DEVELOPMENT BANK OF SAMOA

DBS

your partner in development

FALETUPE O LE ATIINA A'E O SAMOA

Development Bank of Samoa

ANNUAL REPORT 2018

Please address all correspondence to:
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Apia, Samoa

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Government of Samoa

OFFICE OF THE MINISTER OF FINANCE

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

STATEMENT TO PARLIAMENT

4th October 2018

Honourable Leaupepe Toleafoa Faafisi
The Honourable Speaker
Legislative Assembly of Samoa
TUANAIMATO

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 for the year ended 30 June 2018.

The Annual Report 2018 is submitted in accordance with Section 23 of the Public Bodies (performance & Accountability) Act 2001.

Ma le fa'aaloalo tele,

Hon. Sili Epa Tuioti
MINISTER OF FINANCE

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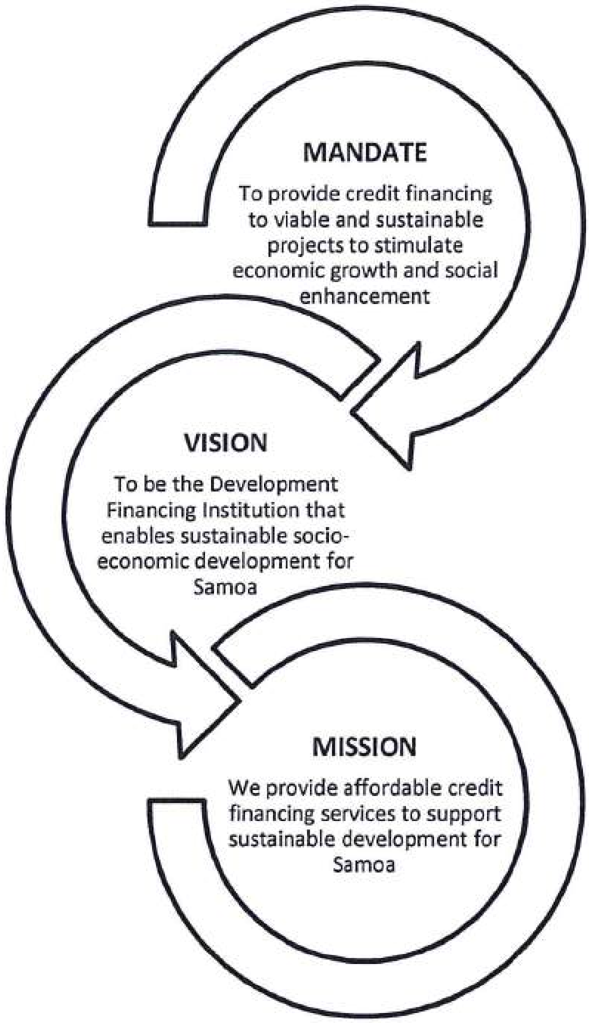
ABOUT DBS



Our development financing include:

I. Agriculture – livestock, crops, fruit and vegetables
II. Fishing – fishing boats, gear and equipment
III. Tourism – hotel development
IV. Services – commerce, food, clothing, retail, transport, printing, furniture, gift shops and others
V. SMEs – food, clothing, printing, retailing, traditional crafting and weaving, agriculture, fishing, transport and others
VI. Social institutions – education and health facilities
VII. Inclusive development – micro finance, community projects, RSE and others

REPORT BY THE CHAIRMAN

I present herewith the annual report of the DBS for the year ended 30 June 2018.

The year 2018 has been a difficult year in resource management to support development needs, operational needs and debt servicing commitments. Despite these setbacks DBS has continued to deliver on its mandate to provide credit financing to support sustainable economic and social development for Samoa and people.

At 30 June 2018, lending operation recorded total approval of 887 applications valued at \$5.4million. Of the total value approved, 33% relates to agriculture and fishing, 33% to other business and services and 34% to inclusive development. Loan collection was recorded at \$18.5million. Loan collection from some large non-performing loan accounts in tourism sector is none to minimal and DBS has taken appropriate action to expedite recovery.

For financial performance, a net loss of \$110K was recorded from operation. Dividend paid to government for the 2017 surplus was \$17K. Loss after tax was recorded at \$2.1million. The unfavourable outcome is due to action taken to manage accumulation of loan balance for some large non-performing accounts. Also included in cost is loss on translation for borrowings held in foreign currencies.

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

Ma le faaaloalo tele,

Lavea Tupaimatuna Iulai Lavea
CHAIRMAN – BOARD OF DIRECTORS

BOARD OF DIRECTORS

The Board of Directors at 30 June 2018:

Members

- Lavea Tupaimatuna Iulai Lavea
  CHAIRMAN
- Tugaga Tevesi
  Director
- Aiolupotea Sauimalae M. Chu Ling
  Director
- Peseta Peter Tone
  Director
- Seuamuli Sarona Ponifasio
  Director
- Vui Sebastian Mariner
  Director
- Leota Matamua N. Ngau Chun
  Director

- The Board held 12 monthly meetings and one special meeting during the year.
- The Audit Committee held 7 meetings during the year.
- The Risk Management Committee held 4 meetings during the year.

REPORT BY THE CHIEF EXECUTIVE OFFICER

The Development Bank of Samoa (DBS) was established in 1974 and mandated to stimulate economic growth and social advancement by providing credit financing to fund viable and sustainable development projects. The DBS development focus has contributed immensely to supporting the SDS key priorities, sector plans initiatives and SDGs.

