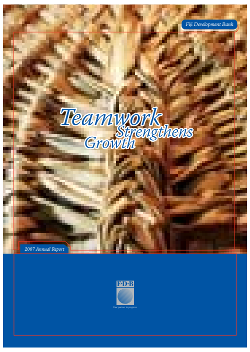
Fiji Development Bank

Teamwork Strengthens Growth

2007 Annual Report

F·D·B

Your partner in progress.



The tightly woven coconut leaves of this Fijian fan depict a tight knit denoting teamwork, strength and commitment. One loose leaf will unfasten the whole weave. Similarly, in any corporate service organisation, these strong qualities bring about efficiency, unsurpassed service and competitiveness.

Our Vision

To be a dynamic financial service provider in the development of Fiji.

Corporate Objectives

To be a profitable and self-sustaining financial institution.

Our Mission

We provide finance, financial and advisory services to assist in the economic development of Fiji and in particular in the development of agriculture, commerce and industry.

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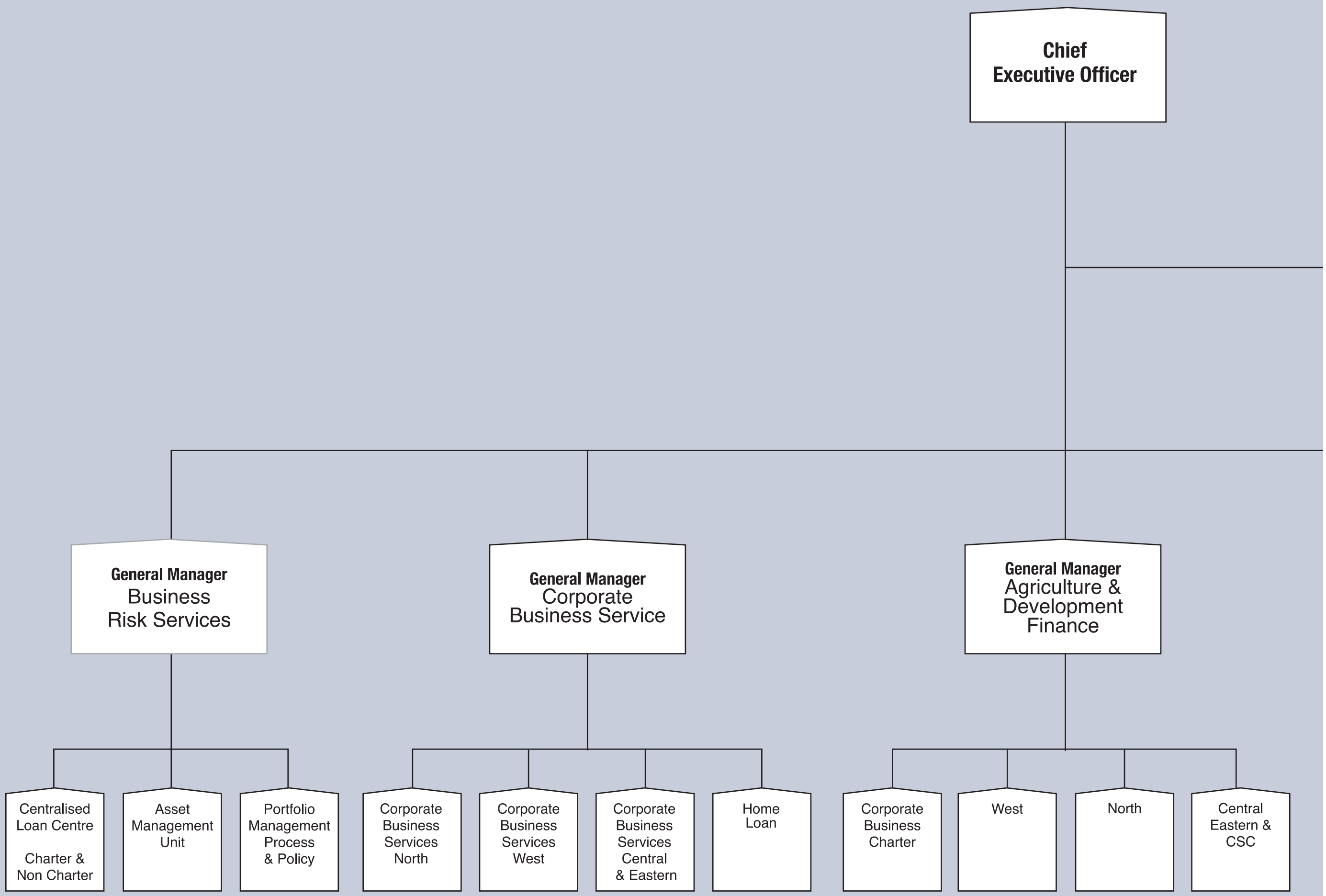
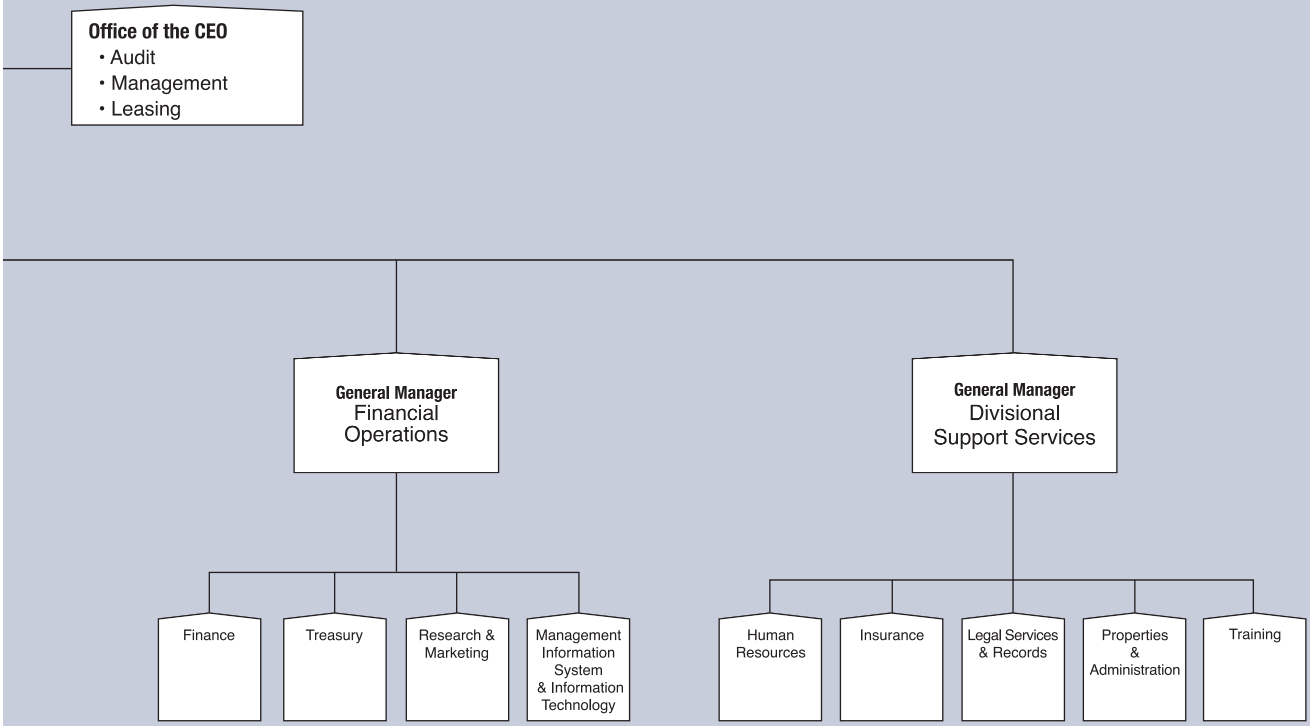


Chief Executive Officer
General Manager Business Risk Services
General Manager Corporate Business Service
General Manager Agriculture & Development Finance
Centralised Loan Centre
Charter & Non Charter
Asset Management Unit
Portfolio Management Process & Policy
Corporate Business Services North
Corporate Business Services West
Corporate Business Services Central & Eastern
Home Loan
Corporate Business Charter
West
North
Central Eastern & CSC


Office of the CEO
• Audit
• Management
• Leasing
General Manager
Financial Operations
General Manager
Divisional Support Services
Finance
Treasury
Research & Marketing
Management Information System & Information Technology
Human Resources
Insurance
Legal Services & Records
Properties & Administration
Training

F·D·B Fiji Development Bank

Development
Bank Centre
360 Victoria Parade
GPO Box 104
Suva FIJI
Tel: 3314866
Fax: 3314886

31st December, 2007

Mr. Mahendra Pal Chaudhry,
The Interim Minister for Finance,
Ministry of Finance, National Planning, Public Enterprise and Sugar Industry,
Ro Lalabalavu House,
SUVA

Dear Sir,

I have much pleasure in submitting the Annual Report and accounts of the Fiji Development Bank for the financial year ended 30th June 2007.

Despite an exacting economic environment and the impact of the military takeover, the Bank recorded a profit of $4.5 million, a decline of 14 percent over the previous year. Provision expense, however, decreased from $10 million in 2006 to $7.3 million in 2007. The result can be predominantly attributed to good portfolio management and tight control on costs.

I am happy to report that the Banks portfolio has grown during this last financial year by 13.65 percent to $446 million. Just over half of the portfolio by value is represented by Corporate Business followed by Agriculture and Development loans. The latter sector nevertheless represents the highest by number of loans at 66 percent, highlighting that majority of FDB loan assistance is for development purposes.

The political events of 5th December 2006 obviously had a severe effect on the FDB and its clients. Many of our customers suffered, especially those operating small businesses. Forecasts of national economic decline also means the Bank must be prepared for generally adverse conditions. The FDB mitigated the impact of the economic downturn by reassessing its risk strategies.

The Board members have served their term with zeal and commitment for which I thank them. All the members have completed their term during this financial year and I welcome the new members who will commence their membership in the new year.

The Board wishes to express its thanks to the management and employees of the Bank for their efforts and commitment during another challenging year and I believe that everyone will remain fully committed to a well planned road to success.

Yours sincerely,

Mrs. Sereana Qoro
Chairperson

Branches Nausori Rakiraki Ba Lautoka Sigatoka Labasa Seaqaqa Savusavu Nadi

Board of Directors

Sereana Qoro
Chairperson

Ms Qoro is the Chief Executive Officer of Basic Industries Ltd and Fiji Industries Ltd. She has a Bachelor of Arts majoring in Accounting/Economics and a Masters Degree in Business Administration from the University of the South Pacific.

She is also a director with Higher Salaries Commission.

Solomoni Vosaicake
Director

Mr Vosaicake is the Director for Munia Holdings and Mualevu Tikina Holdings Limited and has an Education Degree from Australia.

He completed his term on March 15, 2007.

Ian Hawthorn
Director

London born and Oxford University graduate, Mr Hawthorn brings with him a wealth of experience and qualifications. He is a Fellow of the Institute of Chartered Accountants (FCA) in England, Wales and Australia and is a member of the Australian Institute of Company Directors (MAICD).

He is based in Sydney, Australia. He completed his term on July 15, 2007.

Kalivati Bakani
Director

Mr Bakani has gained an extensive financial background through working in banking institutions. He has also served as Board Chairman and director in various organisations.

He completed his term on August 2007.

John Samisoni
Director

Mr Samisoni is the Managing Director for Corporate Management Services Limited, commonly known as the Hot Bread Kitchen. He attained his Arts Degree, majoring in Economics and Computer Science from Australia's University of Queensland.

He completed his term on March 15, 2007.

Sam Foy Chung
Director

Mr Chung is a teacher by profession, but decided to set up his own business, Waisali Farm Produce Ltd in the late 70s. He holds a directorship with Fiji Malt House Ltd.

