

# DEVELOPMENT BANK OF SAMOA



## ANNUAL REPORT 2017

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Private Bag  
Apia, Samoa



Government of Samoa

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## OFFICE OF THE MINISTER OF FINANCE

(Ministry of Finance; Central Bank of Samoa; Samoa National Provident Fund; Development Bank of Samoa; Samoa International Finance Authority; Samoa Life Assurance Corporation; Unit Trust of Samoa; Tenders Board)

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30<sup>th</sup> October, 2017.

Hon. Leaupepe Toleafoa Faafisi  
Speaker of the House  
Legislative Assembly of Samoa  
**TUANAIMATO**

### **ANNUAL REPORT 2017 - DEVELOPMENT BANK OF SAMOA**

Pursuant to Section 26 of the Development Bank of Samoa Act 2010, I respectfully present to the Legislative Assembly of Samoa the Development Bank of Samoa Annual Report for the year ended 30<sup>th</sup> June 2017.

The Annual Report 2017 is submitted in accordance with Section 23 of the Public Bodies (Performance & Accountability) Act 2001.

Sincerely,

Hon. Sili Epa Tuioti  
**MINISTER OF FINANCE**

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## BOARD OF DIRECTORS



**Standing (L – R):**

Vui Sebastian Mariner, Aiolupotea Sauimalae Malolo Chu Ling, Seuamuli Sarona Ponifasio, Peseta Peter Tone (Insert)

**Seated (L – R):**

Tugaga Tevesi, Lavea Tupaimatuna Iulai Lavea (Chairman), Leota Matamua Niko Ngau Chun



## REPORT BY THE CHAIRMAN

It gives me great pleasure to report on the operation and performance of the DBS for the year ended 30 June 2017.

DBS is mandated to provide credit financing to enable sustainable economic and social inclusive development for Samoa. Despite the challenges encountered during the year, DBS has continued to respond positively to the development needs of stakeholders to stimulate economic growth and improve livelihoods.

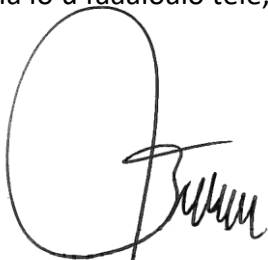
At 30 June 2017, lending operation recorded a total of 1,466 applications were approved valued at \$13.4million. Of this approval, 48% represents the agriculture and fishing sector, 40% to industry and 12% to social inclusive development. Loan collection was recorded at \$25.5million compared to \$18.0million in FY16.

For financial performance, a surplus of \$1.3million was recorded from operation compared to budget of \$1.1million and \$475k in FY16. Earning after tax was recorded at \$71k compared to budget of \$312k loss and \$614k loss in FY16. This is indeed a great improvement in performance and recorded positive outcome in six years.

The positive performance further encourages DBS to endeavour in its efforts to counter the ongoing challenges of development banking and to remain as a key contributor for sustainable economic and inclusive development for Samoa.

On behalf of the Board of Directors, I wish to convey appreciation to the CEO, management and staff for the great work and commitment throughout the year.

Ma lo'u faaaloalo tele,

A handwritten signature in black ink, appearing to be 'Lavea Tupamatu Lavea', written over a large, faint oval shape.

Lavea Tupamatu Lavea  
**CHAIRMAN – BOARD OF DIRECTORS**

## EXECUTIVE MANAGEMENT



**Standing (L – R):**

Muaautau Raie Silipa (FINANCE), Mark Bartley (MIS), Martha Papalii (LEGAL), Laeititimalu Valovalo Tusani (CORPORATE SERVICES), Luaia Esera Mauli (INTERNAL AUDIT)

**Seated (L – R):**

Migao Tiotio (SAVAII BRANCH), Susana Laulu (CEO), Aiufi Kelekolio (LOANS ADMINISTRATION), Tunumafono Sinapi Sapa (LOANS MANAGEMENT)

## REPORT BY THE CHIEF EXECUTIVE OFFICER

I present herewith this report with respect to the DBS operation and performance for the year ended 30 June 2017.



The tree represents growth and we have used this depiction to show the linkages between the DBS mandate, its corporate plan and Samoa's Strategy for the Development of Samoa (SDS). The priority areas supported by DBS represent the tree trunk or the foundation. The branches represent the economic and social inclusive sectors DBS supports with its financing and development impact. The fruits represent the SDGs that are directly or indirectly supported through the DBS mandate and its development financing initiatives so that no Samoan is left behind.

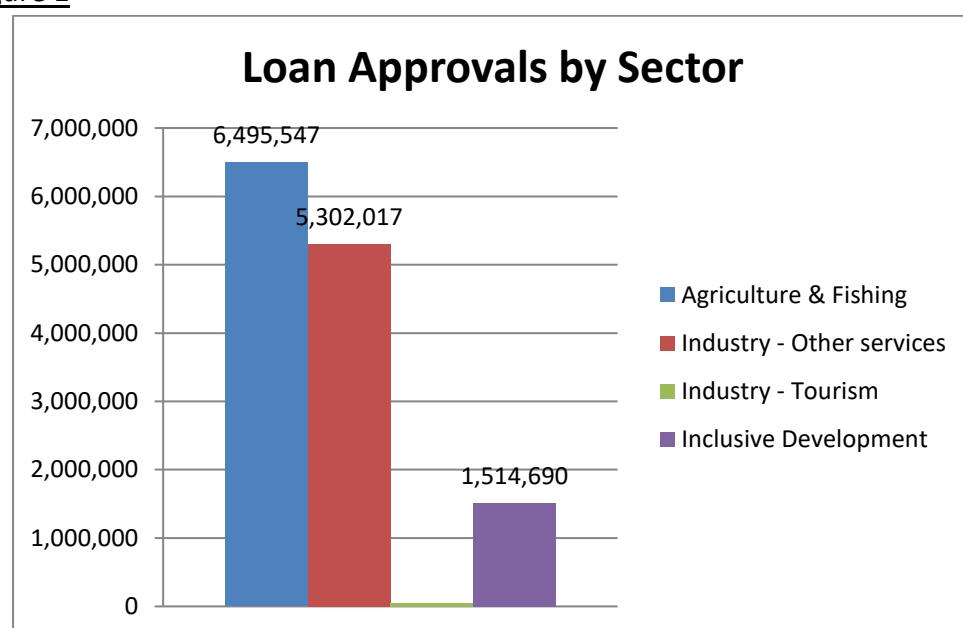
## 1. OVERVIEW OF LENDING OPERATIONS

### I. Loan Approvals

Total loan approved for the year was recorded at \$13.4million compared to \$14.5million in FY16. The number of loan applications that were approved was 1466 compared to 406 in FY16 representing 261% increase. Most of the loan approvals were for small to medium applications. The allocation of approval is 730 valued at \$8.0million to Upolu and 736 valued at \$5.4million to Savaii.

The sector representation is as follows.