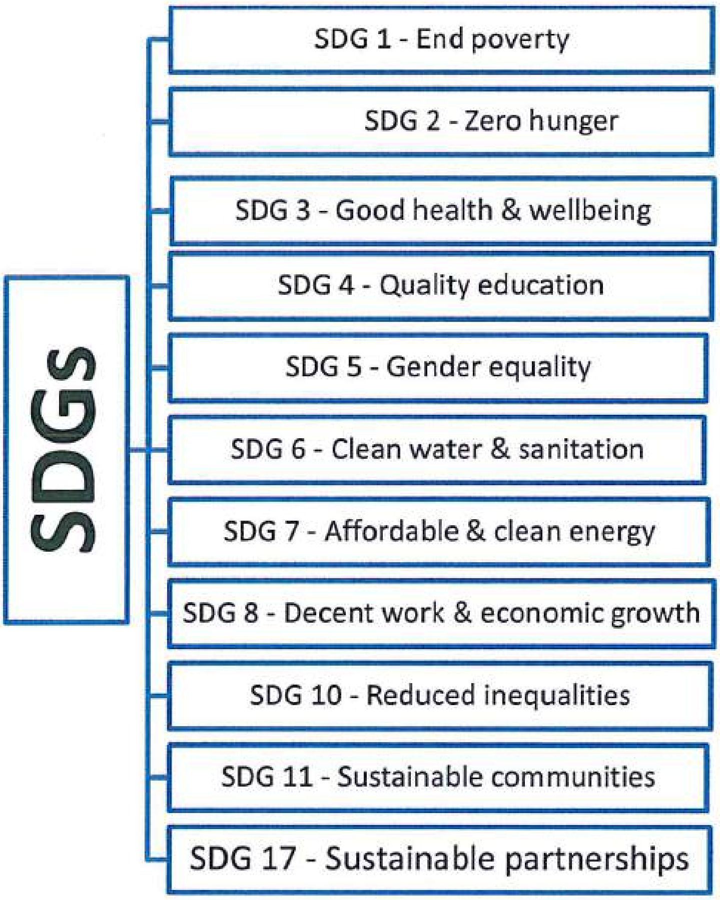
1. Support for the SDS 2017-2020 Priorities:

Priority 1: Economic	**Priority 2: Social**
Key outcomes: 1. Macroeconomic resilience 2. Agriculture & fishing 3. Export development 4. Tourism development 5. Private sector development	Key outcomes: 1. Healthy Samoa & wellbeing 2. Quality education 3. Strengthen social institutions
<u>DBS role</u> to support economic priority: Stimulate economic growth through funding to: ▪ Agriculture – livestock, crops, fruits & vegetables, transport, storage and shelter ▪ Fishing – boats, equipment and gears ▪ Export – agriculture, fishing and other products ▪ Tourism – hotel developments, beach fales ▪ Private sector – commerce, food, retailing, transport, clothing, SMEs, hospitality, cultural goods, and others	<u>DBS role</u> to support social priority: Support social institutions and self-employment to improve wealth and wellbeing that indirectly support health and education opportunities through funding to: ▪ Education – school buildings, halls and other facilities ▪ Health – district and private clinics ▪ Inclusive development – financial inclusion for vulnerable population in women and youth, RSE program

As described, the DBS development lending contributes to achieving development initiatives under the following sector plans:

1. Finance
2. Agriculture
3. Tourism
4. Trade, commerce & manufacturing
5. Community economic empowerment & development

Further the DBS development lending directly and indirectly contributes to government initiatives to achieve the following SDGs.

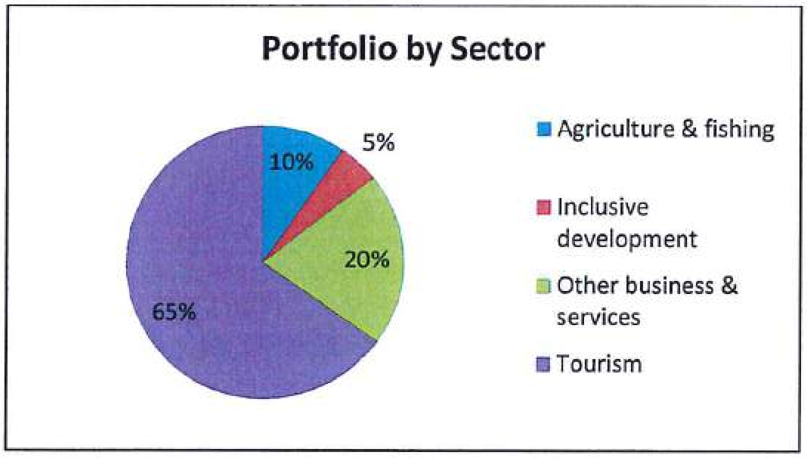


2. Overview of 2018 Lending Operation

I. Lending Operation:

Details	**FY18**	**FY17**	**FY16**	**FY15**	**FY14**
	$000	$000	$000	$000	$000
Total portfolio	151,544	155,656	160,507	156,505	141,002
▪ Developments	150,750	154,473	158,804	153,427	137,073
▪ Non developments	794	1,183	1,703	3,078	3,929
Number of accounts	3031	2545	1801	2211	2817
Approval by value ($)	5,407	13,367	14,471	23,661	42,910
Approval by number (#)	887	1466	406	347	632
Growth by value ($)	(3%)	(3%)	3%	10%	34%
Growth by number (#)	19%	41%	(18%)	(21%)	(16%)

- The 3% growth in portfolio has not been achieved due to a combination of factors. The majority of new loans approved were for small to medium projects. There was also settlement of some medium to large loans. In addition lending was on hold as loan collection was inadequate to cover new loans. The constraint was due to large non-performing loan accounts in tourism that were not making any or minimal repayments.
- Whilst portfolio growth is not achieved, the number of people seeking finance with DBS has grown by 19%.
- Loan approvals decreased by 48% compared to budget and 60% to 2017. The decrease is due to cash flow constraints and also the majority of approvals were for small to medium loans. The allocation is 34% to inclusive development and 33% each to other business and services and to agriculture and fishing.
- After TC Gita in February, the Board approved 2 months grace period on repayment to provide relief measure to clients.