He completed his term on July 15, 2007.

Ian Chute
Director

Mr Chute is the General Manager for the family owned Celtrock Holdings Limited, a business involved in fish processing, exporting and vessel management.

He completed his term on March 15, 2007.

Taina Ravutu
Director

Ms Ravutu has extensive experience in the travel industry. She is the Managing Director of Taina's Travel Services Ltd.

She completed her term on July 15, 2007.

Adish Naidu
Director

Mr Naidu is the Director of Yellow Architects. He has a Bachelor of Architecture from the University of Auckland and an Ordinary Diploma in Construction Studies from the Fiji Institute of Technology.

He completed his term on August 2007.

Tukana Bovoro
Chief Executive Officer

Umarji Musa
General Manager
Corporate Business Services

Deve Toganivalu
General Manager
Agriculture &
Development Finance

Nesbitt Hazelman
General Manager
Divisional Support Services

Lasantha Thennakoon
General Manager
Financial Operations

Nafitalai Cakacaka
Acting General Manager
Business & Risk Services

> *This new dimension in entrepreneurial credit aims to build a solid middle class that possess the capability to liberate itself from the chain of consumption level of production to commercial level. The groundwork has been completed and the program launched.*

The last financial year has been one where the Fiji Development Bank has had to carefully find its way amidst the abrupt changes in the economic and political landscape of the country. The Bank has had to react quickly whilst maintaining prudential norms, to the demands of the market, especially its customers and those affected by the new operating environment.

Immediately after December 5th 2006, the Bank undertook an exercise to review its entire loan book to ensure that arrangements were made such that those businesses that were affected were provided the appropriate measures to assist them tide over the anticipated economic downturn.

As part of this exercise the Bank launched its revamped home ownership package, offering an unprecedented fifty year residential mortgage, liberal documentation, extended repayment schemes and competitive loan rates. Next to this, the Bank began the groundwork to channel a portion of its resources to the entrepreneurial market, which is considered as the backbone of economic recovery and the foundation of a true middle class in any economy. Drawing from its years of experience on agricultural credit, it has placed the entrepreneurial market as its lending priority under a three year program, providing liberalized capital credit to Small Business and Farmers. This new dimension in the entrepreneurial credit aims to build a solid middle class that possess the capability to liberate itself from the chain of consumption level of production to commercial level. The groundwork has been completed and the program launched.

The Bank has been involved in the small business sector with varying degree of success since its inception. The Bank is acutely aware of the issues faced by its customers specifically in the lack of basic understanding of money and money matters, and given this understanding of the challenges faced by its clientele, the Bank, this year, with the assistance and cooperation of the Ministry of Education embarked into a long term program aimed at addressing the issues of saving consciousness and environmental awareness at the grassroots level.

Coupled with this and to ensure its sustainable growth rate and mitigate the embedded risks on these new markets and programs, the Bank formulated and adopted an Integrated Risk Management System, which identifies all sources of risks, quantifying each level and mitigating the same through timely risk responses and monitoring.

Overview

Our Business

The Bank continued to experience solid growth in its business and in the financial year under review, the Bank posted a total asset of $450 million showing a 13.8 percent growth from previous year. This growth was largely driven by large investments in the tourism industry, and the revaluation of Land and Building in May 2007 has also contributed towards asset growth.

The Bank's core business is development financing and there is a deliberate plan now in place to move the Banks portfolio towards a position where at least 50 percent will be made up of loans in the development financing sector. The build up of loan assets is guided by the sectoral limits that the Bank has defined on its Three Year Strategic Plan. The Banks sectoral limit addresses both its developmental mission and commercial objective, giving the Bank's management the capacity to manage both symmetric and asymmetric risks that are embedded on these two distinct markets.

While the Bank has limited instruments to source its funding, a total of $142 million was mobilized at an average weighted cost of 6.88 percent per annum as of year end, inspite of a volatile financial market. The new borrowings enable the Bank to expand its loan asset portfolio to $446 million with a weighted average yield of 11.2 percent, thus generating an average spread of 3.6 percent. Reserves and Provisions amounted to $50.5 million as of year end or 13.19 percent of Earning Assets.

The equity of the Bank stood at $97 million as of the year end under review. This is an 8.6 percent growth from the previous year. Return on Assets stood at 1.0 percent, while Return on Invested Capital (issued capital) stood at 8.16 percent.

Despite the challenges faced by the Bank during the financial year, it is again pleasing to report that for the second year in a row, the Bank has been able to report a solid bottom line of $4.5 million. Although lower then last year, the position consolidates the Banks efforts where it is now beginning to make real profits without depending on government subsidies to give it a positive bottom line.

Development Charter

As part of its reorganization to recognize development financing as its core business, all loans meeting the criteria for development financing were regrouped into this category and together with intensified attention into the sector, the portfolio grew from $37 million in June 2006 to $118.6 million in June 2007. The significant increase in the development charter loans portfolio is due to reclassification of charter loans to development charter. The challenge that the Bank now faces is to develop policies that will ensure that credit is made available to as much of the citizens of this country, but in a sustainable manner. As part of this challenge, the Bank developed underwriting criteria that, with government support to make funds available to the dairy, beef and coconut sectors.

Our Customers

At the beginning of each financial year the Bank sets itself service delivery targets. Unfortunately the Bank was not able to meet four of its 16 service delivery targets. This basically tells us that more work is needed before the Bank can comfortably say that it is meeting minimum customer expectations. In general customers in our charter business need more attention from the Bank as non-charter customers are serviced well by the network and customer survey feedbacks are used not only to gauge individual staff performance but to also improve procedures and service delivery mechanism.

Our People

The Bank continuously invests in its people and during the year a total of 10,291 training hours was undertaken at a total cost of $291,000 or about 4.3 percent of its salary and wages cost. This training program will continue unabated as it is designed firstly to try and ensure that the level of service delivery is standardized throughout the network, and secondly, as it supports the Bank's overall succession strategies which is considered vital to the future sustainability of this Bank. The Bank is cognizant of the related risk to such priority as personnel may leave after acquiring the skills and experience, however the benefit from such programs simply outweigh the risks involved.

The Bank continues to maintain a cordial working relationship with the Fiji Bank & Finance Sector Employees Union (FBEU) and it acknowledges the role they play in ensuring staff issues are looked into in a transparent and equitable manner.

Risk & Compliance

The expansion of assets through new loan programs and markets are not without risks. The Bank has further enhanced its core competence on risk management with the implementation of an Integrated Risk Management System, which consolidates the different risk variables that are present on its Balance Sheet. By integrating these symmetric and asymmetric risk variables, the Bank was able to increase its risk appetite particularly in the markets of Agriculture, Small and Medium Enterprises, Home Mortgages, Consumer and Entrepreneurial sectors.

As part of its risk management, the Bank has quarantined developmental loans separate from its commercial, consumer and corporate books, with the objective of evaluating and measuring the risk variables on this market that are totally asymmetric and volatile. The process of isolating the developmental loans enables the Bank to calibrate the acceptable risk level that it can absorb vis-à-vis its total asset portfolio. While risk return tradeoffs permeate the traditional philosophy of financial management, requiring higher cost to developmental borrowers, such approach was modified by immunizing developmental portfolio through a combination with risk free assets.

To improve its loan administration efforts the Recovery Section of the Bank has re-established its Tender Committee as the body in charge of foreclosure and sale of seized assets. The focal role of the Committee is to reduce the time element in the recovery process thereby lessen the probability of losses brought about by asset depreciation or deterioration.

With the general fragmentation of Fiji's economy, the threats of default and loan losses became evident in the past months. The Bank maintains a strategy to maintain its General Loan Loss Provision to cover at least 100 percent of its TIA with the end view of reaching 155 percent over the next fiscal year. To date, the Bank has provided $38 million for Loan Loss Provision.

Banks Information System and Financial Reporting

Risk management as the Banks core competence is only possible through timely risk responses and efficient monitoring system that are delivered by consistent and reliable information system. To this end, the Bank has upgraded its computer servers and equipment while operating on the same Operating System. The learning curve on the use of the existing Operating System demands a higher level of computer competence among its personnel across the organization. This level of competence enables the Bank to respond effectively and efficiently on probable risks that may arise on its operation. Likewise, the Bank has put emphasis on disaster recovery back up and data security, which safeguards its database from any possible hackers.

Financial reporting has been centralized under the Finance Division for external monetary authorities and internal management, thereby creating a standard database available to the public.

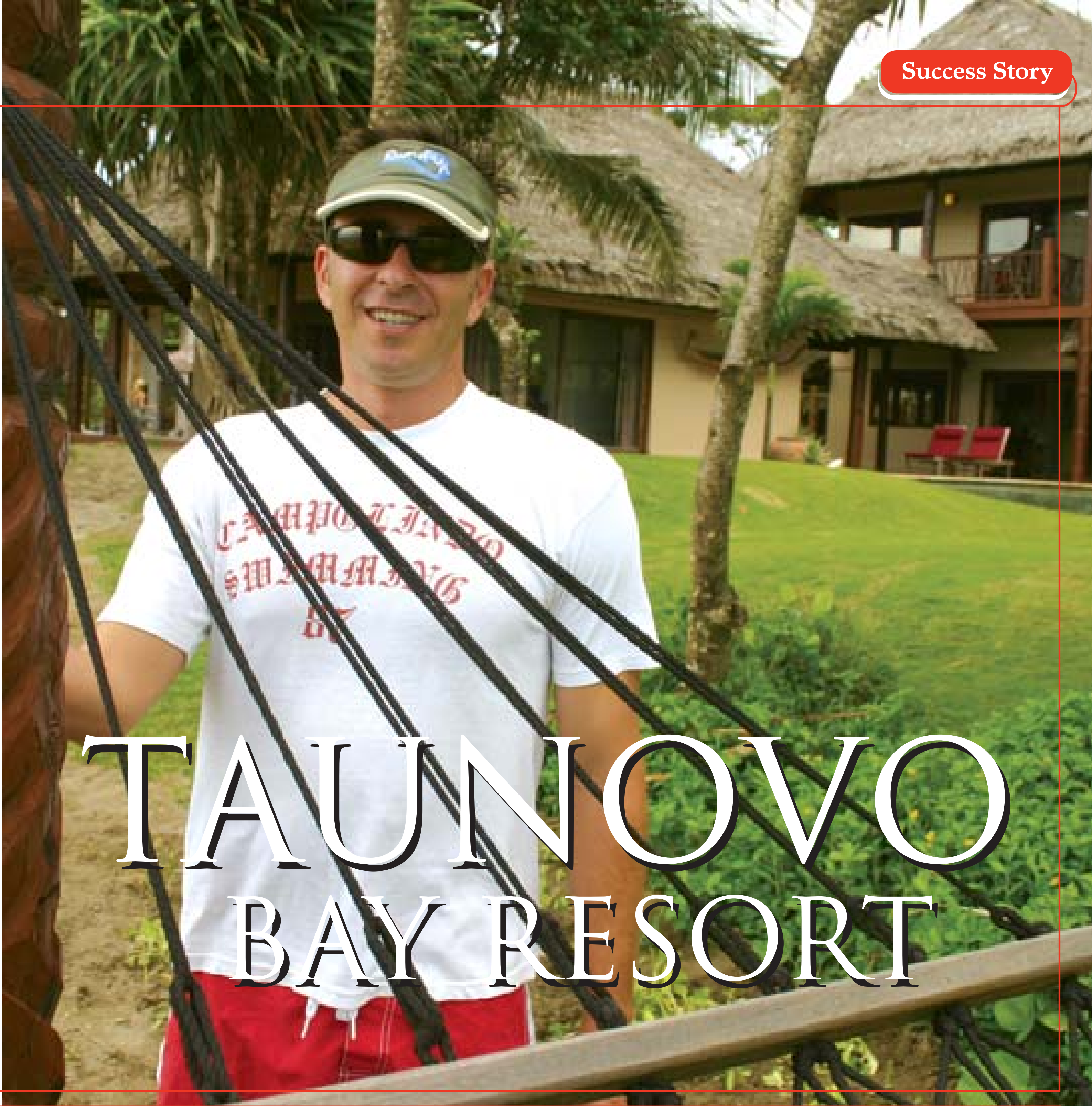
Project Report

Project Manager:
Mitch Hagerman

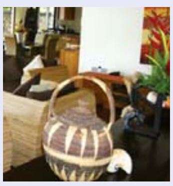
Project:
Taunovo Bay Resort

Project Info:
Commercial

Comments:
"I believe in offering the best and Taunovo Bay was built to offer people World Class Experience"



TAUNOVO BAY RESORT



Taunovo offers a world class experience, with its mixture of traditional and modern design to give it a luxurious set up. Situated at Pacific Harbour and 40 minutes drive from Suva, Taunovo Bay Resort & Spa offers an extraordinary opportunity to own a beachfront estate and to live adjacent to a five-star luxury resort in Fiji.