Figure 1



Of the total number approved, 460 or \$5.4million represents applications that were supported by SBEC under their guarantee scheme. According to SBEC, 90% of their clients have been assisted by DBS for financing and 10% to commercial banks. Funding for approved loans was sourced from the remaining CBS CLF and loan collections.



## II. Loan Portfolio

**Table 1**

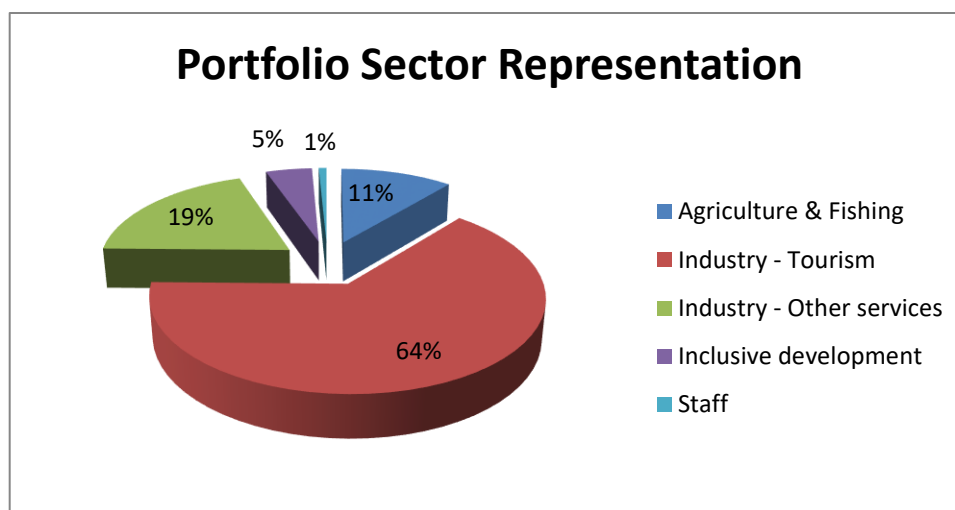
	<b>FY17</b>	<b>FY16</b>	<b>FY15</b>	<b>FY14</b>	<b>FY13</b>
	\$000	\$000	\$000	\$000	\$000
Total portfolio	155,656	160,507	156,505	141,002	105,018
▪ Developments	154,473	156,249	151,297	133,973	96,258
▪ Non developments	1,183	4,258	5,208	7,029	8,758
Number of accounts	2545	1801	2211	2817	3363
Growth - developments	(3%)	3%	10%	34%	18%

The portfolio recorded at year end was \$156million in which 99% represents projects for economic and social inclusive development. The decrease is due to settlement and sale of assets of some investment accounts. The increase in number attributes mainly to loan approvals for the SACEP program, SBEC guaranteed and inclusive development projects.

**Table 2**

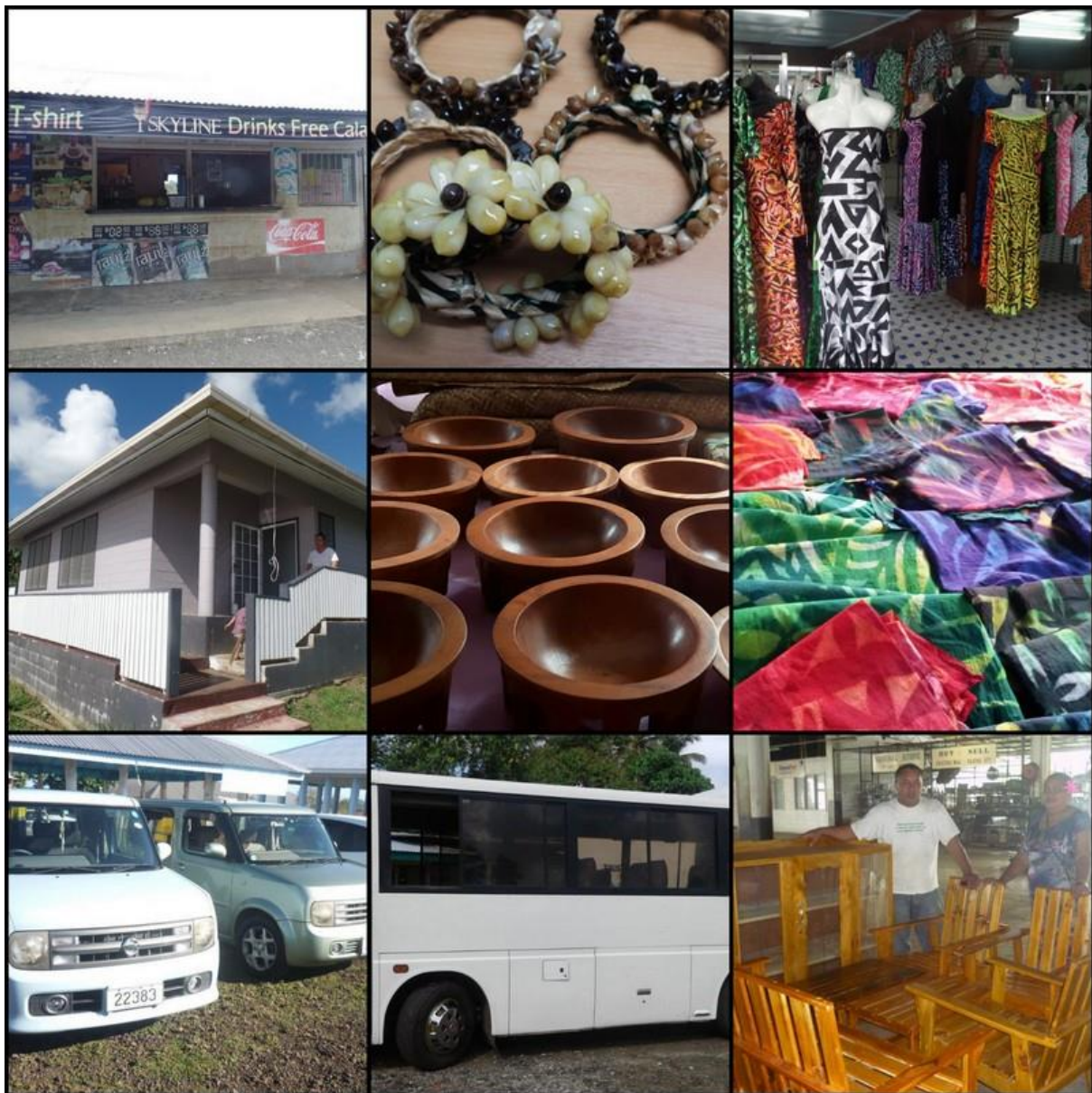
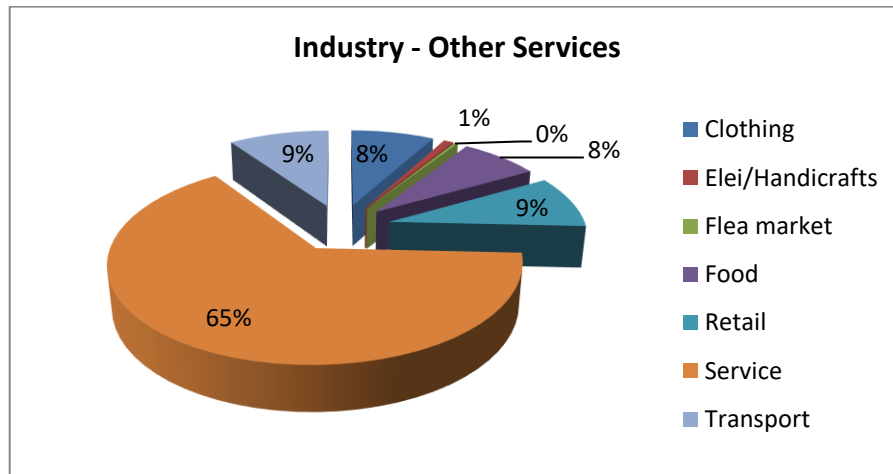
Facility	Interest	Percentage	Value (\$000)
CT Evan	3%	20%	31,630
SIDS/CYG	5%	16%	25,315
Stimulus Package	8%	32%	49,937
		68%	124,677