- Agriculture includes livestock, crops, fruit and vegetables;
- Other business and services include food, retailing, transport, commerce, mechanical, services, clothing, flea markets, cultural goods and others;
- Inclusive development includes education, health, micro finance, RSE and others;
- Tourism includes hotels and beach fales.

II. *New development loan initiative for 2018:*

The DBS is a member of the National Financial Inclusion Taskforce. In support of financial inclusion and enabling access to finance for the vulnerable population, the DBS designed and developed the inclusive development credit facility for women and youth which was pilot in Savaii from July 2017. Savaii accounts for

22% of Samoa population.

- Focal group – unemployed women and youth who has no income source and who have not received any form of assistance (grant/credit) from government/private/donors/NGOs.
- Purpose – to enable access to finance for vulnerable population to support wealth and wellbeing through sustainable development.
- Total beneficiaries – 778 comprising of 408 women and 370 youths.
- Villages covered – 74 villages at maximum of 3 groups (4-5) per village.
- Types of projects – agriculture inclusive of crops, fruit, vegetables, livestock, fishing, weaving, tapa, elei, food and sewing.
- Loan value - $2,500 per person with total disbursement of $1.95M.
- Security – guarantee of group members plus insurance policy for members up to 55 years old or savings for those above 55 years.
- Insurance policy - total of 746 beneficiaries at $30 per month for term of 10 years. Total insurance premium paid for FY18 $268,200.
- Financial literacy training is compulsory for all eligible members and was conducted by the Central Bank of Samoa.
- Partners – MWCSD, CBS, SLAC, Alii ma faipule and village representatives.
- In recognition of this development assistance, DBS received the ADFIAP award under the category of financial inclusion during the ADFIAP Annual Meetings held in New Delhi, India in February 2018.

III. *Policy development*

The DBS with the support of the Asian Development Bank (ADB) received technical assistance to develop policies to strengthen governance, credit risk management, risk management, liquidity and capital adequacy. Policy development also covered outsourcing, business continuity and anti-money laundering. These policies have been approved by the Board and will guide the new direction of the DBS to improve on its operation and processes. The Central Bank of Samoa has also been informed of this initiative which will strengthen the DBS governance, risk management and response to significant external challenges that will affect its operation and continuity.

ADB support for policy development will continue with the assistance of the TA to conduct training workshops in first quarter of 2019 for the Board and staff to ensure all are well versed with the content, application and compliance requirements.

3. Overview of Financial Performance:

Income and Expenses	2018 Actual $000	2018 Budget $000	2017 Actual $000
Interest income	6,803	6,133	9,028
Other income	1,628	2,016	1,839
Total income	8,431	8,149	10,867
Interest expense	3,157	3,609	3,692
Provision for doubtful loans	1,000	800	1,213
Personnel	2,646	2,898	2,770
Other expenses	1,739	2,334	1,924
Total expenses	8,542	9,641	9,599
Earnings before depreciation & foreign translation	(111)	(1,492)	1,268
Depreciation	(1,420)	(1,436)	(1,485)
(Loss)/gain on foreign translation	(858)	0	314
Earnings before tax	(2,388)	(2,928)	97

- Total income decreased compared to 2017 due to cessation and suspension of interest on large non-performing loans in tourism sector.
- Total expenses decreased compared to budget and 2017. The increase in expenses related to lending is offset by decrease in other expenses due to cost control measures to manage cash flow received and commitments.
- Loss from operation is improved at $111K compared to budget loss of $1.4M and below performance compared to 2017.
- Overall loss before tax is $2.3M compared to budget loss of $2.9M and surplus of $97K in 2017. Dividend of $17K on 2017 surplus was paid to government in 2018. The balance of $18K will be paid in 2019.
- Another key factor to income reduction is the margin generated from concessional facilities which accounts for 83% of portfolio. As shown in the following table, the margin does not cover cost to adequately produced a return to achieve the 7% ROE required of the DBS.

Lending facility	Portfolio ($000)	Cost	On lend	Margin	ROE
Stimulus package	47,175	9%	8%	(1%)	7%
TC Evan	32,824	1%	3%	2%	7%
SIDS/CYG	28,263	2%	5%	3%	7%
General lending	13,905	3%	8%	5%	7%
Tsunami	2,858	3%	8%	5%	7%
Total	125,025				

4. Human Resources

The DBS head count at 30 June 2018 was 83. During the year the following in-house and external trainings were conducted and attended by the staff both at the main office and Savaii office.

- DBS lending manual – application and compliance
- Credit risk management - loan appraisal, security assessment, arrears management and debt recovery
- Project management
- File management
- Leadership
- Customer service
- SACEP and RSE
- FESA first aid training
- Government policies

5. Significant Challenge

The most significant challenge that has affected DBS operation is maintaining a sustainable level of liquidity. Whilst the tourism industry has seen positive growth, a high level of non-performing loans remains which accounts for 48% of portfolio. The repayments expected are inadequate to cover repayment schedule and to reduce loan balance. Interest has been ceased and suspended to manage accumulation in loan balance when none or minimal money is being paid. These projects are under concessional facilities and remain operational to date. Despite the inadequate collection, the DBS remains obligated to pay the debts that funded these projects.

The NPL accounts hold 48% of portfolio and accounts for only 10% of total collection in 2018. Lost interest for the period was $1.1M. In 2018, DBS has paid $13.8M to debt servicing compared to $18.5M of loan collections. The DBS had to source a new debt to support its cash flow commitments. As a result, new loans were on hold whilst priority was accorded to debt servicing and operation. The DBS plans to commence new loans in the financial year 2019.