The concept and development of such a place is the brainchild of Mitch Hagerman and Tony Alfaro who have pursued this dream for the last seven years. With FDB's financial assistance, the Taunovo Bay project is in the making. The project works started 3 years ago and to date 6 beachfront villas have been completed whilst the centrally located club house is underway. Besides, other developments include a private airstrip and a yachting marina.

The villas are fully furnished and include a kitchen, living room, bedroom, private pool and spa with beach front views surrounded by luxuriant landscaping.

The beachfront estates are up for sale and it can be mortgaged, re-sold, willed to your immediate family members, and/or exchanged for vacations in many other desirable destinations. Owners may also take advantage of rental management services to be provided by the resort.

Banks Social Responsibility as a Corporate Citizen

With its limited resources and burgeoning pressure to proactively respond to an erratic economy, the Bank has provided study grants to fund new markets and technology like mud crab farming. The study grant is aimed to provide the basis of sourcing seed capital on industries and economic units that are exploring the development of natural advantages of the country, with the end view of establishing new economic opportunities responsive to local and export demands.

Of similar tenor, the Bank has launched its savings consciousness program at the grass root level with the Money $mart Program, which is currently part of the core curriculum of school children. The objective of this program is not only to teach children to save but also to develop entrepreneurial consciousness through proper deployment of savings as seed capital to micro-businesses that would lead to economic liberation.

Conclusion

A developing economy like Fiji that is besieged by socio-economic uncertainties paints the landscape in which the Fiji Development Bank operates. The counter move that the Bank had made against these events that may lead to negative outcomes is to draw from its core competence of risk management and thread new and unchartered markets, thereby differentiating itself from its competitors. The Bank's relative success cannot just be simply measured by dollars and cents but rather by the sustainable growth rate the Bank has achieved over the years of its corporate existence.

The Bank addresses both its financial responsibility as a financial institution as well as its responsibility as a corporate citizen of Fiji and will continue to do so in the future on the basis of a solid balance sheet and continued Government support of its efforts.

Tukana Bovoro
Chief Executive Officer

Overview

The principal activity of the Bank is to provide finance to enterprises of all range in Fiji to support the achievement of national economic planning goals and establish a well balanced lending programme in the major economic sectors.

Despite of the decline in level of economic activity contributed by strict RBF monetary policy in place, and stiff competition in lending sector, the Bank managed to maintain portfolio growth and attain desired results.

Profitability

The Bank recorded a net Profit of $4.5 million despite a decline in economic activity. With balanced and good maintenance of portfolio level, the Bank was able to achieve its desired portfolio growth and profitability.

Income

The Bank's income is mainly comprised of interest income that accounts approximately 85 percent of total income and the rest represents the fees and other income. Interest Income recorded a notable 28 percent growth due to the increase in business volume and revision of lending rates. Fee Income recorded a marginal increase of 9 percent where as Other Income recorded a slight decline of 9 percent during the year.

Interest & Borrowing Expenses

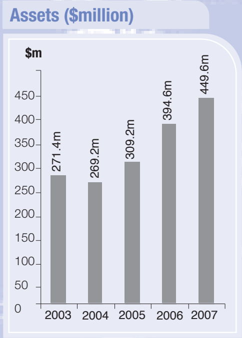
The cost of borrowing significantly increased to $21.2 million in 2007, almost twice of the interest cost of $10.1 million in 2006. The restrictions in the market liquidity position experienced during the year resulted in increasing the market interest rates.

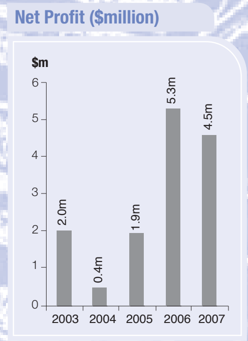
FDB is at a disadvantage, unlike commercial Bank's, because it has no savings fund pool to source its funding needs at an economical rate.

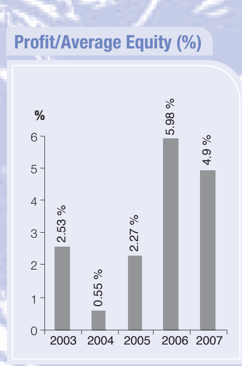
Funding base of FDB is mainly from government guaranteed Bonds and Promissory Notes that carry comparatively higher interest rate than commercial Banks. During the year, there were several control mechanisms adopted by Reserve Bank of Fiji on monetary policy that led the Bank to borrow funds at a higher interest rate.

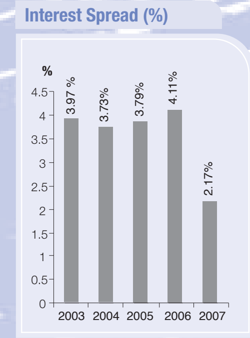
The weighted average cost of funds during the year was 6.92 percent compared with 3.92 percent in 2006.

Despite the downturn in economic activity during the year, the Bank was able to sustain its existence and grew its Portfolio base to a desired level.









Administrative Expenses

There is a marginal increase of 7.6 percent in Administration expenses during the year in line with the increase of operations. However, with prudent expenditure control measures in place, the Bank was able to control its overall expenditure levels within the budgeted amount.

Provision

The Bank's core role is funding projects in Agricultural and Development finance nature that carry some elements of risk that is not normally funded by commercial Banks. Provision for doubtful loans is created on loan accounts to mitigate the loss incurred if the loan obligation is not settled at a future date. During the year, $7.3 million worth of new provision was created.

Trouble and Impaired Assets (TIA)

TIA represents 6.72 percent of total portfolio in 2007. In 2006, this value represented 5.7 percent of the Bank's portfolio. A slight increase of TIA noted in 2007 was as a result of downturn in the economy.

The provision to TIA ratio has declined from 145.69 percent in 2006 to 129.6 percent in 2007.The Bank is currently striving to strengthen its Provision to TIA ratio by reducing TIA value with consistent supervision and smart recovery polices in place.

Assets

The Bank's assets grew from $394.6 million in 2006 to $449.6 million in 2007, an improvement of 13.83 percent. A strong improvement of 13.65 percent in loan portfolio has contributed to the overall growth in total assets.

The revaluation of Land and Building in May 2007 has also contributed towards asset growth.

Interest Spread

The difference between the average lending rate and the average borrowing rate measures the interest spread. The decline in interest spread percentage resulted in decline in profitability base. During the year the Bank had to borrow funds at a considerably higher rate due to the liquidity constraints in the market that ultimately resulted in decline in interest spread of the Bank.

Historical Performance

	2001	2002	2003	2004	2005	2006	2007
Financial							
Net profit($M)	.302	.696	2.042	0.453	1.911	5.346	4.570
Total Assets ($M)	322.3	284.7	271.4	269.2	309.2	395.0	449.6
Total Assets / Equity (%)	4.08	3.57	3.32	3.28	3.68	4.42	4.63
Average Earning assets ($M)	345.8	327.7	302.0	282.7	302.9	359.8	382.7
Borrowing Cost / Average Earning Assets (%)	5.12	4.67	3.85	3.09	2.63	2.82	5.53
Total Cost / Average Earning Assets (%)	7.59	7.50	7.10	7.06	6.44	6.00	8.74
Profit (Loss) / Average Equity (%)	0.39	0.88	2.53	0.55	2.27	5.98	4.90
Long Term Debt : Equity	2.99:1	2.43:1	2.12:1	1.99:1	2.49:1	2.55:1	2.45:1
Interest Spread (%)	2.01	2.51	3.97	3.73	3.79	4.11	2.17
Earning Spread (%)	2.84	3.3	4.61	6.13	5.55	5.79	3.63
Operating Efficiency							
Staff Cost / Average Earning Assets (%)	1.64	1.75	2.09	2.5	2.14	1.89	1.91
Total Income / Average Earning Assets (%)	10.19	10.42	10.88	11.73	10.21	10.29	11.89
Lending							
Approvals (Number)	1,751	1,019	1,007	1,105	1,903	2,104	1,709
Approvals ($M)	50.40	24.43	67.19	76.45	227.27	188.21	115.24
Loan Portfolio (Number)	6,092	6,282	5,990	4,372	5,588	5,888	5,251
Gross Loan Portfolio ($M)	321.7	293.3	282.5	281.18	325.01	392.69	446.27
Growth in Loan Portfolio (%)	1.41	-8.83	-3.68	-0.46	15.59	20.79	13.65
Arrears / Loan Portfolio (%)	7.29	6.84	6.66	7.42	4.32	1.32	1.20

During the 2007 financial year, the Bank approved gross loans of 1,709 by number valued at $115.24 million. The portfolio as at the end of the year was recorded at 5,251 accounts valued at $421.2 million.

Of the total portfolio, the Agricultural & Development (A&D) loans make up about 66 percent by number. Also, around 24 percent by value of A&D loans are in Agriculture and Agro Industry projects. This however does not include $25 million loan to the Fiji Government for sugar cane rehabilitation projects. The other areas are small shops, restaurants, transportation businesses and real estate projects.

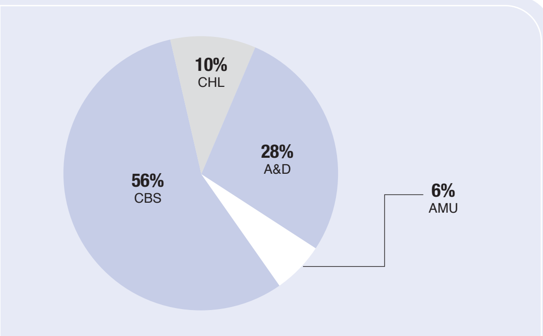
Corporate loans are concentrated in the commercial and business centres of Suva, Lautoka and Nadi. Corporate loans account for 56 percent of the value of loans. This portfolio has grown from last year with the bulk of projects funded in the real estate and tourism sector.

Another growing sector is the Home Loan product, which was revamped in 2007 to add more options for customers. Increasing desire for home ownership has brought many customers to the Bank and the market share for home loans have been rapidly increasing.

Lease finance is the most recent revamp product of the Bank. It has been branded as 'Maxilease'. The product was launched in November 2006 and offers a wide range of leasing options. The Maxilease portfolio stands at 0.8 percent by number of the total loan portfolio and 0.3 percent by value. Majority of Maxilease loans are in the brand new and used vehicles financing.

FDB offers loan services for a wide range of businesses. Its primary role is in the funding of agricultural and small businesses. Corporate loans also feature prominently in the Bank's business. Rebranding of Home Loan product gave strong impetus for growth in the mortgage market.

Bank Portfolio



Credit assessment is the core business and the Bank constantly embarks on enhancement and development of its risk appetite to adjust its tolerance level. FDB stresses importance on the credit risk management due to the economic volatility and market competition. The Bank strives to implement an effective risk management system to serve and protect its customers and investors.