**Figure 2**



The allocation for Industry other services is shown in the following graph.

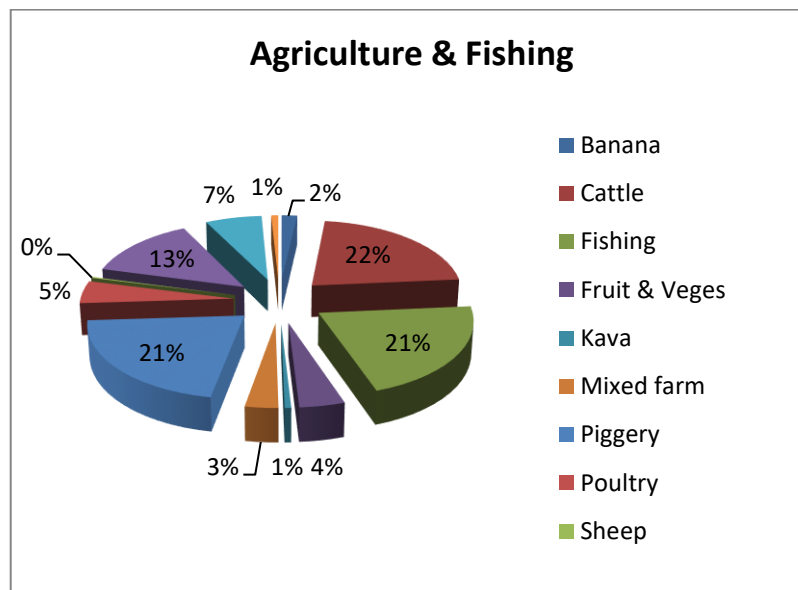
**Figure 3**





The allocation for agriculture and fishing is shown in the following graph.

**Figure 4**



In FY17, this sector recorded the highest approval at 48% or \$6.5million. This increase was due to lending under the SACEP program of \$1.3million and normal of \$5.2million. The SACEP program was completed in April 2017. Since the facilitation in January 2014 of the loan component, DBS has approved 456 applications valued at \$2.7million to farmers to develop cattle, piggery, poultry, sheep, honey, fruits and vegetables.



### III. Financing for Developments

DBS has been able to provide financing for its 1486 applications approved through cash sourced from the remaining Central Bank of Samoa CLF, loan collection and sale of assets. Loan collection is inadequate to cover the development financing need of stakeholders. Therefore DBS will resort to borrow to fill in the financing gap. The nature and level of risk associated with projects DBS lends to do not match the cost of borrowing and facilitation. The risk of default loans is high and will continue to impact the financial sustainability of DBS and its efforts to meet the expectations of stakeholders.

## 2. FINANCIAL PERFORMANCE

At 30 June 2017, a surplus before tax of \$98K was achieved compared to loss of \$428K and \$905K to budget and FY16 respectively.

Table 3

	<b>2017 Actual \$000</b>	<b>2017 Budget \$000</b>	<b>2016 Actual \$000</b>
Revenue	10,867	10,642	9,642
Expenditure	(9,599)	(9,582)	(9,167)
EBDFxT	1,268	1,060	475
Depreciation	(1,485)	(1,488)	(1,473)
Gain on foreign translation	315	0	93
EBT	98	(428)	(905)

#### Major movements in Revenue:

- Interest income represents 83% of total revenue. In comparison to FY16, an increase of 9% is noted. The increase is due to realisation of interest suspended and progressive commencement of interest charged on loan accounts on grace period.
- Loan fees increased by 15% compared to FY16. The increase is consistent with increase in number of loans approved 1486 compared to 406 in FY16.
- Other income increase is attributed to rental income and interest on short term deposits.

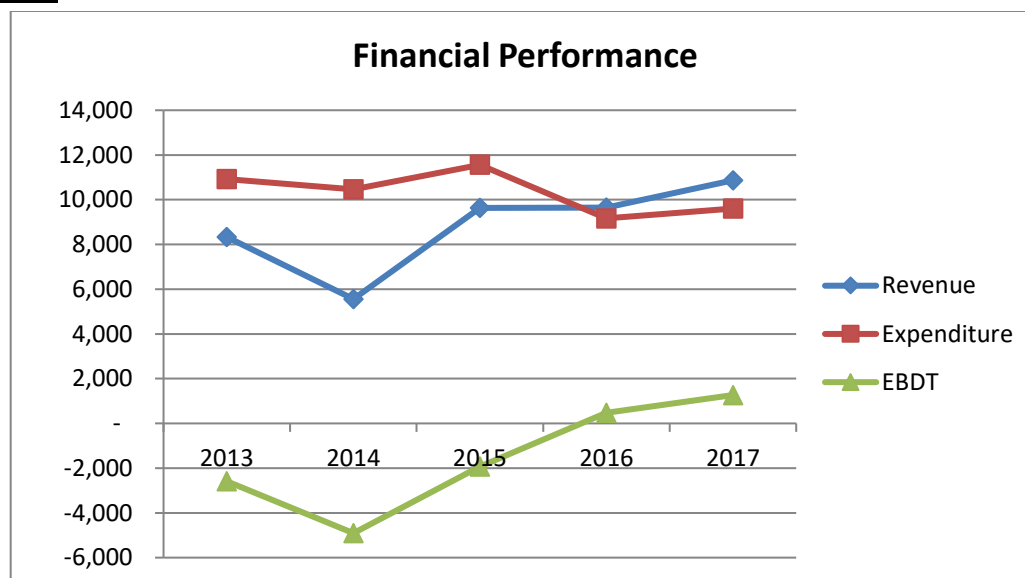
#### Major movements in Expenditure:

- Increase in board expenses is due to increase in director's fees approved by Cabinet.
- Increase in provision for doubtful loans is based on individual assessment of accounts that have defaulted and progressing to NPP status. Maintaining an adequate provision will provide for potential losses in the event debt recovery is highly unlikely.

