
| <b>USD</b>  | 8,126,141        | 4,219,596  |

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|                           | Effect on the Income |             |             |
|---------------------------|----------------------|-------------|-------------|
|                           | 5%                   | 10%         | 15%         |
| <b>Euro strengthening</b> | (743,146)            | (1,486,292) | (2,229,437) |
| <b>Euro weakening</b>     | 743,146              | 1,486,292   | 2,229,437   |
| <b>USD strengthening</b>  | (406,307)            | (812,614)   | (1,218,921) |
| <b>USD weakening</b>      | 406,307              | 812,614     | 1,218,921   |

**26. Capital commitments and contingent liabilities**

The board has approved a capital budget of \$230,000 for the year 30 June 2014 (2013: \$162,000).

The contingent liability on a pending court case by FP Architects for \$5.46million for unpaid fees was settled in September 2013 at the cost of \$100,000

As of 30 June 2014, the Bank had no contingent liability or asset (2013: NIL)

**27. Stimulus Packages**

Cabinet has approved the Stimulus Packages for major clients in Tourism and other developments. The stimulus packages were developed to provide relief to borrowing obligations and to address concerns raised by the government regarding unfavourable global economic condition, downturn in tourism activities and the continuous effects of natural disasters. The stimulus packages provide affordable terms to ensure sustainability of these developments to meet operations, commitments and to ensure positive contribution to the economy. The estimated cost of the packages is \$7.726million and cabinet has approved government's assistance in subsidising \$3.863million or 50% of the cost per FK (13)13 and FK (13)25. Total balance of portfolio under stimulus packages at 30 June 2014 is \$58,574,470. (Refer note 13). Certain conditions must be complied by the borrowers who have been awarded the stimulus package. Compliance with these conditions will be assessed post 30 June 2014.

The Bank has revised its projection taking into account the effects of the stimulus packages and will continue to bear the cost within the next financial year. Assistance from the government in financing half of the cost of the stimulus package as approved by the government will facilitate additional loans and finance the banks obligations.

**28. Continued government support**

The bank is currently having difficulties with collectability of income from loans to sustain its cost. The Bank develops stimulus packages approved by the Cabinet to assist tourism and other major developments. This affects and will continue to affect the financial performance of the Bank for the next 3 years. The government is subsidising half of the cost and the Bank bears the other half (refer note 27). The bank suffered a loss of \$4,554,594 tala (2013: loss of \$2,886,838 tala) as seen in the financial performance due to the stimulus packages and challenging economic conditions.

The government as the primary shareholder has agreed to support the Development Bank of Samoa and has pledges to underwrite its debt obligation should the Bank face financial difficulties.

**29. Development Bank Act 2010**

The Act was passed by Parliament and came into effect before 30 June 2010. The additional disclosure requirements under the new Act have been included in the accounts for 30 June 2014.