Overview

The Bank's risk management strategy focuses on credit risk; future plan is to expand the scope to include the operational and the enterprise level of risks. Credit assessment is the core business and the Bank constantly embarks on enhancement and development of its risk appetite to adjust its tolerance level. FDB stresses importance on the credit risk management due to the economic volatility and market competition. The Bank strives to implement an effective risk management system to serve and protect its customers and investors.

Lending Guideline

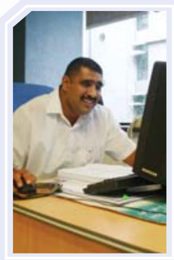
The Bank's operation is subject to certain fair trading requirements under the Consumer Act, Banking Act, the FDB Act, directives and initiatives of the Government of the day through the Minister of Finance, the Board and the reporting obligations to the Reserve Bank of Fiji. The Bank is mandated to provide finances for developmental loans that effectively contribute to the economy with special focus on the development of the rural and the agricultural sectors.

The Reserve Bank of Fiji plays an important role in directing the Bank's lending activities through its regular economic reviews and policy implementation. Interest rate ceilings were set by the Reserve Bank in April 2006 to tighten consumer spending. The commercial Banks responded by charging higher rates to maintain return from the ceiling set by the Reserve Bank. Potential customers withheld business plans and low business activities were recorded in the first half of the period slowing lending activities. The impact of the decline in credit was felt across the private sector, the government, and the FDB.

The Reserve Bank also reviewed the local financing portion for foreign owned companies under its Foreign Exchange control policy during the year. The policy placed some constraints on our corporate lending. Non-resident businesses borrowings from local financing gradually reduced and restriction on lending to non-resident individuals for purchase of residential properties has been implemented to commence from January 2008.

The Reserve Bank however has encouraged all Banks to prioritise lending to export oriented businesses, investment related projects and small to medium enterprises within the credit ceiling to defuse the declining economic activity resulting from the tightening measures. The FDB hopes to increase lending to export oriented business in the new year.

A series of internal policy reviews were implemented during the financial year to inform and update the Bank's systems and processes to match the needs of the growing customers in the ever challenging business environment. The launching of the revised leasing facility, the expansion of the home mortgage lending, introduction of the Anti



Money Laundering policy were implemented during the year to provide opportunities for the Bank's lending direction.

The Bank's activity is guided by its 3 year Strategic Plan with regular review for adjustments placed by the external demands and challenges imposed by the regulations and the environment.

Competition

The major commercial Banks dominate the commercial banking industry and due to their larger capital base, have greater lending limits than the FDB. The principal competitors are the commercial Banks for corporate loans, home loan institutions for mortgage finance and the Sugar Cane Growers Councils for the agricultural cane sector. Other private institutions, insurance companies, the local mutual fund company are offering new investment and lending facilities which also compete with the FDB.

Where customer loan demand exceeds the FDB's legal lending limit, the Bank may arrange for syndicate funding on a participatory basis with other financiers. Other credit unions and loans associations provide services that traditionally were offered by all commercial Bank's. Even the retail stores are penetrating the financial services markets such as for hire purchase.

The Bank relies upon the experience of its officers in serving business clients and upon its specialized services, local promotional activities and the personal contacts made by its officers, directors and employees in order to compete.

The FDB's major competitive challenge is on interest rates as the commercial Bank's are flexible in its pricing. The FDB's rates are determined by the fluctuation of the money market and are subject to other factors.

The Bank's Strategic Plan includes the attainment of a deposit taking license to enhance its competitive position in the market.

Liquidity Risk

The treasury team manages and monitors the Bank's liquidity position daily. Timely management of investments, maturities, short term borrowings, government backed bonds and promissory notes has allowed the Bank to manage its liquidity satisfactorily. However during the period, the financial markets experienced an all time low liquidity position which culminated from sudden exit of money supply through increased import for local consumption, offshore investment and refinancing ongoing projects and long term reserves committed for large development projects.

The adverse liquidity position created sudden rise on the overnight borrowings, conversion of long-term investments into short term high interest bearing deposits. Coupled with setting of the interest rate ceiling by the Reserve Bank of Fiji, the investment scenario was not conducive for investors. Fortunately the tight liquidity position did not stretch to the limit through swift introduction of the new foreign exchange policy by the Reserve Bank to dampen local spending and discourage foreign spending.

The Bank was able to compete favourably with other Bank's during the interest rate hike as it was able to rely on the cushion provided by government to certain lending sectors only. The situation created a level playing field for the Bank as depositors had the options for higher return on the short term markets.

Interest Rate Risk

The income of the Bank depends on the "interest rate differentials" and the resulting net interest margins. The interest rates earned on the Bank's interest earning assets (loan portfolio) and investment has to be attractive and competitive. Likewise the cost of funds paid on the Bank's interest bearing liabilities is determined by the market rate.

These rates are highly sensitive to factors which are beyond the Bank's control, including the general economic conditions, political situation, policies of government, in particular the Reserve Bank of Fiji. The Bank is "Liability sensitive" and is adversely affected by declining interest rates.

Fortunately interest rates trended upwards in 2006 in line with the tightening of monetary policy; raising of the SRD to 7 per cent by Reserve Bank and the liquidity situation. FDB's lending rate rose by 400 basis points across the major business products from 8 percent to 13 percent per annum weighted average rate during the period. The rates however started to trend downwards from the last quarter of the period.

Political Risks

The country under went unusual relations at the political front throughout the financial year culminating to a military takeover in December 2006. The political instability has affected the country's international reputation and ratings by Standard and Poor. Few large projects were affected as investor confidence was lost in the process. The event stalled three of the Bank's major hotel development projects and low business activity in other areas was inherent. The tourism industry was adversely affected along with all the support services. Hotel occupancy and income generation continued to decline largely due to the adverse travel advisory from the two major neighbouring tourism supplier countries. The Bank is not at the forefront in this sector but the impact of the exposure of 12.8 percent in tourism related project in our portfolio can become significant.

As a statutory body, the Bank is subject to political interference that infringe on the internal process and operational policies. The Bank depended on the proficiency of its senior officers and Board Directors to manage the political expectations to protect its customers and the investors.

As a result of the low economic conditions the Bank may incur losses associated with high default rates and decreased collateral values in its loan portfolio. Foreclosing on accounts and selling mortgages on the secondary markets, however was not an attractive option during the period. The Bank had to assume the probability of future losses on project restructure and rebooking of loans. The Bank's Rehabilitation department was considerate of these external impediments in dealing with the increasing TIA portfolio.

The overall economic recovery was evident through various indicators towards the end of the period but at a very slow rate.

Lending Risks

Charter Loans

The Bank's business strategy is to focus on Agricultural & Development loans, which includes agricultural and fishing loans, small business loans and other large commercial loans with government support. The principal factors affecting the Bank's risk of loss in connection with development loans include the borrower's ability to manage its business affairs and cash flows, financial discipline, low value of collateral security, lack of working capital, general economic conditions, and with respect to agricultural loans, weather and climate conditions, market access and infrastructural support. The Charter loan portfolio composes of 62.4 percent by number and 27.61 percent by value.

Construction Loans

Real estate construction financing is generally considered with high degree of credit risk compared to long term financing on improved owner occupied real estate. Risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the properties value at completion of construction or development compared to the estimated cost (including interest) of construction. The Bank is confronted with a project which, when completed, has a value which is insufficient to assure full repayment of the construction with incorrect construction cost.

Allowance for Loan Losses

The Bank adheres to the Reserve Bank's guideline for account grading which determines the provision for loan losses. Specific provision is estimated on the large TIA accounts to ensure that the doubtful accounts are well provided for above the 155 percent ratio target for the period. The Bank's allowance for estimated losses on loans was $ 7.3 million, or 1.64 percent of total loans as at June 2007, compared to $10 million or 2.5 percent of total loans in 2006. The decrease was due to recovery and write-off of delinquent accounts. Additional allowances for losses were required in some sectors to reflect the changes in the market and other factors necessary to ensure that the Bank's foreclosed assets are carried at the lower of cost or fair value.

Project Report

Project Manager:
Sitiveni Rabuka

Project:
Bligh Water Shipping

Project Info:
Coastal Transport

Comments:
"In partnership, a lot of companies have failed in the past because there is poor management and it is allowed to fail completely when it is not supervised by the lending institution"

BLIGH WATER SHIPPING

Mr Mervin Lepper of Savusavu had a dream of owning his own ship four years ago. With a group of friends, they formed Bligh Water Shipping and they approached the Fiji Development Bank for financial support in which they have acquired the MV Suilven.

Bligh Water Shipping operate domestic ferry services between the islands of Viti Levu, Vanua Levu and Taveuni. It caters for more than 400 passengers plus cargo. The MV Suilven offers first class services and a safe journey to all. According to the Bligh Water Shipping CEO, Mr Sitiveni Rabuka, the difference is in the class. The capacity and capability of their services is safe and secure. Passengers would feel very comfortable and are ensured a relaxing and memorable experience.

In future, expanding the business size and number of ships is dependent on the governments shipping route licence. If a shipping route licence is enforced then it would restrict expansion of routes travelled, and also reduce the quality of services offered.

Bligh Water Shipping success has been attributed to the close and tight control by the chairman, board and the Fiji Development Bank.

> *The focus would be on resource based industries and export & import substitution projects in the manufacturing sector. Infrastructure projects would also receive attention along with development in the tourism sector.*

We strongly believe in continuous improvement in service delivery and building a lasting favorable relationship with our clients.

Corporate Business Services

The Corporate Business Services Unit was established in May 2004 after the restructure of the Bank as recommended by the consultants in 2003. The objective of the unit has been on driving and achieving cultural change consistent with the Banks philosophies on Corporate Banking with the ultimate objective to achieve operational plans for quality customer acquisition, retention and growth.

The Corporate Business centres were established in Suva, Nadi and Labasa covering central, western and northern clients.

Performance

The focus of the unit has been to fund projects of developmental in nature whilst also accommodating commercial funding needs of its customers.

The unit commenced with a loan portfolio of $182.4 million which grew by 12.8 percent to $205.7 million by June 2005. With continuous improvement in business processes and investor confidence, the portfolio further grew by 35 percent to $278.6 million by June 2006.

The performance of the unit during this financial year was outstanding in the first 6 months however the Bank experienced a drop in lending after the events of 5th of December 2006.

Despite the hurdles, the unit was able to meet 84 percent of its disbursement target of $61m and grow its portfolio by 14 percent.

Of the total disbursements during this financial year, close to 75 percent of the funds went towards development projects.

Major growth was noted in Infrastructure construction, Real Estate Development, and Tourism sectors. Significant construction project completed this year was Mid City Plaza.

Agriculture

The Bank approved 3 loans worth $678,000 during this financial year. The portfolio decreased to $6.4 million from $8.7 million when compared to opening portfolio as one account worth $2.4 million was paid off.

Agro – Industry

A total of 5 loans worth $1.4 million were approved during the review period. The portfolio

decreased to $3 million from $3.27 million when compared to the opening portfolio balance.

Infrastructure Construction

Bank approved 4 loans totaling to $8.5 million. As at end of the financial period the portfolio comprised of 5 accounts totaling $25.69 million resulting in a significant growth in value when compared to the opening portfolio of 3 accounts worth of $15.43 million.

Manufacturing

During the review period a total of 9 loans worth of $1.9 million were approved. By the end of the financial year the portfolio decreased from $10.95 million to $10.5 million when compared to the opening portfolio.

Professional & Business Services

This sector recorded a growth with Bank approving a total of 15 loans worth $2.55 million during the financial year increasing the portfolio from 26 accounts worth $7.95 million to 40 accounts worth $9.18 million.