### Summary:

- The improved financial performance is attributed to continuous efforts and strategizing by the Board and staff in managing the NPP loan accounts and arrears. DBS will continue to monitor and manage the loan portfolio to improve quality and performance in supporting income generation and cash flow.

Figure 5:



The risk appetite of the DBS differs significantly with that of commercial banks as the credit financing is made available to high risk developments with low returns. 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. Ideally the lending terms for development banking should be higher to cover the risk and cost. However, DBS has allowed for terms and conditions that are affordable and accommodative than those offered by commercial banks. 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 repayments. Further DBS source of funding is through term borrowings to support loan collection. The challenge is matching the borrowing term to the lending term to provide balance in cash flow to ensure sustainability.

### **3. OTHER OPERATIONS AND INITIATIVES**

#### **I. Property Management**

- The occupancy rate has increased to 96% compared to 80% in FY16. This has improved income from rental of the main building. DBS will continue to enhance its facilities and service delivery to retain tenants confidence and to prevent any major disruption to operation.

#### **II. Human Resources**

- Capacity building remains a priority to enhance our people's skill and knowledge of the work they are expected to do.



- Management and staff have been attending external and overseas trainings for exposure to different learning environments and experience sharing with other participants.

### **III. Savaii Office**

- The new office location has proved convenient for our clients and provides ample space for client meeting and comfort environment for the staff.

### **IV. Sustainable Partnerships**

- Partnerships are crucial to DBS as a development institution. These memberships enable networking, partnership and training opportunities that are invaluable to enhance the DBS services and operations. Despite the restriction on resources, the DBS has been able to make use of these opportunities to enhance its development mandate. The DBS is committed to promote partnerships that are sustainable for developments.

## **4. FUTURE OUTLOOK**

Liquidity remains a major challenge for DBS because of the nature of its operation and its own obligations. Review of strategies and policies is ongoing to ensure improvement in our key operation of lending and that DBS will remain financially sustainable to meet the development needs of stakeholders.

## **5. THANK YOU**

FY17 has been another challenging 12 months. However the positive outcome in our financial performance would not have been accomplished without the continuous support and contribution of the DBS team. I extend my sincere thank you and gratitude to the Chairman and the Directors for your valuable counsel and commitment.

To our Development Partners, I look forward to more collaborative opportunities to serve the development needs of our stakeholders and people.

To our management and staff, your commitment and hard work are commendable. We all have been called for a purpose and keep up the great work you are doing to enhance the development impact for Samoa and our people.

Ma le faaaloalo tele,



Susana Laulu  
**CHIEF EXECUTIVE OFFICER**

**DEVELOPMENT BANK OF SAMOA**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2017**

DEVELOPMENT BANK OF SAMOA  
Financial Statements  
For the year ended 30 June 2017

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DEVELOPMENT BANK OF SAMOA  
Management's Report  
For the year ended 30 June 2017

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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 (SU'A 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**

**Dated: 27<sup>th</sup> October 2017**

DEVELOPMENT BANK OF SAMOA  
Directors' Report  
For the year ended 30 June 2017

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The Directors present their report together with the financial statements of the Development Bank of Samoa ("the Bank") for the year ended 30 June 2017 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:

LaveaTupa'imatuna Iulai Lavea	-	Chairperson and Chief Executive Officer (MOF)
Tugaga Tevesi	-	Member
Aiolupotea Sauimalae M. Chu Ling	-	Member
Peseta Peter Tone	-	Member
Seuamuli Saron Ponifasio	-	Member
Vui Sebastian Mariner	-	Member
Leota Matamua Niko Ngau Chun	-	Member

**Principal Activity**

The principal activity of the Development Bank of Samoa is to provide credit financing to enable sustainable economic and social inclusive development. The development financing and impact have been directed to agriculture and fishing, commercial including tourism, services, small businesses and inclusive development. 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 2017.
- (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 2017.

**Operating Results**

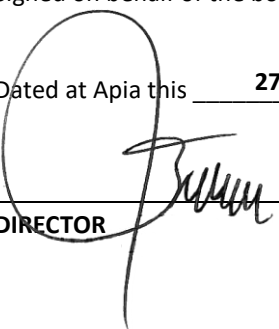
The net profit for the year, after income tax is \$71,318 (2016: net loss of \$822,735).

**Other information**

The Bank serves as the development arm of Government to enable the development impact through credit financing for economic growth and social inclusive development. The development projects the Bank lends to are high risk low return and access to finance from other financial institutions is minimal or none. The financial impact of concessional facilities implemented has also significantly placed a challenge in maintaining sustainability and adequacy of cash flow.

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

Dated at Apia this 27th October 2017

  
\_\_\_\_\_  
DIRECTOR

  
\_\_\_\_\_  
DIRECTOR



# Controller and Auditor General's Report

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P.O Box 13  
APIA, SAMOA

Please address all correspondences  
to the Controller and Auditor General



AUDIT OFFICE

## REPORT OF THE AUDIT OFFICE

### TO THE GOVERNING BODY IN CHARGE OF GOVERNANCE – DEVELOPMENT BANK OF SAMOA

#### Audit Opinion

We have audited the accompanying Financial Statements of the Development Bank of Samoa which comprise the Statement of Financial Position as at 30 June 2017, 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 the audit. The Engagement Partner on the audit resulting in this Independent Auditor's Report is Tagaloa Fa'afouina Su'a.

In our opinion, the financial statements give a true and fair view of the financial position of the Development Bank of Samoa as at 30 June 2017, and of its financial performance, changes in equity and cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRSs).

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of Financial Statements* section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of financial statements in Samoa, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

#### Responsibilities of Those Charged with Governance for the Financial Statements

Directors and Management are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as directors and management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern.

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

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

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


As part of an audit in accordance with these International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the directors and management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors and Management regarding, among other matters, the significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our audit was completed on the 31<sup>st</sup> October 2017 and our opinion is expressed as at that date.



Apia, Samoa  
31 October 2017

Fa'amatuainu Dennis Margraff  
**ACTING CONTROLLER AND AUDITOR GENERAL**

DEVELOPMENT BANK OF SAMOA  
Statement of Financial Performance  
For the year ended 30 June 2017

	Notes	2017 \$	2016 \$
<b>Income</b>			
Income from loans:			
Interest		9,028,320	8,258,905
Loans processing fees		577,266	500,632
Other income	5	<u>1,261,821</u>	<u>883,131</u>
<b>Total income</b>		<b><u>10,867,407</u></b>	<b><u>9,642,668</u></b>
 <b>Expenses</b>			
Administration expenses	6	1,743,636	1,744,984
Audit fees		50,000	40,500
Directors fees and costs	9(iv)	129,336	111,144
Interest on borrowings		3,692,175	3,682,639
Personnel costs	8	2,770,622	2,721,387
Provision for doubtful loans	13,16	<u>1,213,500</u>	<u>866,587</u>
<b>Total expenses</b>		<b><u>9,599,269</u></b>	<b><u>9,167,241</u></b>
 <b>Earnings before depreciation and tax</b>		<b>1,268,138</b>	<b>475,427</b>
Depreciation	12	(1,485,340)	(1,473,505)
<b>Earnings after depreciation</b>		<b>(217,202)</b>	<b>(998,078)</b>
 <b>Gain/ (Loss) on Foreign Exchange</b>		<b>314,898</b>	<b>92,653</b>
 <b>Net Profit (Loss) before tax</b>		<b>97,696</b>	<b>(905,425)</b>
Income tax (expense) benefit	10 (i)	<u>(26,378)</u>	<u>82,690</u>
<b>Net (loss) after income tax</b>		<b><u>71,318</u></b>	<b><u>(822,735)</u></b>

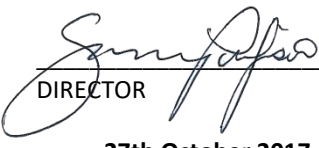
The accompanying notes form an integral part of the above financial statement.