The DBS has requested Government, the shareholder for assistance and decision is pending.

6. Future outlook

Despite the challenges encountered, the DBS will continue to maintain a positive outlook and expand outreach to enable access to finance to stimulate economic growth for Samoa and enhance social development for our people. The support of Government as the shareholder to assist will provide confidence and alleviates uncertainty to DBS ability to continue and sustain delivery of its development mandate.

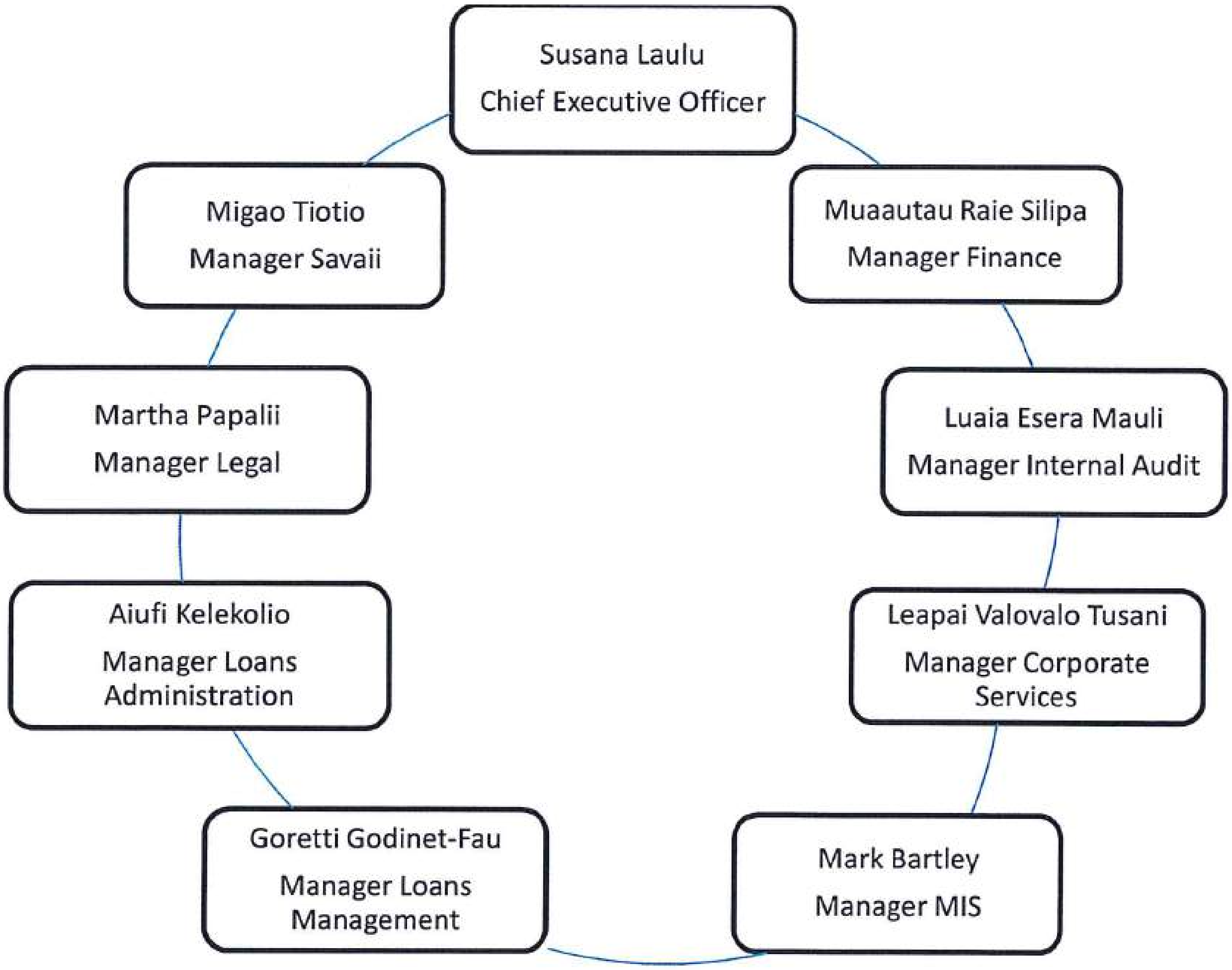
7. Thank you

I wish to acknowledge with gratitude the support and valuable counsel of the Chairman and Directors. I also wish to acknowledge the support of our development partners to delivery of the DBS development role. And finally to our management and staff for your dedication and commitment. The DBS has the potential to thrive and we are tasked to make it happen!

Tuuina atu ma le ava tele,

Susana Laulu
CHIEF EXECUTIVE OFFICER

MANAGEMENT TEAM



DEVELOPMENT BANK OF SAMOA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

DEVELOPMENT BANK OF SAMOA
Management's Report
For the year ended 30 June 2018

DEVELOPMENT BANK OF SAMOA
Management's Report
For the year ended 30 June 2018

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 Laulu
CHIE EXECUTIVE OFFICER

Date: 4 October 2018

DEVELOPMENT BANK OF SAMOA
Directors' Report
For the year ended 30 June 2018

The Directors present their report together with the financial statements of the Development Bank of Samoa ("the Bank") for the year ended 30 June 2018 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 Sarona Ponifasio	-	Member
Vui Sebastian Mariner	-	Member
Leota Matamua N. 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 2018.

(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 2018.

Operating Results

The net loss for the year, after income tax is $2,104,642 (2017: net profit of $71,318).

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.