Real Estate

The Bank approved 19 loans worth $9.9 million. As at end of the financial period the portfolio increased significantly from 91 accounts worth $61.34 million to 107 accounts worth $76.69 million.

Tourism

The sector continues to grow with the Bank approving 7 loans worth $4.97 million. The portfolio increased from 20 accounts worth $44.76 million to 22 accounts worth $53.22 million by the end of the financial period.

Transport & Communication

There were 10 loans worth $2.97 million approved during the review period. By the end of the financial period the portfolio declined from $14 million being the opening portfolio balance to $12.2 million.

Wholesale, Retail and Restaurant

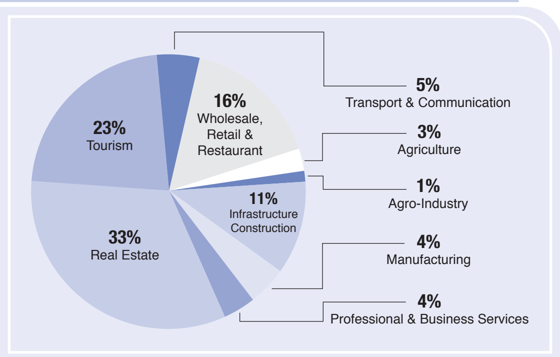
During the review period the Bank approved 14 loans worth $2.35 million under this sector. The portfolio declined from $39.36 million to $38.34 million by the end of the financial year.

Outlook

With the improving liquidity position applying downward pressure on our cost of funds and subsequent downward trend in interest rates, business confidence is gradually returning and the unit is confident of achieving a healthy growth in excess of 6 percent in the next financial year.

The focus would be on resource based industries and export and import substitution projects in the manufacturing sector. Infrastructure projects would also receive attention along with development in the tourism sector.

Corporate Portfolio



"...the Bank shall facilitate, stimulate and promote the development of natural resources, transportation and other industries and enterprises in Fiji and in the discharge of these functions, the Bank shall give special consideration and priority to the rural and agricultural sectors of the economy of Fiji."

(FDB Act Cap 214 Sect. 5).

The Agriculture and Development Finance Division (A & DF) aims to carry out the Bank's role in the development of the nation's rural and agricultural sectors. In order to achieve this, A & DF took steps to ensure that its operations were aligned with the Act. One such major effort is the restructure that was implemented at the start of the 2006/2007 financial year.

Previously, A & DF was responsible for managing portfolios that were approved at values less than or equal to $100,000. The restructure saw the end to this restriction, and opened up the bracket to include loan applications greater than $100,000. This, however, was only limited to those portfolios that qualified for government assistance such as grants and subsidies. This not only resulted in the increased number and value of A & DF's total portfolio, but also its efficiency in processing its loans.

In terms of volume, A & DF is responsible for managing the bulk of FDB's active accounts, which include sectors such as:

- Agriculture;
- Agro-Industry;
- Small Businesses;
- Tourism;
- Transport; and
- Wholesale & Retail.

Although the five sectors above are the major ones handled by A & DF, minor sectors include:

- Manufacturing;
- Mining & Quarrying;
- Infrastructure Construction;
- Professional & Business Services;
- Real Estate; and
- Staff Loans

Moreover, A & DF is responsible for majority of the loans that fall under the various Government Schemes such as the:

- Northern Facility;
- Seed Capital Revolving Fund (SCARF);
- Commercial Loans to Fijians; and
- Small Business Equity Scheme (SBES).

Northern Facility

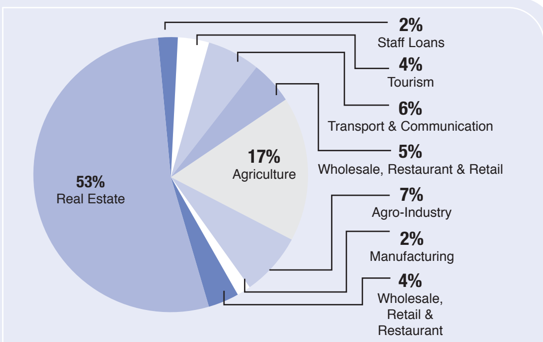
In its efforts to revive the ailing Northern economy, Government adopted this policy three years ago.

As a result of the high migration of people from Vanua Levu to Viti Levu, as well as the devastating effects of cyclone Ami, the Government of the day, together with FDB implemented the "Look North Policy". This facility targets all types of businesses in the provinces of Bua, Cakaudrove and Macuata.

On the 24th of January 2006, this facility was temporarily suspended as the allocated funds had been exhausted. However, after further consultation with the Government, it was reopened on October 19th 2006. Seven months after it was revived, the facility had run its full term of 3 years, and was again suspended on May 15th 2007. There was no specific allocation for maintaining this facility in the revised Government Budget. However, consultation with the Government is currently underway on the possibility of diverting a portion of the $5 million allocation for the development of the Northern region, towards the continuance of the Northern Facility.

At the end of the financial year, the facility portfolio was comprised of 337 projects worth $4.7 million, 1.1 percent of the total value of the Bank's portfolio. During the year 133 loans valued at $7.2 million were approved. In contrast to the previous years standing, this year saw a growth of about $0.5 million.

Agriculture & Development Loans Portfolio



Seed Capital Revolving Fund (SCARF)

This fund was initially setup to attract projects concerned with sectors such as eco-tourism, fishing and forestry. The major attraction of this scheme is the interest free grant portion that is provided by government. This portion is paid back to the Bank, who administers the fund, and redistributes available money, to other projects, thus "Revolving Fund".

During the year, approvals under this scheme were rather slow due to the late repayments, or inability of clients to repay the grant portion, which in turn affected the funds available for further distribution to new applications. As at June 2007, the SCARF portfolio stood at 56 loans valued at $3.6 million.

Commercial Loans to Fijians Scheme (Indigenous Loan Schemes)

Since its inception in 1975, the policy governing this scheme has undergone significant modifications to suit the ever changing economic environment. With this scheme in place, the Bank plays a vital role in encouraging the indigenous people to participate in various business ventures, thus contributing to the development of the Fiji economy.

Compared to last year's approvals of 493 valued at $15.8 million, approvals for the year stood at 319 loans valued at $17.7million. As at 30th June 2007, this portfolio was valued at $77.9 million with a volume of 1,250 accounts.

Small Business Schemes (SBS)

Just like the Indigenous Loan Scheme, SBS aims at providing opportunities for people, particularly non-indigenous communities, to participate in the small business sector.

The year's portfolio stands at 634 accounts valued $6.1million, with approvals of 227 applications totalling $3.2 million.

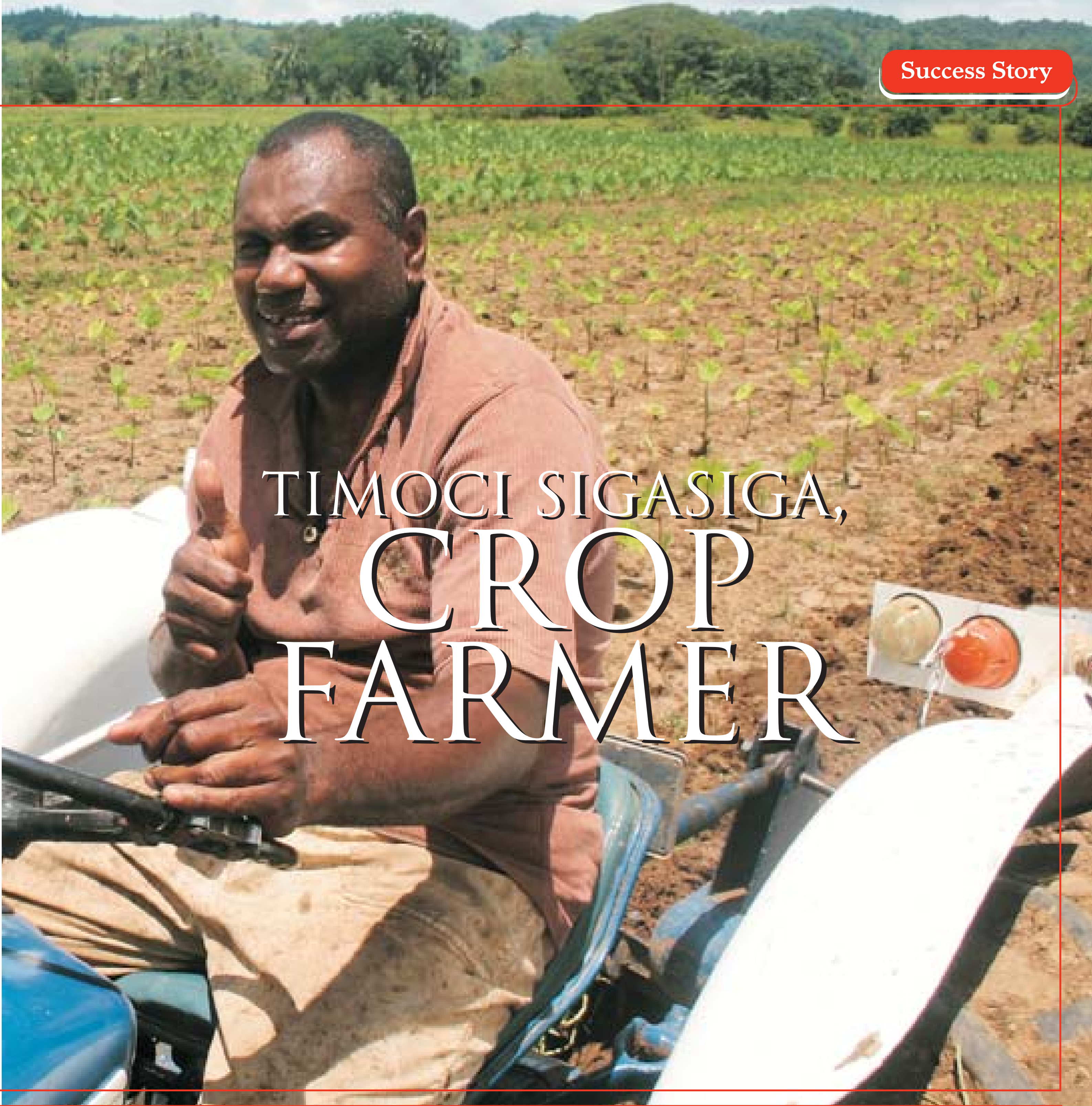
Project Report

Project Manager:
Timoci Sigasiga

Project:
Root Crops, Dalo & Other

Project Info:
Agriculture

Comments:
My whole lifestyle has changed moving from the village to farming on my own. The income is regular and stable, plus in the next few years, we are thinking to be an exporter. We are selling to middlemen and in future are trying to target England.



TIMOCI SIGASIGA, CROP FARMER

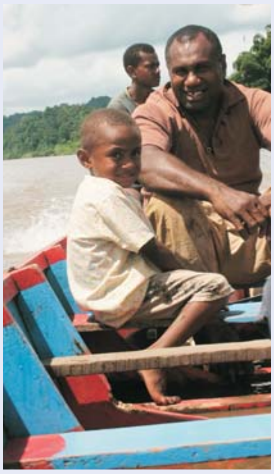
Timoci Sigasiga (commonly called as Jim) owns a 15 acre farm in Muaniweni, an agricultural area in the interior of Naitasiri, which is almost 30 km from Nausori Town. He lives there with his wife and four children and he grows root crops such as dalo, cassava, kumala, as well as watermelon and okra.

Four years ago he used to live in the village and would help out in community work.
He then realized this effort wasn't earning him much income. In 2004, Jim decided to take a big step in investing in a land away from his village. This land belonged to his close friend Vinesh. To acquire the land, Jim sought financial assistance from the FDB and he is now enjoying the benefits.