DEVELOPMENT BANK OF SAMOA  
Statement of Financial Position  
For the year ended 30 June 2017

	Notes	2017 \$	2016 \$
<b>CAPITAL AND RESERVES</b>			
Authorised and paid up capital	22	50,000,000	50,000,000
Government of Samoa reserve	23	16,660,389	14,929,979
Retained losses		(13,078,325)	(13,149,643)
<b>TOTAL CAPITAL AND RESERVES</b>		<b>53,582,064</b>	<b>51,780,336</b>
<b>ASSETS</b>			
Cash and cash equivalents	14	3,327,052	2,820,868
Term deposits	15	3,070,957	69,653
Other receivables and prepayments	16	388,822	829,714
Due from shareholders	18	102,497	115,828
Income tax credit	10 (v)	80,092	51,020
Equity investments	11	400,000	400,000
Loans to customers	13,24	137,610,300	142,455,812
Land held for resale	17	873,368	928,368
Property and equipment	12	42,498,630	43,690,561
Deferred tax assets	10 (iii)	3,622,654	3,649,032
<b>Total assets</b>		<b>191,974,372</b>	<b>195,010,856</b>
<b>LIABILITIES</b>			
Other creditors and accruals	21	1,437,488	1,121,268
Term borrowings	19,24	127,215,156	130,752,743
Term liability to managed funds	20	9,739,664	11,356,509
<b>Total liabilities</b>		<b>138,392,308</b>	<b>143,230,520</b>
<b>NET ASSETS</b>		<b>53,582,064</b>	<b>51,780,336</b>

Signed on behalf of the Board:

  
 DIRECTOR  
 27th October 2017  
 Dated

  
 DIRECTOR  
 27th October 2017  
 Dated

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 2017

	Notes	Issued and paid up capital	Government of Samoa Reserve	Retained earnings /(losses)	Total
Balance as at 30 June 2015		50,000,000	13,097,866	(12,326,908)	50,770,958
Net loss after tax		-	-	(822,735)	(822,735)
Governments Contrubution to Micro Credit transfer to Equity	20		130,580		130,580
Transfer from long term liability to managed funds to Government of Samoa reserve	23	-	1,701,533	-	1,701,533
<b>Balance as at 30 June 2016</b>		<b>50,000,000</b>	<b>14,929,979</b>	<b>(13,149,643)</b>	<b>51,780,336</b>
Net loss after tax		-	-	71,318	71,318
Governments Contrubution to Guarantee fees Capitalised			113,564		113,564
Transfer from long term liability to managed funds to Government of Samoa reserve	23	-	1,616,846	-	1,616,846
<b>Balance as at 30 June 2017</b>		<b>50,000,000</b>	<b>16,660,389</b>	<b>(13,078,325)</b>	<b>53,582,064</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 2017

	Notes	2017 \$	2016 \$
<b>Cash flows from operating activities</b>			
Interest on loans		6,661,703	7,236,347
Service fees and other income		2,515,279	3,877,246
Interest on term deposits		164,163	1,382
Interest on borrowings		(3,594,449)	(3,804,910)
Cash paid to suppliers and employees		(5,188,826)	(6,526,739)
Withholding tax		(29,072)	(4,063)
Payments (to) Government of Samoa		(184,550)	(191,436)
<b>Net cash inflow/(outflow) from operating activities</b>		<b>344,248</b>	<b>587,827</b>
<b>Cash flows from investing activities</b>			
Loan principal collections		18,876,346	11,485,869
Proceeds from sale of property, plant & equipment		31,700	234,000
Dividend from Tropic Resort		-	64,000
Loan principal disbursements		(12,298,380)	(14,066,296)
Purchase of fixed assets	12	(293,410)	(82,533)
<b>Net cash (outflow) from investing activities</b>		<b>6,316,256</b>	<b>(2,364,960)</b>
<b>Cash flows from financing activities</b>			
Proceeds from long term borrowings		3,500,000	11,500,000
Repayment of long term borrowings		(7,037,580)	(9,630,071)
<b>Net cash inflow from financing activities</b>		<b>(3,537,580)</b>	<b>1,869,929</b>
<b>Net change in cash and cash equivalents</b>		<b>3,122,924</b>	<b>(3,253,317)</b>
Cash and cash equivalents at beginning of year		3,275,085	6,051,043
<b>Cash and cash equivalents at end of year</b>		<b>6,398,009</b>	<b>2,797,726</b>
<b>Represented by;</b>			
Cash and cash equivalents	14	3,327,052	2,729,247
Term deposits	15	3,070,957	68,478
		<b>6,398,009</b>	<b>2,797,725</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 2017

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## 1. General Information

The principal activity of the Development Bank of Samoa is to provide credit financing to enable sustainable economic and social inclusive development. The development financing and impact have been directed to agriculture and fishing, commercial including tourism, services, small businesses and inclusive development.

The Bank was established by the Development Bank Act 1974 repealed by the Development Bank Act 2010. It is governed by a seven member board of directors (the Board) chaired by the Chief Executive Officer of the Ministry of Finance. The Board comprised of representatives from the Private Sector appointed by Cabinet.

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 27<sup>th</sup> October, 2017.

## 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.

#### ***(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 2015 that would be expected to have a material impact on the Bank.

DEVELOPMENT BANK OF SAMOA  
NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 30 June 2017

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

*IFRS 9, 'Financial Instruments'*, The final version of IFRS 9 in July 2014 brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics

A single an integrated standard which built upon forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, IFRS 9 addresses the so-called 'own credit' issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment. The standard is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early application.

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 2018 . 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).

**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:

	Reporting date rate	
	2017	2016
<b>Euro</b>	2.9806	3.0111
<b>USD</b>	2.5602	2.6035

**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'.

DEVELOPMENT BANK OF SAMOA  
NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 30 June 2017

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**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.

**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.

DEVELOPMENT BANK OF SAMOA  
NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 30 June 2017

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*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 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 %
Office machines and safe	20 %
Computer development	20 %
Computers	20 %
Radio telephone equipment	20 %
• Motor vehicles	20 %

The residual value is reassessed annually.