CHAIRMAN

DIRECTOR

Dated at Apia this: 4 October 2018

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FA'AVAE I LE ATUA SAMOA

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 2018, 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 2018, 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

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FA'AVAEI LE ATUA SAMOA

AUDIT OFFICE

P.O Box 13
Apia, Samoa

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 4th October 2018 and our opinion is expressed as at that date.

Apia, Samoa
12 October 2018

Cafele
Fuimaono Mata'afā Papali'i C.G. Afele
CONTROLLER AND AUDITOR GENERAL

DEVELOPMENT BANK OF SAMOA
Statement of Financial Performance
For the year ended 30 June 2018

	Notes	2018 $	2017 $
Income			
Income from loans:			
Interest		6,802,711	9,028,320
Loans processing fees		445,607	577,266
Other income	5	1,182,795	1,261,821
Total income		**8,431,113**	**10,867,407**
Expenses			
Administration expenses	6	1,560,898	1,743,636
Audit fees		51,710	50,000
Directors fees and costs	9(iv)	125,987	129,336
Interest on borrowings		3,156,926	3,692,175
Personnel costs	8	2,646,257	2,770,622
Provision for doubtful loans	13,16	1,000,000	1,213,500
Total expenses		**8,541,778**	**9,599,269**
Earnings before depreciation and tax		(110,665)	1,268,138
Depreciation	12	(1,420,209)	(1,485,340)
Earnings after depreciation		**(1,530,874)**	**(217,202)**
(Loss)/Gain on Foreign Exchange		(857,949)	314,898
(Loss)/Net Profit before tax		(2,388,823)	97,696
Income tax (expense)/ benefit	10 (i)	302,011	(26,378)
Dividend paid		(17,830)	-
Net (loss)/Profit after income tax		**(2,104,642)**	**71,318**

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

DEVELOPMENT BANK OF SAMOA
Statement of Financial Position
For the year ended 30 June 2018

	Notes	2018 $	2017 $
CAPITAL AND RESERVES			
Authorised and paid up capital	22	50,000,000	50,000,000
Government of Samoa reserve	23	18,501,440	16,660,389
Retained losses		(15,182,967)	(13,078,325)
TOTAL CAPITAL AND RESERVES		**53,318,473**	**53,582,064**
ASSETS			
Cash and cash equivalents	14	6,550,316	3,327,052
Term deposits	15	72,438	3,070,957
Other receivables and prepayments	16	302,725	388,822
Due from shareholders	18	168,387	102,497
Income tax credit	10 (v)	90,343	80,092
Equity investments	11	400,000	400,000
Loans to customers	13,24	132,010,722	137,610,300
Land held for resale	17	627,095	873,368
Property and equipment	12	41,188,004	42,498,630
Deferred tax assets	10 (iii)	3,924,665	3,622,654
Total assets		**185,334,695**	**191,974,372**
LIABILITIES			
Other creditors and accruals	21	1,534,162	1,437,488
Term borrowings	19,24	122,486,050	127,215,156
Term liability to managed funds	20	7,996,010	9,739,664
Total liabilities		**132,016,222**	**138,392,308**
NET ASSETS		**53,318,473**	**53,582,064**

Signed on behalf of the Board:

CHAIRMAN

Dated: 4 October 2018

DIRECTOR

Dated: 4 October 2018

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

DEVELOPMENT BANK OF SAMOA
Statement of Changes in Capital and Reserves
For the year ended 30 June 2018

	Notes	Issued and paid up capital	Government of Samoa Reserve	Retained earnings /(losses)	Total
Balance as at 30 June 2016		50,000,000	14,929,979	(13,149,643)	51,780,336
Net loss after tax		-	-	71,318	71,318
Guarantee fees Capitalised	23		113,564		113,564
Transfer from long term liability to managed funds to Government of Samoa reserve	23	-	1,616,846	-	1,616,846
Balance as at 30 June 2017		**50,000,000**	**16,660,389**	**(13,078,325)**	**53,582,064**
Net loss after tax		-	-	(2,104,642)	(2,104,642)
Guarantee fees Capitalised	23		97,397		97,397
Transfer from long term liability to managed funds to Government of Samoa reserve	23	-	1,743,654	-	1,743,654
Balance as at 30 June 2018		**50,000,000**	**18,501,440**	**(15,182,967)**	**53,318,473**

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

DEVELOPMENT BANK OF SAMOA
Statement of Cash Flows
For the year ended 30 June 2018

	Notes	2018 $	2017 $
Cash flows from operating activities			
Interest on loans		5,575,582	6,661,703
Service fees and other income		399,857	2,515,279
Interest on term deposits		52,384	164,163
Interest on borrowings		(3,173,356)	(3,594,449)
Cash paid to suppliers and employees		(3,874,553)	(5,188,826)
Witholding tax		(10,251)	(29,072)
Payments (to) Government of Samoa		(193,842)	(184,550)
Net cash inflow/(outflow) from operating activities		**(1,224,179)**	**344,248**
Cash flows from investing activities			
Loan principal collections		12,960,834	18,876,346
Proceeds from sale of property, plant & equipment		32,990	31,700
Dividend from Tropic Resort		32,000	-
Loan principal disbursements		(5,799,773)	(12,298,380)
Purchase of fixed assets	12	(109,582)	(293,410)
Net cash (outflow) from investing activities		**7,116,469**	**6,316,256**
Cash flows from financing activities			
Proceeds from long term borrowings		5,000,000	3,500,000
Repayment of long term borrowings		(10,667,545)	(7,037,580)
Net cash inflow from financing activities		**(5,667,545)**	**(3,537,580)**
Net change in cash and cash equivalents		224,745	3,122,924
Cash and cash equivalents at beginning of year		6,398,009	3,275,085
Cash and cash equivalents at end of year		**6,622,754**	**6,398,009**
Represented by;			
Cash and cash equivalents	14	6,550,316	3,327,052
Term deposits	15	72,438	3,070,957
		6,622,754	**6,398,009**

The accompanying notes form an integral part of the above cash flow statement

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 2nd and 6th 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 4 October 2018.