Jim supplies his cash crops to middlemen and also for export. Jim has noticed a dramatic change in his lifestyle. He is able to support his family's needs and is able to do much more then what he could afford before. This improvement has greatly enhanced his standard of living.

With Jim's success there were social draw backs from his family in the village. They were displeased with his move and didn't support him until just recently. Since he has made something out of his life, family support and acceptance from the village has returned.

In the next few years Jim wants to export his cash crops to the United Kingdom. There is a market demand and only continuous supply is necessary from Fiji. With the help of his family and friends Jim's goal is to strive and increase his supply to different markets and focus on exporting.



Overview

Lease finance is the most recent retail product of the Bank. The product is branded as 'Maxilease' – 'your bottom line solution'. The attraction of Maxilease is that it provides finance for a variety of assets under flexible terms and conditions suited to the lessee.

FDB first entered the leasing market in November 1994 with the aim to widen bank's business base. Business grew at a modest pace as competitors, who already were in the market, had already secured a sizeable market share and set the pace for leasing business.

The recent restructure of the Bank saw the prospects of reviving the Leasing centre. In July 2006 a separate leasing centre was re-established at head office under the brand name of Maxilease. The package was revamped and launched in conjunction with the dealers of brand new vehicles in November 2006.

Despite the downturn in business caused by the political upset Maxilease is slowly gaining popularity amongst the retail customers on finance lease particularly for motor vehicles. The Bank's service delivery is superior in terms of processing time; the product offers competitive interest rates, longer term, and flexible deposits.

Maxilease offers finance lease to both individuals and businesses and is suitable to individual cash flows and allows much needed cash to meet other commitments without difficulty. Lease financing is available for a range of products from business to pleasure, commercial and heavy works, in the farming and transportation sector and many more.

Performance

Since the launch of Maxilease, a span of six months to the end of this financial year, the value of portfolio totalled $1.7million. Leases were mostly for four wheel drives followed by trucks and passenger cars. To attract customers the Bank paid first year insurance premium at no cost to the customers that bought brand new vehicles. In order to be competitive the Bank forfeited establishment and security documentation fees.

Promotion

A marketing campaign has been developed for Maxilease. The Bank has taken a soft approach to build up its leasing portfolio, as strong competitors exist in the marketplace. Since leasing is an asset based financing, initial promotion was established through the dealers of brand new vehicles and through word of mouth. However plans are in place to advertise on TV, radio and print media.

Joint road shows with preferred car dealer have allowed the Bank to introduce Maxilease to the rural community. The objective of the road show was to take the product and services to the doorsteps of the customers and save them valuable time. Many took advantage of the sales promotion where decisions were made on the spot if they qualified for financial assistance.

Future Outlook

The economic conditions are difficult as many individuals and businesses hedge investments in capital assets. Based on data by FMTA motor vehicle sales are down by 25 percent resulting in severe competition.

Ways of strengthening the leasing portfolio is being looked into to offer better choices to customers. Banks participation in road shows will continue as this will make our services readily accessible to the rural dwellers and foster rural development.

The Bank will focus on efforts to build and strengthen networking with various stakeholders and continuously improve processes to improve on service delivery. The ultimate goal is for lessees to have the desired assets in their possession in the shortest time.

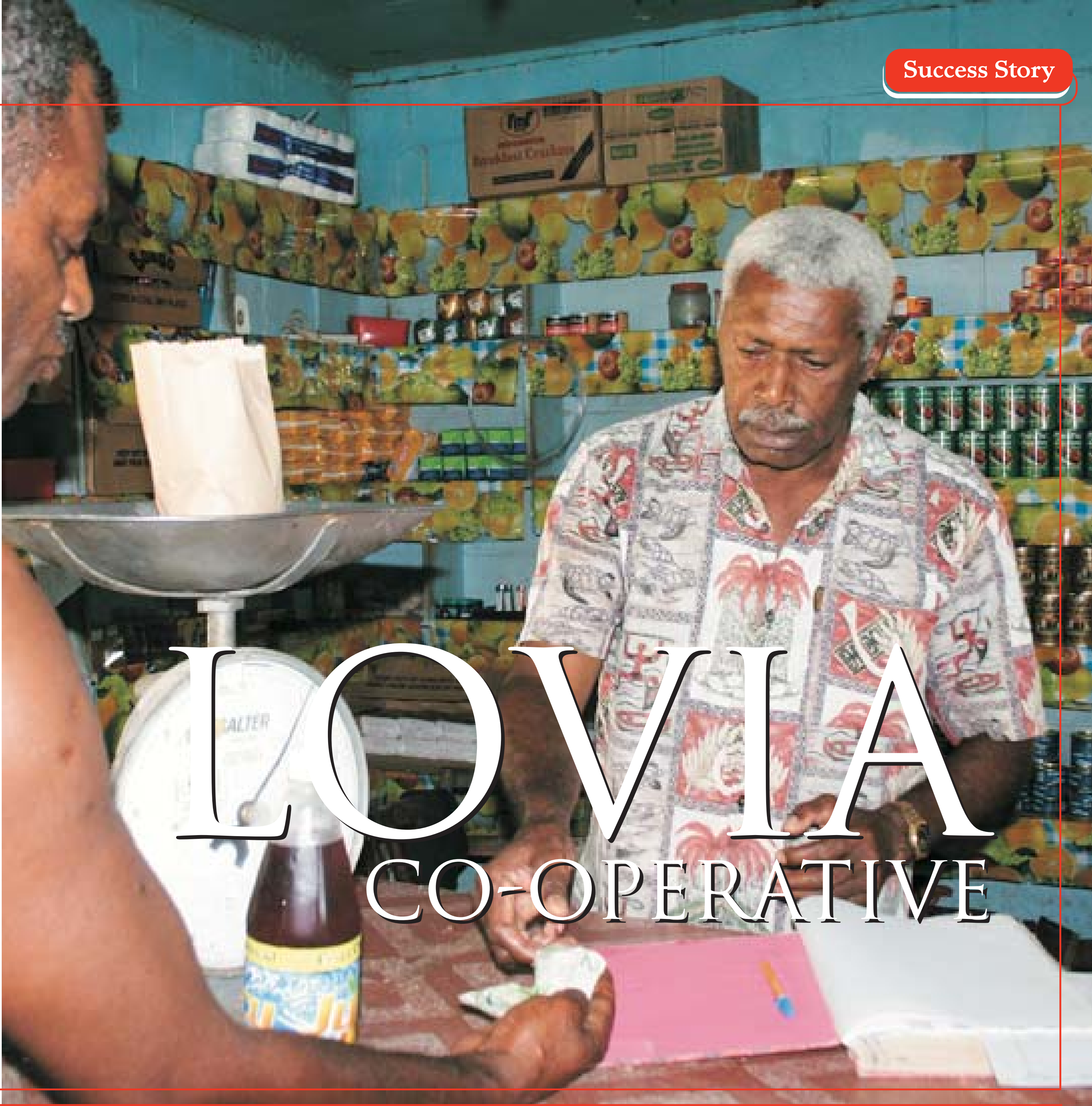
Project Report

Project Manager:
Sakaraia Koroi

Project:
Lovia Co-operative

Project Info:
Agriculture

Comments:
"Administration and monitoring the activity of the co-operative is very important"



LOVIA
CO-OPERATIVE

"Solosolovaki" or working together as a co-operative is proving very successful in the communal rural setting and the Bank sees this method of business as another way of improving the quality of life of rural people. Lovia co-operative started more than 4 decades ago with a banana plantation. They progressed to a retail shop and built a concrete structure for the same business, based in Savu Village in Naitasiri.

Led by a progressive Chairman, Sakaraia Koroi, the co-operative has further built its assets through ownership of 3 trucks. One from the fleet is funded by the FDB. Two of the trucks serve the community for transporting farm produce and people, and the third is contracted out. "Administration and monitoring the activity of the co-operative is very important," says Mr. Koroi. He personally supervises the daily operations. All sales are strictly on cash basis.

Mr. Koroi is considering diversifying the business, and introduce another income generating venture using local resources, that is extraction of gravel.

The income from the co-operative is shared by all members at the end of the year which totals just over $10,000. The co-operative has also invested about $20,000 in the Unit Trust.

Choice Home Loan (CHL), first branded in 2004 has been in existence for almost 3 years now. In July 2005, CHL officially became a division, strongly supported by its growing portfolio. It has recorded rapid positive growth ever since inception, despite the stiff competition from other commercial and financial institutions.

Overview

Set against an extremely competitive market backdrop, this product has to be attentive to the demands of the home loan market. The market clearly shifts towards attractive interest rates and quick and quality service delivery; CHL is readily challenged to aim towards securing this competitive edge.

During this financial year, the Reserve Bank of Fiji increased the interest rates in August 2006 and January 2007 in a bid to dampen consumer demand. This adversely affected the pricing competitiveness of CHL rates which were subsequently raised.

The political events of 5th December 2006 slowed down lending in property as people became cautious in mortgage investment. This is understandably an acceptable trend in such circumstances.

Despite the setbacks, the CHL portfolio has grown considerably over the last 3 years and offers strong competition to other home financing institutions.

Choice Home Loan products

CHL continues to stand unique from it's competitors. In order to retain customers, as well as, attract new business, the Bank continuously upgrades its products and service delivery. The 3 main products are;

Owner Occupier

An owner occupier option is available to the buyer for family dwelling. He may choose to buy a piece of land and build his house. The owner occupier can also purchase a two flat building, for renting out the second flat. If he has an existing loan with another financial institution, the Bank can refinance such loan. The term for this loan is up to thirty years.

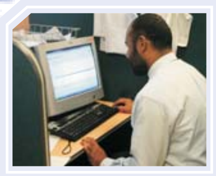
Investment

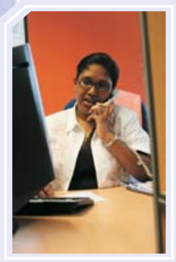
Finance is available for property investment also wherein a customer can purchase three properties at the most; one being for customer to occupy and the remaining two as investment properties. The maximum term for this loan is twenty years.

Line of Credit

This facility is for financing the personal needs for existing borrowers. Customers are able to borrow to buy a car, take a holiday, and other personal financing needs. The loan term for LOC is up to fifteen years.

The features associated with the above products enhance its saleability. Some of these features were developed during the year to maintain CHL's competitiveness and receptive to customers wants.





The financial difficulties faced by customers as a result of pay cuts, reduced work hours and generally depressed economy compelled the Bank to review some features of the CHL. These have eased the cash flow pressure on a significant number of existing and new borrowers.

Home Equity

This feature allows the client to consolidate his personal debts with the home loan and have one deduction made from source towards the debt. Such debts could include paying off car loan and unsecured personal loans, etc.

50 years mortgage

This option is especially suited to young and first time borrowers who have a sound career path for incremental earnings. It gives them the advantage to invest in a property early in their working life. It offers low monthly repayments giving them expanded purchasing power to own more than one house or improve their disposable income.

Interest Only Mortgage

Interest Only Mortgage cushions the drain on a borrower's cash flow for up to 5 years when he pays only the interest portion of the loan. This option also increases one's purchasing power to maintain a comfortable standard of living.

Low Doc Loans

This is suitable for those who are unable to provide income documentation to the Bank to verify their income. It targets self employed people who have been in operation for 2 or more years but lack proper financials statements or tax returns to verify their income, or those who experience uneven cash flows or those that have difficulty separating personal and business income.

CHL Portfolio

	2005	2006	2007
$m	13.5	40.0	65.7

The challenges faced by the Bank is continuously re-assess the demands and pricing of the home loan market and simultaneously review the Banks policies and strategies to maintain a secure/healthy portfolio and competitive edge.

Corporate governance is the system by which the organisation is directed, monitored and controlled. It is concerned with holding the balance between economic and social goals and between individual and communal goals with the aim of aligning as nearly as possible the interests of individuals, organisations and society.