DEVELOPMENT BANK OF SAMOA  
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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.

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.

DEVELOPMENT BANK OF SAMOA  
NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 30 June 2017

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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.

**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 Regulator), for supervisory purposes. The required information is filed with the Authority on a quarterly basis.

DEVELOPMENT BANK OF SAMOA  
NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 30 June 2017

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 2017 and 30 June 2016. During those years, the Bank has complied with all of the externally imposed capital requirements.

	2017	2016
	\$'000	\$'000
Tier 1 Capital	52,566	50,797
Tier 2 Capital	12,196	13,841
Risk Weighted Assets	192,969	198,719
Calculated Ratios:		
Tier 1 capital	27%	26%
Tier 2 capital	6%	7%

#### 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 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.

DEVELOPMENT BANK OF SAMOA  
NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 30 June 2017

*(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:

	2017	2016
	\$	\$
Interest on term deposit	164,163	1,382
Bad debts recover	17,992	28,369
Interest on equity investment	32,000	32,000
Rent income	838,198	646,003
Other income	209,468	175,377
	<b>1,261,821</b>	<b>883,131</b>

Rent income earned from tenants on the DBS building for the year was \$838,198tala (2016: \$646,003tala). Not included is rental and electricity income of \$451,170 tala (2016:\$447,973) and \$382,885tala (2016: \$473,522) 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 \$1,672,253tala (2016:\$1,564,498).

**6. Administration expenses**

Details of administration expenses are specified as follows:

	2017	2016
	\$	\$
Advertising and promotion	64,707	42,994
Computer and internet cost	106,793	99,541
Guarantee fees to Government	273,404	298,115
Insurance	204,926	209,948
Interest on savings	83	97
Staff development	4,795	9,728
Printing and stationeries	92,395	72,351
Rent	13,350	-
Repairs & maintenance	238,536	182,809
Travel local	107,930	79,569
Travel overseas	80,100	80,415
Vehicle repairs & maintenance	87,794	80,393
Vehicle running cost	35,073	35,930
Other administration expenses	433,750	541,140
Loss on disposal	-	11,953
<b>Total administration expenses</b>	<b>1,743,636</b>	<b>1,744,984</b>

Rent paid for the year was \$451,470tala (2016: \$444,973) and electricity expense of \$382,885tala (2016: \$473,522) 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 \$834,055tala (2016:\$918,495).

DEVELOPMENT BANK OF SAMOA  
NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 30 June 2017

**7. Operating lease commitments**

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

	2017	2016
	\$	\$
Less than 1 year	13,350	0
	<u>13,350</u>	<u>0</u>

DBS leases from SLC and was commenced in May 2016.

**8. Personnel costs**

Details of personnel costs are specified as follows:

	2017	2016
	\$	\$
Gross salaries and wages	2,518,872	2,459,445
Long service leave entitlements	51,956	71,445
Accident Compensation Levy	24,974	27,214
National Provident Fund	174,820	163,283
<b>Total personnel costs</b>	<b><u>2,770,622</u></b>	<b><u>2,721,387</u></b>

The average number of persons employed including part-timers during the year is 87(2016: 82).

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	-	Member
Aiolupotea Sauimalae M Chu Ling	-	Member
Peseta Peter Tone	-	Member
Seuamuli Saron Ponifasio	-	Member
Vui Sebastian Mariner	-	Member
Leota Matamua Niko Ngau Chung	-	Member

The new directors fees approved per FK (15)31 is \$22,000 for the Chairperson and \$18,000 for directors. The Chairman is not entitled to this remuneration. The Board held fifteen meetings during the year inclusive of three special meetings.

**ii. Audit Committee**

The Audit Committee during the financial period comprise of:

Aiolupotea Sauimalae M Chu Ling	-	Chairperson
Peseta Peter Tone	-	Member
Leota M Niko Ngau Chun	-	Member

The Committee held six meetings during the year.

DEVELOPMENT BANK OF SAMOA  
NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 30 June 2017

iii. *Risk Management Committee*

The Risk Management Committee during the financial period comprise of:

Seuamuli Sarona Ponifasio	-	Chairperson
Tugaga Tevesi	-	Member
Vui Sebastian Mariner	-	Member

The Committee held four meetings during the year.

iv. *Board costs*

Board of Directors expenses are as follows:

	2017	2016
	\$	\$
Directors fees and allowances	108,000	80,575
Audit committee allowances	-	-
Membership fees	8,000	4,000
Meeting expenses	8,963	4,713
Other cost	4,373	21,856
<b>Total Board of Directors expenses</b>	<b>129,336</b>	<b>111,144</b>

v. *Key management personnel costs*

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

	2017	2016
	\$	\$
Salaries and short-term employment benefits	838,673	120,819
<i>Employers contribution to:</i>		
National provident fund	58,707	7,249
Accident compensation commission	8,387	1,208
<b>Total key management personnel costs</b>	<b>905,767</b>	<b>129,276</b>

10. **Income Tax**

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

	2017	2016
	\$	\$
Current income tax (expense)/benefit	26,378	327,155
Current income tax benefit not recognised	-	(327,155)
Deferred tax expense/(income) on origination	26,378	
and reversal of temporary differences	-	82,690
Recognition of deferred tax balances	(26,378)	-
Income tax (expense)/benefit recognised	-	82,690

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

	2017	2016
	\$	\$
Net (Loss)/Profit	97,696	(905,425)
Prima facie income tax benefit at 27%	(26,378)	(244,465)
Income tax benefit not recognised	-	327,155
Income tax (expense)/benefit not recognised	-	82,690



DEVELOPMENT BANK OF SAMOA  
NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 30 June 2017

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

	Opening balance \$	Charged to income/additions \$	Closing balance \$
<i>Temporary differences</i>			
Property, plant and equipment	(182,191)	-	(182,191)
Provision for doubtful debts	4,331,462	-	4,331,462
Provision for annual leave	8,962	-	8,962
Unrealised Gain on currency translation	17930	-	17930
Current year deferred tax asset on loss	(527,131)		(527,131)
Income Tax on Profit		(26,378)	(26,378)
Net deferred tax assets	<u>3,649,032</u>	<u>(26,378)</u>	<u>3,622,654</u>

(iv) Deferred tax assets on net losses not recognised

The movement in unrecognised deferred tax assets is as follows:

	2017 \$	2016 \$
Opening balance of unrecognised tax losses	5,547,242	5,220,087
Unrecognised Tax on Loss	<u>274,427</u>	<u>327,155</u>
Closing balance of unrecognised tax losses	<u>5,821,669</u>	<u>5,547,242</u>

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

	2017 \$	2016 \$
Balance brought forward	51,051	46,988
Withholding tax for the year	<u>29,041</u>	<u>4,063</u>
Balance carried forward	<u>80,092</u>	<u>51,051</u>

## 11. Equity Investments

Details of equity investments are specified as follows:

	2017 \$	2016 \$
Tropic Resort Ltd (15% preference 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 and the investment remains valid. Dividend received at 8% of investment continues.