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.

(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 2019. 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	
	2018	**2017**
Euro	3.2072	3.0111
USD	2.6560	2.6035

Financial assets

e. 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.

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 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.

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.

I. 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.

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.

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 2018 and 30 June 2017. During those years, the Bank has complied with all of the externally imposed capital requirements.

	2018	2017
	$'000	$'000
Tier 1 Capital	52,612	52,566
Tier 2 Capital	10,337	12,196
Risk Weighted Assets	187,279	192,969
Calculated Ratios:		
Tier 1 capital	28%	27%
Tier 2 capital	6%	6%

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.

(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:

	2018	2017
	$	$
Interest on term deposit	52,384	164,163
Bad debts recover	13,470	17,992
Interest on equity investment	32,000	32,000
Rent income	933,068	838,198
Other income	151,873	209,468
	1,182,795	1,261,821

Rent income earned from tenants on the DBS building for the year was $933,068 (2017: $838,198). Not included is rental and electricity income of $444,973 (2017:$451,170) and $266,378 (2017: $382,885) 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 $1,644,416 (2017:$1,564,498).

6. Administration expenses

Details of administration expenses are specified as follows:

	2018	2017
	$	$
Advertising and promotion	81,228	64,707
Computer and internet cost	94,968	106,793
Guarantee fees to Government	246,919	273,404
Insurance	207,673	204,926
Interest on savings	11	83
Staff development	24,243	4,795
Printing and stationeries	41,891	92,395
Rent	13,800	13,350
Repairs & maintenance	114,670	238,536
Travel local	84,589	107,930
Travel overseas	31,414	80,100
Vehicle repairs & maintenance	67,600	87,794
Vehicle running cost	40,011	35,073
Other administration expenses	511,881	433,750
Total administration expenses	**1,560,898**	**1,743,636**

Rent paid for the year was $444,973 (2017: $451,170) and electricity expense of $266,378 (2017: $382,885) 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 $711,351 (2017:$834,055).

7. Operating lease commitments

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

	2018	2017
	$	$
Less than 1 year	13,800	13,350
	13,800	13,350

The lease for the Savaii Office is with Samoa Land Corporation since May 2016.

8. Personnel costs

Details of personnel costs are specified as follows:

	2018	2017
	$	$
Gross salaries and wages	2,408,968	2,518,872
Long service leave entitlements	30,301	51,956
Accident Compensation Levy	25,873	24,974
National Provident Fund	181,114	174,820
Total personnel costs	**2,646,257**	**2,770,622**

The average number of persons employed including part-timers during the year is 83 (2017: 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 Sarona 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 12 meetings during the year inclusive of 1 special meeting.

ii. *Audit Committee*

The Audit Committee during the financial period comprise of:

Peseta Peter Tone	-	Chairperson
Tugaga Tevesi	-	Member
Leota M Niko Ngau Chun	-	Member

The Committee held 7 meetings during the year.

iii. *Risk Management Committee*

The Risk Management Committee during the financial period comprise of:

Seuamuli Sarona Ponifasio	-	Chairperson
Vui Sebastian Mariner	-	Member
Aiolupotea Sauimalae M Chu Ling	-	Member

The Committee held 4 meetings during the year.

iv. *Board costs*

Board of Directors expenses are as follows:

	2018	2017
	$	$
Directors fees	108,000	108,000
Membership fees	6,000	8,000
Meeting expenses	10,567	8,963
Other cost	1,420	4,373
Total Board of Directors expenses	**125,987**	**129,336**

v. *Key management personnel costs*

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

	2018	2017
	$	$
Salaries and short-term employment benefits	790,364	838,673
Employers contribution to:		
National provident fund	55,326	58,707
Accident compensation commission	7,903	8,387
Total key management personnel costs	**853,593**	**905,767**

10. Income tax

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

	2018	2017
	$	$
Current income tax (expense)/benefit	893,432	(26,378)
Current income tax benefit not recognised	(893,432)	-
Deferred tax expense/(income) on origination	-	(26,378)
and reversal of temporary differences	302,011	-
Recognition of deferred tax balances	-	-
Income tax (expense)/benefit recgonised	302,011	(26,378)

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

	2018	2017
	$	$
Net (Loss)/Profit	(2,386,098)	97,696
Prima facie income tax benefit at 27%	(644,246)	(26,378)
Income tax benefit not recognised	946,257	-
Income tax (expense)/benefit not recognised	302,011	(26,378)

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

Temporary differences	Opening balance $	Charged to income/additions $	Closing balance $
Property, plant and equipment	(182,191)	(94,677)	(276,868)
Provision for doubtful debts	4,331,462	57,645	4,389,107
Provision for annual leave	8,962	22,374	31,336
Unrealised Gain on currency translation	17,930	316,669	334,599
Current year deferred tax asset on loss	(527,131)		(527,131)
Income Tax on Profit	(26,378)	-	(26,378)
Net deferred tax assets	3,622,654	302,011	3,924,665

(iv) Deferred tax assets on net losses not recognised

The movement in unrecognised deferred tax assets is as follows:

	2018	2017
	$	$
Opening balance of unrecognised tax losses	5,821,669	5,547,242
Unrecognised Tax on Loss	946,257	274,427
Closing balance of unrecognised tax losses	6,767,926	5,821,669

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

	2018	2017
	$	$
Balance brought forward	80,092	51,051
Withholding tax for the year	10,251	29,041
Balance carried forward	90,343	80,092

11. Equity investments

Details of equity investments are specified as follows:

	2018	2017
	$	$
Tropic Resort Ltd (15% preference shares)	400,000	400,000
Total equity investments	**400,000**	**400,000**

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.