The Fiji Development Bank believes that good corporate governance, based on fairness, transparency, integrity, disclosure and accountability adds value to the Bank and its business.

Corporate governance is the system by which the organisation is directed, monitored and controlled. It is concerned with holding the balance between economic and social goals and between individual and communal goals with the aim of aligning as nearly as possible the interests of individuals, organisations and society. In general it specifies the distribution of rights, responsibilities and obligations of the different participants in the organisation including the Board, Board sub-committees, individual directors, management, government (as the shareholder) and other stakeholders including employees, customers of the Bank and the community at large.

The Fiji Development Bank believes that good corporate governance adds value to the Bank and its business.

The basic principles of good governance are based on fairness, transparency, integrity, disclosure and accountability.

The Board of FDB

The Board is responsible to the shareholders (government) for the governance of FDB and oversees its operations and financial performance. It sets the strategic direction and financial objectives, determines the appropriate risk appetite of the Bank and monitors operational performance.

The Board appoints the Chief Executive Officer (CEO) and reviews his performance. The Board on recommendation of the CEO and the HR Committee appoints Senior Executives (General Managers) of the Bank.

The Board strives to achieve a balance of skills, knowledge, experience and perspective among its directors. This is particularly important for the banking sector, as banks have deep relationships with customers across every sector of the economy and need to understand events in the local and global economy.

The members of the Board of FDB are appointed by the Ministry of Finance and operate under the provisions of the Fiji Development Bank Act (FDB Act) Cap 214. The Board meets monthly and are paid directors fees as directed by the Ministry of Finance. Directors are also paid a sitting allowance for every sub-committee meetings attended.

Individual directors are required to sign and abide by the banks code of conduct, oath of secrecy and to declare any conflict on interest that may arise while fulfilling their duties as Directors of the Bank.

The Board has met 13 times during the financial year ended 30 June 2007. The details of the director's participation of such meetings are given below:

Name of the Directors	No. of meetings attended
Sereana Qoro (Ms) *Chairperson*	12
Kalivati Bakani	13
Samuel Foy Chung	9
Ian Chute *(term expired on March 2007)*	9
Solomone Vosaicake *(term expired on March 2007)*	9
John Samisoni *(term expired on March 2007)*	10
Ian Hawthorn	12
Adish Naidu	11
Taina Ravutu (Ms)	10

Board Sub-Committees

To facilitate focused attention on specific areas of review, the Board of FDB has appointed four sub-committees: ALCO, Audit Committee, HR Committee and Development Charter Committee. Members of the sub-committees are appointed by the Board based on skills, knowledge and experience. Each sub-committee has its own Charter.

ALCO – Asset and Liability Committee

The Asset and Liability Committee sets policy and guidelines for Asset & Liability Management, makes decision on and evaluates the treasury functions of the Bank which executes these policies and guidelines. ALCO is primarily responsible for setting parameters, policies, procedures and strategic direction for asset and liability management while the daily operations is handled by the Treasury Department.

Audit Committee

The Audit Committee serves as a means of communication between the Board, Auditors and the Management and has oversight responsibility for the banks financial reporting policies, internal control and processes and supervises the Internal Audit function. It is also responsible for the integrity of the Bank's financial reports.

Structure and Composition of the Board sub-commitees

Name of Director	ALCO	Audit	HR	Dev Charter
Sereana Qoro (Ms)		✓		
Samuel Foy Chung			✓	✓*
Kalivati Bakani	✓	✓*		✓
Ian Chute **				
Solomone Vosaicake **	✓			
John Samisoni **			✓*	
Ian Hawthorn	✓	✓		
Adish Naidu				
Taina Ravutu (Ms)			✓	

* Chairperson of the Sub-Committee
** Term expired during the year

HR Committee

The HR Committee makes recommendation on appointment of CEO and General Managers including assessing their performance. The HR Committee also looks into strategic human resource issues and other major HR matters.

Development Charter Committee

This Committee identifies areas where the Bank can actively participate in fulfilling its development charter loans.

Management

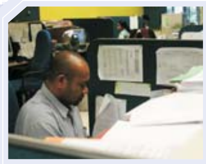
Executive Committee (EXCO)

Under the leadership and guidance of the Chief Executive Officer, the Executive Committee manages the business of the Bank, implements the strategic and operational plans, and allocates resources within the budget approved by the Board. EXCO manages the day to day operations of the Bank based on the operational plan and strategic direction and within the budget approved by the Board.

Compliance Framework

Internal Audit

The Internal Audit team is responsible for ensuring that the operations of the bank are in compliance with the internal control systems and procedures on the Bank. The internal Audit Team reports directly to the Board Audit Committee with dotted line report to the CEO for administrative purposes only. This ensures the independence of the internal audit team.



External Audit

Under the FDB Act and Financial Management Act (FMA), the financial statements of the Bank are required to be independently audited annually. Under the current FMA Act, the Auditor General is the external auditor for the Fiji Development Bank.

Stakeholders

Employees

Employees in carrying out their duties are required to comply with all internal policies and procedures of the Bank.

Non compliance and non performance of employees is dealt with in accordance to the procedures set out in the Collective Agreement with the Fiji Finance and Banking Employees Union.

Individual employees are required to sign and abide by the banks Code of Conduct, Oath of secrecy and to declare any conflict on interest that may arise while fulfilling their duties as employees of the Bank.

The FDB recognises that client data confidentiality is paramount in the Banking industry and has strict guidelines to assure that this is maintained.

Customer

The FDB recognises that its customers are the most valuable stakeholders. The Bank strives to maintain the highest customer service as possible. Where a customer believes that they have not been treated fairly, a complaint procedure is in place whereby customers can lodge a written complaint directly to the CEO of the Bank. These complaints are dealt directly by the CEO's Office.

Other Stakeholders

Community at large

The FDB believes that it also owes a responsibility to the community at large. It has a Corporate Social Responsibility policy and is currently focused in educating students in financial management and in maintaining Fiji's environment.

Project Report

Project Manager:
James W Lee

Project:
Ram Sami & Sons

Project Info:
Agriculture

Comments:
"We are all in the business to gain money but at the same time, we want to make sure that the benefit is offered to the consumers and suppliers whoever we work in partnership with. I think they make a difference"

RAM SAMI & SONS

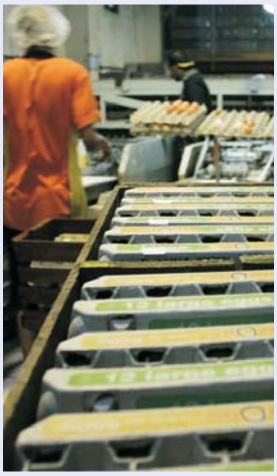
The business of producing good quality farm fresh eggs isn't easy, but Ram Sami has tackled the challenge with much success and development. Lately, the inclusion of the adage – "an egg a day is OK" has positioned them in this niche market exceeding the expectations of their valued customers.

From a humble beginning of a back yard chicken shed in Nausori 45 years ago by Mr & Mrs Ram Sami, the company was incorporated in 1970 and after has evolved to become the leading egg producers and distributors in Fiji. The Company was restructured in 2005 and commenced operations as Ram Sami & Sons (Fiji) Limited. Currently the company has four laying farms, one brooding and rearing farm, a feed mill, a warehouse, whilst employing over 170 staff.

Their major customers to whom they supply farm fresh eggs are all the leading supermarkets in Fiji, major hotels and aviation catering service providers, municipal markets, dairy shops, restaurants, canteens, and cafes. Ram Sami also supplies eggs to various South Pacific countries such as Tonga, Samoa, Tuvalu, and Wallis and Futuna.

The successful partnership with FDB on financial assistance has enabled Ram Sami to implement long term plans in order to operate in greater capacity, efficiency and accuracy. The upgrading of its egg grading machine in 2006 to a total cost of $2.4 million has allowed them to meet 70-80 percent of market needs and Fiji is fully self sufficient in egg production.

The Ram Sami name grew to be a household name through effective marketing drive. They are also promoting the egg buddy system in some pilot schools, where they provide a free meal twice a month and educate children about the benefits of eggs.



This year's event was the most successful; awareness has improved over the last few years, support from the Bank's branch network was strong and other stakeholders such as micro finance groups gave their support.

Overview

The Bank has strengthened its obligation in this area considerably in terms of impact to the community and investment of funds. It believes in serving the people, by way of sponsorships, donations and generally addressing concerns that will benefit the nation as a whole. At the same time the Bank believes that this responsibility be aligned to its corporate focus. The strategic areas of investment is in charity, acknowledging micro and small business entrepreneurs, educating the young and protecting our environment.

Money $mart

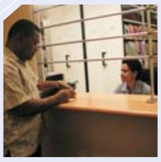
Money $mart is a program for children, where they are taught the basics of understanding money and simple money management skills by inculcating good budgeting, spending and saving habits through the school curriculum. This initiative was developed in-house. The skills taught in this programme foster development of personal financial management at a young age and the Bank believes these life skills will remain with the child for life.

The Bank made a deliberate choice in embarking on this project. Fiji's island culture and lifestyle does not prepare the child and the community to meet the demands of modern living, which is adopted from the western lifestyle, without the financial finesse. Money $mart aims to inculcate simple yet very important money management skills to instil in our children the concept of identifying their "needs and wants" and "living within their financial means", and most importantly prepare them to design their own savings plan to achieve a desired goal. Also it is intended to alert the youths not to be swayed by indiscreet advertising for goods and services.

Another meaningful feature of this program is that it has considered the socio economic background of children in both rural and urban areas. The FDB is aware that urban students are likely to receive cash allowances more readily than rural children. Therefore, the program has been designed to accommodate rural students to earn money through enterprising activities. Fiji's rural areas have an abundance of natural resources which can be used to generate a source of income for students to be put away as savings.

The FDB acknowledges the support of the Ministry of Education in sharing a similar vision with the Bank for the youths by incorporating Money $mart as a compulsory 'Internal Assessment' in Form 3 (year 9) schools throughout Fiji. The program is given further strength by being examinable in Fiji Junior Certificate (FJC) which is an external exam for year 10 students; thirty percent of the total possible marks will form part of the FJC commercial studies assessment. Sincere gratitude is expressed to the Curriculum Development Unit members of the Ministry of Education who worked together with the FDB team in preparing this program.

An investment of around $160,000 was incurred for resources to all high schools through out the country. The Bank's initial commitment to this program is for three years, subject to review based on success. Assessing mindset change is not feasible over short term;



therefore the Bank will consider both short and medium term benchmarks to form an opinion. Nevertheless, FDB strongly believes that even a 10 percent success rate over the medium term will be encouraging as this will have significant spin offs.

FDB Small Business Awards

This is an annual event in the Bank's calendar. The FDB launched the first Award in August 2004 to promote small and micro enterprise (SME) development through acknowledgement of successful and innovative entrepreneurs. Because economic growth and employment is driven by these businesses; they need encouragement to pursue their business goals. These people represent the true essence of entrepreneurship; they encounter hardships along the way and make personal sacrifices to make ends meet. This Award rewards their sacrifice and commitment. An appropriate slogan "Bisinisi lailai, paisa acha!" was coined during the year to promote this Award; this suitably means there is good money in small business, in the two major vernaculars.

The main criteria is that the business must be locally owned and have an annual turnover of $100,000 and below. Participation improved by 45 percent over last year, with 71 entries. Awards were given in the Agriculture, Commercial, New initiatives and SBA Media Categories. The overall winner was Foundation for Rural Integrated Enterprises N Development (FRIENDS).