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**12. Property and Equipment**

Details of property and equipment are specified as follows:

	Land & buildings	Office Fixtures & Fittings	Office Furniture & equipment	Motor vehicles	Total
<i>Gross carrying amount</i>					
Balance as at 1 July 2015	51,073,230	262,509	5,535,013	773,004	57,643,756
Additions	-	-	82,533	-	82,533
Internal transfers to/(from)	-	-	-	-	-
Disposals	-	-	-	-	-
Balance as at 30 June 2016	51,073,230	262,509	5,617,546	773,004	57,726,289
Additions	-	-	62,410	231,000	293,410
Internal transfers to/(from)	-	-	-	-	-
Disposals	-	-	-	(151,155)	(151,155)
Balance as at 30 June 2017	51,073,230	262,509	5,679,956	852,849	57,868,544
<i>Accumulated depreciation</i>					
Opening balance 1 July 2015	8,101,580	44,390	3,739,052	677,201	12,562,223
Disposals	-	-	-	-	-
Internal transfers to/(from)	-	(1,758)	54,960	(53,202)	-
Depreciation charge for the year	1,013,119	52,502	333,709	74,175	1,473,505
Balance as at 30 June 2016	9,114,699	95,134	4,127,721	698,174	14,035,728
Disposals	-	-	-	(151,155)	-151,155
Internal transfers	-	-	-	-	-
Depreciation charge for the year	1,013,368	52,502	333,787	85,684	1,485,341
Balance as at 30 June 2017	10,128,067	147,636	4,461,508	632,703	15,369,914
Net carrying amount 30 June 2016	41,958,531	167,375	1,489,825	74,830	43,690,561
Net carrying amount 30 June 2017	40,945,163	114,873	1,218,448	220,146	42,498,630

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**13. Loans to Customers**

**Gross loans analysis**

	2017 \$	2016 \$
Portfolio under Stimulus Packages	49,847,231	54,811,842
Other Loans	105,808,619	105,695,335
<b>Gross loans</b>	<b>155,655,850</b>	<b>160,507,177</b>
 Gross loans	 155,655,850	 160,507,177
Less: Specific provision	(8,177,870)	(8,177,870)
: General provision	(8,449,746)	(7,516,772)
: Interest & fees suspended	(1,417,934)	(2,356,723)
<b>Total Loans</b>	<b>137,610,300</b>	<b>142,455,812</b>
 Non current portion of loans	 117,375,040	 124,466,979
Current portion of loans	20,235,260	17,988,833
	<b>137,610,300</b>	<b>142,455,812</b>

*Refer Notes 27 for Portfolio on Stimulus Packages*

**Provision for doubtful loans analysis**

	2017 \$	2016 \$
<b>Specific provision</b>		
Balance at the beginning of the year	8,177,869	8,295,369
Transfer from General Provision		155,060
Transfer from Interest Suspended	-	-
Write off as bad debts against provision for doubtful debts		(272,560)
	<u>8,177,869</u>	<u>8,177,869</u>
<b>General provision</b>		
Balance at the beginning of the year	7,516,773	7,071,769
Charge to income statement	1,213,500	866,587
Write off as bad debts against provision	(280,527)	(266,523)
Transfer to Specific Provision	-	(155,060)
Transfer to/(from) interest suspended		-
	<u>8,449,746</u>	<u>7,516,773</u>
<b>Interest Suspended</b>		
Opening balance	2,356,723	2,762,503
Additional Interest suspended	248,900	129,690
Recovered	(1,187,689)	(535,470)
Transfer to provision		-
	<u>1,417,934</u>	<u>2,356,723</u>
<b>Total provision for doubtful debts</b>	<u>18,045,549</u>	<u>18,051,365</u>

**Impaired and past due assets analysis**

	2017 \$	2016 \$
<i>Non accrual loans with specific provision for impairment</i>		
Gross	19,218,250	30,125,868
Less suspended interest	(1,417,934)	(2,210,053)
	<u>17,800,316</u>	<u>27,915,815</u>
less specific provision	-	-
	<u>17,800,316</u>	<u>27,915,815</u>

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<i>Past due loans</i>	2017	2016
	\$	\$
Gross	10,154,089	15,894,534
less suspended interest	<u>(1,417,934)</u>	<u>(2,356,723)</u>
	<u>8,736,155</u>	<u>13,537,811</u>

#### 14. Cash and Cash Equivalents

Details of cash and cash at bank are as follows:

	2017	2016
	\$	\$
Cash at banks	3,326,422	2,815,838
Petty cash	630	5,030
<b>Total cash at bank</b>	<b><u>3,327,052</u></b>	<b><u>2,820,868</u></b>

#### 15. Term Deposits

Details of term deposit are specified as follows:

	2017	2016
	\$	\$
Term deposit	<u>3,070,957</u>	<u>69,653</u>

MATURED DATE	RATE	TERM	AMOUNT (\$)
17/09/2017	2.2%	90 DAYS	70,957
22/08/2017	5%	90 DAYS	1,000,000
22/08/2017	5%	90 DAYS	1,000,000
12/09/2017	4.75%	90 DAYS	1,000,000
			3,070,957

#### 16. Other Receivables and Prepayments

Details of other receivables and prepayments are specified as follows:

	2017	2016
	\$	\$
Dividend- Tropic Resort	64,000	32,000
Prepayments	169,015	150,716
Tenants rent and power	121,145	116,018
Other debtors and accruals	48,105	48,105
Ministry of Finance	-	482,875
Provision for doubtful debts	<u>(13,438)</u>	<u>-</u>
	<b><u>388,827</u></b>	<b><u>829,714</u></b>

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.

	2017	2016
	\$	\$
Land	<u>873,368</u>	<u>928,368</u>

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**18. Due from Shareholder**

Details of due from shareholder are specified as follows:

	2017	2016
	\$	\$
Opening Balance	115,828	124,096
Received from MOF	(70,000)	(70,000)
Exchange difference arising under the European-Economic Community Loan (Note 19)	56,669	-
	-	61,732
<b>Total due from Government at year end</b>	<b>102,497</b>	<b>115,828</b>

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

**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 2017 with these covenants. Interests on borrowings for the year amounted to \$3,692,175 2016:\$3,682,639).