12. Property and equipment

Details of property and equipment are specified as follows:

	Land & buildings	Office Fixtures & Fittings	Office Furniture & equipment	Motor vehicles	Total
Gross carrying amount					
Balance as at 1 July 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
Additions	-	-	16,582	93,000	109,582
Internal transfers to/(from)	-		-	-	-
Disposals	-		(6,289)	(68,350)	(74,639)
Balance as at 30 June 2018	51,073,230	262,509	5,690,249	877,499	57,903,487
Accumulated depreciation					
Opening balance 1 July 2016	9,114,699	95,134	4,127,721	698,174	14,035,728
Disposals	-		-	(151,155)	(151,155)
Internal transfers to/(from)	-	-	-	-	-
Depreciation charge for the year	1,013,368	52,502	333,787	85,684	1,485,340
Balance as at 30 June 2017	10,128,067	147,636	4,461,508	632,703	15,369,914
Disposals			(6,289)	(68,350)	(74,639)
Internal treansfer					
Depreciation charge for the year	1,013,368	52,500	278,190	76,150	1,420,209
Balance as at 30 June 2018	11,141,435	200,136	4,733,409	640,503	16,715,484
Net carrying amount 30 June 2017	40,945,163	114,873	1,218,448	220,146	42,498,630
Net carrying amount 30 June 2018	39,931,795	62,373	956,840	236,996	41,188,004

13. Loans to customers

Gross loans analysis

	2018 $	2017 $
Portfolio under Stimulus Packages	47,334,982	49,847,231
Other Loans	104,207,570	105,808,619
Gross loans	**151,542,552**	**155,655,850**
Gross loans	151,542,552	155,655,850
Less: Specific provision	(8,177,870)	(8,177,870)
: General provision	(9,386,032)	(8,449,746)
: Interest & fees suspended	(1,967,928)	(1,417,934)
Total Loans	**132,010,722**	**137,610,300**
Non current portion of loans	111,775,462	117,375,040
Current portion of loans	20,235,260	20,235,260
	132,010,722	**137,610,300**

Provision for doubtful loans analysis

	2018 $	2017 $
Specific provision		
Balance at the beginning of the year	8,177,869	8,177,869
	8,177,869	8,177,869
General provision		
Balance at the beginning of the year	8,449,751	7,516,773
Charge to income statement	1,000,000	1,213,500
Write off as bad debts against provision	(63,719)	(280,527)
	9,386,032	8,449,746
Interest Suspended		
Opening balance	1,417,934	2,356,723
Additional Interest suspended	2,491,599	248,900
Recovered	(1,941,604)	(1,187,689)
	1,967,929	1,417,934
Total provision for doubtful debts	19,531,830	18,045,549

13. Loans to customers (continued)

Impaired and past due assets analysis

	2018	2017
Non accrual loans with specific provision for impairment	$	$
Gross	19,847,336	19,218,250
Less suspended interest	(1,941,604)	(1,417,934)
	17,905,732	17,800,316
less specific provision	(7,763,705)	-
	10,142,027	17,800,316

Past due loans	2018	2017
	$	$
Gross	6,573,639	10,154,089
less suspended interest	(1,941,604)	(1,417,934)
	4,632,035	8,736,155

14. Cash and cash equivalents

Details of cash and cash at bank are as follows:

	2018	2017
	$	$
Cash at banks	6,549,686	3,326,422
Petty cash	630	630
Total cash at bank	**6,550,316**	**3,327,052**

15. Term deposits

Details of term deposit are specified as follows:

	2018	2017
	$	$
Term deposit	72,438	3,070,957

Maturity	Interest	Term	Amount ($)
17/09/2018	2.2%	90 DAYS	72,438

16. Other receivables and prepayments

Details of other receivables and prepayments are specified as follows:

	2018	2017
	$	$
Dividend- Tropic Resort	64,000	64,000
Prepayments	147,218	169,015
Tenants rent and power	61,734	121,145
Other debtors and accruals	46,398	48,100
Provision for doubtful debts	(16,625)	(13,438)
	302,725	**388,822**

17. Land held for resale

The list below summarises the land 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.

	2018	2017
	$	$
Opening Balance	873,368	873368
Land sold	(246,273)	-
Closing balance	627,095	873,368

18. Due from shareholder

Details of due from shareholder are specified as follows:

	2018	2017
	$	$
Opening Balance	102,497	115,828
Received from MOF	-	(70,000)
Exchange difference arising under the European-	65,890	56,669
Economic Community Loan (Note 19)	-	-
Total due from Government at year end	**168,387**	**102,497**

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 2018 with these covenants. Interest on borrowings for the year amounted to $3,156,926 (2017:$3,692,175).

	Current $	Term $	2018 Total $	2017 Total $	Interest rate per annum
IDA 15820	458,189	2,139,701	2,597,890	2,647,890	6%
ADB 6th Credit Line	-	-	-	566,113	6%
EEC	109,610	-	109,610	202,671	1%
EIB GL VI	2,196,182	6,177,218	8,373,400	9,746,368	5.5%
EIB GL VII	927,260	5,230,468	6,157,728	6,813,801	3.9%
NPF	902,469	15,793,430	16,695,899	17,601,004	5.5%
CBS 2	374,563	1,063,657	1,438,220	1,812,784	3%
CBS 3	615,966	1,691,361	2,307,327	2,923,293	3%
CBS 4 TC Evan	2,765,369	29,269,402	32,034,771	34,369,030	1%
CBS 5 SIDS/CYG	1,836,357	23,130,412	24,966,769	26,569,103	2%
CBS 6	573,178	8,163,508	8,736,686	9,307,260	3%
CBS 7	792,932	13,274,818	14,067,750	14,655,839	3%
CBS 8	257,055	4,742,945	5,000,000	-	3%
TOTAL	**11,809,130**	**110,676,920**	**122,486,050**	**127,215,156**	

Terms and conditions and principal repayment terms

IDA 15820: Repayment schedule is flexible to allow the Bank to manage its cash flow position.

ADB 6th: Repayment is $146,875 per quarter with maturity date of June 2018

EEC: Repayment is $65,274tala bi-annual with maturity date of May 2019

EIB GL VI: Repayment approximated at $2.6million tala per annum with maturity in 2021

EIB GL VII: Repayment approximated at $1.3million per annum with maturity in 2026.

NPF: Repayment is $154,000 per month. Term is 22 years.

CBS 2: Repayment is $35,318 per month. Term is 5 + 5 years

CBS 3: Repayment is $57,936 per month. Term is 5 +5 years

CBS T/C EVAN: Repayment is $235,747 per month. Term of 15 years

CBS SIDS/CYG: Repayment is $197,000 per month. Term of 15 years

CBS 6: Repayment is $71,310 per month. Term of 15 years

CBS 7: Repayment is $106,695 per month. Term of 15 years

CBS 8: 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 2018, 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 $31% (2017: 28%)-complied
- Non-Performing Loans to total loans is 4% (2017: 12%)-complied
- Provision for loan losses to non-performing loans is 297% (2017: 94%)-complied
- Liquidity ratio is 1.8:1 (2017 2.1:1)-complied

20. Long term liability to managed funds

	2018 $	2017 $
Loan with UTOS	7,996,010	9,739,664
Total managed funds	7,996,010	9,739,664
Opening balance	9,739,664	11,356,509
Transferred to capital and reserves	(1,743,654)	(1,616,845)
Long term liability	**7,996,010**	**9,739,664**

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 and Government will pay. The term is 13 years at 7.5% with monthly repayments of $200,000. At 30 June 2018, $2,400,000 has been paid to loan repayments and interest expense totalled $656,346. The net contribution by Government of $1,743,654 has been transferred to Government reserves per Note 23.

21. Other creditors and accruals

Details of other creditors and accruals are specified as follows:

Provision for long service leave and annual leave	118,246	201,114
Portfolio credits	12,074	12,586
Accrued interest on borrowings	358,554	373,320
Savings on micro credit scheme	512	2,161
Guarantee fees	246,919	273,408
Other creditors and accruals	726,602	536,907
Provision for Audit fee	55,548	37,992
VAGST	15,707	-
Total other creditors and accruals	1,534,162	1,437,488

Savings represent interest of 1.75% 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:

	2018	2017
	$	$
Authorised capital 30,000,000 ordinary shares @ $1 par value each	30,000,000	30,000,000
Issued and Paid Up Capital	30,000,000	30,000,000
Transfer from Reserves	20,000,000	20,000,000
Issued and paid up capital end of financial year	**50,000,000**	**50,000,000**

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:

	2018	2017
	$	$
Opening balance	16,660,389	14,929,979
Add: Transfer from Managed Funds (Note 20)	1,743,654	1,616,845
Add: Guarantee fee capitalised	97,398	113,565
Closing balance	**18,501,441**	**16,660,389**

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
2018						
Cash	6,550,316					6,550,316
Term deposits	72,438					72,438
Loans	1,073,962	2,995,727	11,392,552	49,183,567	86,896,744	151,542,552
Borrowings	-	(4,302,219)	(8,173,897)	(48,171,165)	(61,838,769)	(122,486,050)
Total	7,696,716	(1,306,492)	3,218,655	1,012,402	25,057,975	35,679,256
2017						
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	61,420,454	155,655,850
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	(3,511,686)	34,838,703

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:

	2018	2017
	$	$
Agriculture	11,092,748	12,820,219
Fishing	3,418,151	3,622,504
Inclusive Development	11,452,770	6,521,665
Industry Other business and services	25,151,733	31,290,985
Industry Tourism	100,427,150	101,400,477
	151,542,552	155,655,850
Credit facilities funded under CBS CLFs		
Cyclone Evan	33,136,916	31,630,091
SIDS & Commonwealth Youth Games	24,868,168	25,314,490
Normal Lending	26,393,900	15,311,420
Tsunami	2,166,986	2,483,779
	86,565,970	74,739,780

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 2018 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	
	2018	**2017**
Euro	8,482,958	9,949,039
USD	6,157,728	6,913,801

	Effect on Income		
	5%	**10%**	**15%**
Euro strengthening	(424,185)	(848,373)	(1,272,559)
Euro weakening	424,185	848,373	1,272,559
USD strengthening	(307,886)	(615,772)	(923,659)
USD weakening	307,886	615,772	923,659

26. Capital commitments and contingent liabilities

The board has approved a capital budget of $440,000 for the year ended 30 June 2018(2017: $250,000).

As of 30 June 2018, the Bank had no contingent liability or asset (2017: NIL)

27. Stimulus Packages

Cabinet has approved the Stimulus Packages for large clients in tourism and other developments. The stimulus packages were developed to provide relief to loan servicing 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 these developments are able to loan to meet operations, commitments and contribute to economic growth. The lost interest is $7.726million and 50% or $3.863million of this cost was paid by Government. This amount was fully paid in November 2016.

28. Continued Government support

The Bank plays a critical role in enabling developments to stimulate economic growth and to support key priorities under the SDS. The risk appetite of the Bank is indicative of the expectations by government and nature of the development banking. The concessional terms generate minimal margin to adequately sustain lending and debt obligations.

The Government as the 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 2018.