	Current	Term	2017 Total	2016 Total	Interest rate per annum
	\$	\$	\$	\$	
IDA 15820	432,704	2,215,186	2,647,890	2,930,594	6%
ADB 6th Credit Line	566,113	-	566,113	1,099,495	6%
EEC	113,896	88,775	202,671	305,778	1%
EIB GL VI	1,053,936	8,692,432	9,746,368	10,798,215	5.5%
EIB GL VII	452,487	6,361,314	6,813,801	7,364,985	3.9%
NPF 2	924,000	16,677,004	17,601,004	9,398,444	5.5%
NPF 3	-	-	-	6,655,189	
NPF3 FT	-	-	-	2,401,118	
CBS 2	363,507	1,449,277	1,812,784	2,176,291	3%
CBS 3	580,138	2,343,155	2,923,293	3,520,953	3%
CBS 4 TC Evan	2,492,307	31,876,723	34,369,030	34,369,030	1%
CBS 5 SIDS/CYG	1,046,486	25,522,617	26,569,103	28,369,128	2%
CBS 6	554,814	8,752,446	9,307,260	9,863,521	3%
CBS 7	531,169	14,124,670	14,655,839	11,500,000	3%
<b>TOTAL</b>	<b>9,111,557</b>	<b>118,103,599</b>	<b>127,215,156</b>	<b>130,752,743</b>	

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**Terms and conditions and principal repayment terms**

<b>IDA 15820:</b>	Repayment schedule is flexible to allow the Bank to manage its cash flow position.
<b>ADB 6<sup>th</sup>:</b>	Repayment amount is \$146,875 per quarter with maturity date of June 2018
<b>EEC:</b>	Repayment amount is \$65,274 tala bi-annual with maturity date of May 2019
<b>EIB GL VI:</b>	Repayment amount approximated at \$2.6million tala per annum with maturity in 2021
<b>EIB GL VII:</b>	Repayment amount approximated at \$1.3million per annum with maturity in 2026.
<b>NPF:</b>	Monthly repayment of \$154,000. Term is 22 years.
<b>CBS 2:</b>	Repayment of \$35,318 per month. Term is 5 + 5 years
<b>CBS 3:</b>	Repayment per month of \$57,936. Term is 5 +5 years
<b>CBS T/C EVAN:</b>	Monthly repayments of \$235,747. Term of 15 years
<b>CBS SIDS/CYG:</b>	Monthly Repayment of \$197,000 per month. Term of 15 years
<b>CBS 6:</b>	Monthly repayment of \$71,310. Term of 15 years
<b>CBS 7:</b>	Monthly repayment of \$106,695. Term of 15 years

**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 2017, 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 \$28% (2016: 27%)-complied
- Non-Performing Loans to total loans is 12% (2015: 10%)-not complied
- Provision for loan losses to non-performing loans is 94% (2016: 114%)-complied
- Liquidity ratio is 2:1 (2016 2.1:1)-complied

**20. Long Term Liability to Managed Funds**

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

	2017 \$	2016 \$
Loan with UTOS	9,739,664	11,356,509
Total managed funds	9,739,664	11,356,509
Micro Credit Scheme transferred to Equity	-	-
Opening balance	11,356,509	13,058,042
Transferred to capital and reserves	(1,616,845)	(1,701,533)
<b>Long term liability</b>	<b>9,739,664</b>	<b>11,356,509</b>



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In July 2009, Government approved and took over the commitment to pay for the Bank's loan with ANZ Bank. On 18 June 2010, the Ministry of Finance approved the reclassification of this loan from borrowings to managed funds under term liabilities. 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 2017, \$2,400,000 has been contributed to loan repayments and interest expense totalled \$783,155. This resulted in net contribution by Government of \$1,616,845 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:

	2017	2016
	\$	\$
Provision for long service leave and annual leave	201,114	202,222
Portfolio credits	12,586	81,857
Accrued interest on borrowings	373,320	275,594
Savings on micro credit scheme	2,161	5,232
Guarantee fees	273,408	298,114
Other creditors and accruals	536,907	216,105

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

## 22. Authorised and Paid-up Capital

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

	2017	2016
	\$	\$
Authorised capital 50,000,000 ordinary shares @ \$1 par value each	50,000,000	50,000,000
Issued and paid up capital	50,000,000	50,000,000
<b>Issued and paid up capital end of financial year</b>	<b>50,000,000</b>	<b>50,000,000</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:

	2017	2016
	\$	\$
Opening balance	14,929,979	13,097,866
Micro Credit transfer to Equity	-	-
Add: Transfer from Managed Funds (Note 20)	1,616,845	1,701,533
Add: Guarantee fee capitalised	113,564	130,580
<b>Closing balance</b>	<b>16,660,388</b>	<b>14,929,979</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 3 months	Over 3 months to a year	Over 1 year to 5 years	Over 5 years	Total
<b>2017</b>						
Cash	3,327,052					3,327,052
Term deposits		3,070,957				3,070,957
Loans	1,489,345	4,550,371	12,054,820	76,140,860	62,907,115	157,142,511
Borrowings		(4,477,618)	(9,634,233)	(48,171,165)	(64,932,140)	(127,215,156)
Total	4,816,397	3,143,710	2,420,587	27,969,695	(2,025,025)	36,325,364
<b>2016</b>						
Cash	2,820,868	-	-	-	-	2,820,868
Term deposits	-	69,653	-	-	-	69,653
Loans	2,996,992	6,407,390	12,054,820	76,140,860	62,907,115	160,507,177
Borrowings	-	(3,091,496)	(6,689,099)	(48,902,975)	(72,069,173)	(130,752,743)
Total	5,817,860	3,385,547	5,365,721	27,237,885	(9,162,058)	32,644,955

## 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 enables formation of the Risk Management Committee which plays an active role of reviewing credit risk.

### 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:

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	2017	2016
	\$	\$
Agriculture	12,820,219	8,213,904
Fishing	3,622,504	3,721,629
Inclusive Development	6,521,665	8,244,501
Industry Others	31,291,484	35,848,735
Industry Tourism	101,400,477	104,478,408
	<u>155,656,349</u>	<u>160,507,177</u>

**Credit facilities funded under CBS CLFs**

Cyclone Evan	31,630,091	37,378,314
SIDS & Commonwealth Youth Games	25,314,490	27,371,174
Normal Lending	15,311,420	15,142,227
Tsunami	2,483,779	2,858,577
	<u>74,739,780</u>	<u>82,750,292</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 2017 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	
	2017	2016
<b>Euro</b>	9,949,039	11,103,993
<b>USD</b>	6,813,801	7,364,985

	Effect on the Income		
	5%	10%	15%
<b>Euro strengthening</b>	(497,451)	(994,904)	(1,022,070)
<b>Euro weakening</b>	497,451	994,904	1,020,070
<b>USD strengthening</b>	(340,690)	(681,380)	(1,492,356)
<b>USD weakening</b>	340,690	681,380	1,492,356

**26. Capital commitments and contingent liabilities**

The board has approved a capital budget of \$250,000 for the year 30 June 2017(2016: \$280,000). As of 30 June 2017, the Bank had no contingent liability or asset (2016: NIL)

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**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 lost interest is \$7.726million. Cabinet has approved for 50% or \$3.863million of this cost to be paid by Government. This amount was fully paid in November 2016. Some accounts eligible under this concessional assistance remain in arrears and the Bank is proceeding with appropriate action to recover its investments.

**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 recorded a profit of \$71,318(2016: loss of \$822,735 tala) as reported in the financial performance due to increase in interest income and rental income from leases and foreign exchange gains.

The Government as the primary shareholder has agreed to support the Development Bank of Samoa and has pledged 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 2017.