This year's event was the most successful; awareness has improved over the last few years, support from the Bank's branch network was strong and other stakeholders such as micro finance groups gave their support. The sponsors of the Award especially contributed to the resounding success. The Bank acknowledges the financial sponsorships from Vodafone Fiji, Asco Motors, Fiji Sun, The Reserve Bank of Fiji and Quality Print Limited. Corporate organizations play an essential role through recognition and participation in such events.

Charitable and other sponsorships

The Bank always supports charitable drives initiated by key non governmental organizations. Such organizations have the outreach and organizational commitment philosophy to deliver where charity is needed most. The Bank acknowledges their assistance to the needy of the community. During the year financial contribution was given to the Fiji Red Cross and the United Blind Persons of Fiji.

Progressing in life

Teamwork To Counter Poverty

FRIEND set up its office in August 2002 in Lautoka to be close to the rural areas. Initial financial assistance was secured from the Rural Banking Scheme. Two products were launched on International Women's Day on 8th March 2003; tamarind chutney made by Ba Seniors Centre as a fundraiser for their organization and chilli chutney as a fund raising product for FRIEND. Sashi says, "Whilst FRIEND has grown significantly in the last 4 years, we are far from the goal of serving the entire people of Fiji".

Their product lines have recently diversified into mango and lime condiments and they are already trialling honey and jam products. FRIEND's original and attractive greeting cards are much admired; these are hand made by deaf youths who would not normally find employment. In the future FRIEND would like to market rural handicrafts made from kuta, reed and voivoi.

FRIEND's has generated interest from neglected members of the society. Sashi says, "We were approached by ex-offenders in 2004 to help them start income generating projects; this was not our vision but we saw this need as most said there were no institutions helping them once they were out". FRIEND's started the Restorative Justice Program whereby they work with the prisoners while they are still in prison to build on trust and self esteem. The prisoners families also play a participative role in supporting them start income generating projects for making a livelihood when they are out of prison.

Sashi Kiran - *founder*

FRIEND

FDB participated in the Suva's Hibiscus Festival through sponsoring a contestant and contributing about $10,000 towards the charity fund. This was achieved through staff team work, generous financial support from staff, clients and friends of the Bank. Aside from the merriment of participating in this carnival, a considerable sum was donated towards charity.

Corporate sponsorships are always sought after and the Bank readily contributes if such request falls within its corporate objective domain.

FRIEND

(Foundation for Rural Intergrated Enterprises N Development)

– overall winner of the 2006 Small Business Awards

The Foundation for Rural Intergrated Enterprises N Development started with no financial resources but it had a lot of determination, will and blessings. Sashi is the founding member, and with the help of two friends as Trustees registered the organization and commenced.

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Starting from scratch offered infinite challenges for FRIEND. "The first three years was hard to get donor funding as we had no track records", said Sashi. But over the latter years they have received technical, financial and other support from Canada Fund, British High Commission, Vodafone Foundation, AUSAID, and NZAID.

"Winning the overall FDB Small Business Award was an awesome experience; the card and chutney producers felt a great boost, especially as they come from marginalized communities, remarked Sashi. "It acknowledged our achievements and further raised the profile of FRIEND and its products", she said.

Challenges are many for the growing demand of service offered by FRIEND; fund to buy raw material up front from the western and northern suppliers is the biggest one. They need larger space for working and storage, and sufficient funds to retain skilled and technical staff.

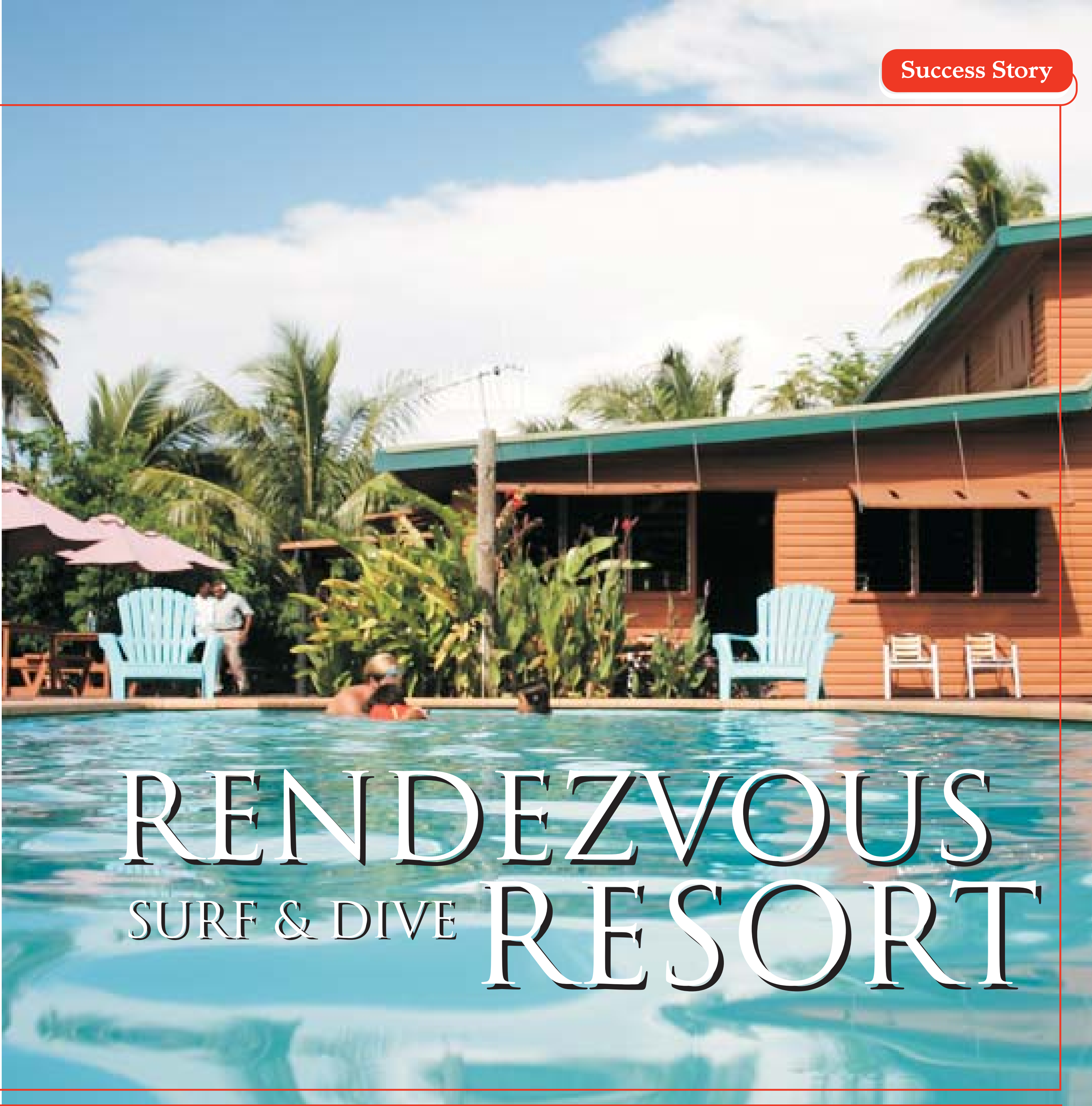
Project Report

Project Manager:
Ben Senduadua

Project:
Rendezvous Surf & Dive Resort

Project Info:
Eco-Tourism

Comments:
"There are peaks and troughs in this business, but I am hopeful that the tourism sector business picks up"



RENDEZVOUS SURF & DIVE RESORT

Ben Senduadua went abroad to get a university education; he was not happy there so he left the university in search of a career. He kept coming back to Fiji because he felt that there is life here in Fiji.

Identifying the right opportunity was a difficult decision to make. "I did not want to compete with the Indo-Fijian business community, so I explored the tourism related market where a lot of foreign investment is taking place". Ben's opportunity started in the Scuba diving business which gave him a very attractive turnover in Mana Island.

After 6 months of operation he shifted his business to the mainland due to conflict with the landowners on the island. Ben eventually acquired the ideal spot, in Uciwai, Nadi, for his surfing and scuba diving activity. "Business grew rapidly, he says, after I started marketing my business on the internet". His customers are adventure seeking tourists.

"There are peaks and troughs in this business, said Ben; I am hopeful that the tourism sector business picks up". Nevertheless, Ben enjoys trying new initiatives, and has turned to the Japanese tourists who are combining their visits with learning English as well. He hires qualified teachers to teach Japanese professionals, who have better career prospects after learning English.

Ben thrives on challenges and in his spare time explores avenues to make his business better.

The Bank's foremost asset is its employees. Employees need to be taken care of, even in difficult economic times. Even when the cash flow was stretched, the Bank did not deprive the staff of their regular remuneration and benefits and supported them through, especially during this financial year.

Several developments have taken place during the year, as highlighted below:

Job Evaluation (JE) Exercise

The completion of the JE exercise culminated with an agreeable settlement, between the Bank and the Fiji Bank & Finance Sector Employees Union (FB & FSEU). The collaborative commitment is illustrated in a signed Agreement on the JE implementation.

In these arduous times, the JE implementation is evidently a breakthrough for the Bank. It ensures that the various positions within the Bank are well placed in the job market and are competitive in the local and regional labour market.

Our People

There are 215 staff in office, compared to 211 last year. The marginal rise is attributed to the Graduate Career Opportunity Programme, which is designed to absorb graduates into substantive positions that best suits their skills and interests. A team of trainees also strengthens the Banks Manpower Planning process in times of relieving arrangements and vacancies created through resignations. Vacuums are filled in a timely manner.

The Bank readily maintains racial and gender parity within its staff. Staff ethnic breakdown comprised of 51.85 percent Fijians, 40.74 percent Indians and 7.41 percent from other ethnic background. Around 60.65 percent of staff are male.

Training & Development

Training is an integral part of the organization's human resources development. The Bank continues to invest substantially in the training of its staff.

The training centre is assigned to source and provide training that meets the organizational needs. It plays a key role in the career development of staff through external, internal and operational 'on the job' trainings.

The Management Development Programme facilitated by Turnbull Maggs Partners (South Pacific) Pty Ltd have completed training to staff who have the potential to excel and are eligible for management or senior management positions in the future.

Four (4) officers attended their first year of the Pacific Coast Banking School (PCBS) programme in the United States of America. The Bank takes on the PCBS as a way of moulding chosen staff for leadership roles. The four (4) will go through the second session in August 2007. Another four officers will be attending their first session at the same time.

A Training Needs Survey targeting lending staff was conducted by the Development Finance Institute (DFI) based in Manila, with prospects of relevant training, scheduled for



August 2007. The training identified includes appraising and supervising projects. The Bank also sponsored ten officers to resume their studies at the University of the South Pacific and the Fiji Institute of Technology. The sponsorship enabled the four officers to graduate with a Certificate, Diploma and Degree Qualification.

Legal

Legal Department is one of the service centres of the Bank. Its core function is the preparation of security documents and completion of associated formalities, to enable issue of clearance certificates to facilitate disbursement of funds. Some corporate customers deal with solicitors firms of their own choice. However, by number, around 99.5 percent of securities are prepared in-house by the Legal Department.

Stringent time standards are set for all levels of staff to improve service delivery. Without compromising legal standards, a number of internal controls are in place, to ensure that securities are valid and enforceable through out the term of the finance facility.

The centre conducted refresher training programmes to all lending centres of the Bank. This was deemed necessary in the Bank's desire to reduce rework rate from the lending centres, which improves service delivery.

The Legal Department is the custodian of all Bank securities and files in the Records registry.

It also co-ordinates legal action instigated against the Bank, which are farmed out to firms that are part of the Bank's panel of Solicitors. Furthermore, the Legal Department provides legal advice to other centers of the Bank, as and when the need arises.

Insurance

The Bank has been providing in-house insurance services to its customers through its agency, Sun Insurance Company Limited. The Insurance Centre functions under an Insurance Agent License, which is issued by the Reserve Bank of Fiji.

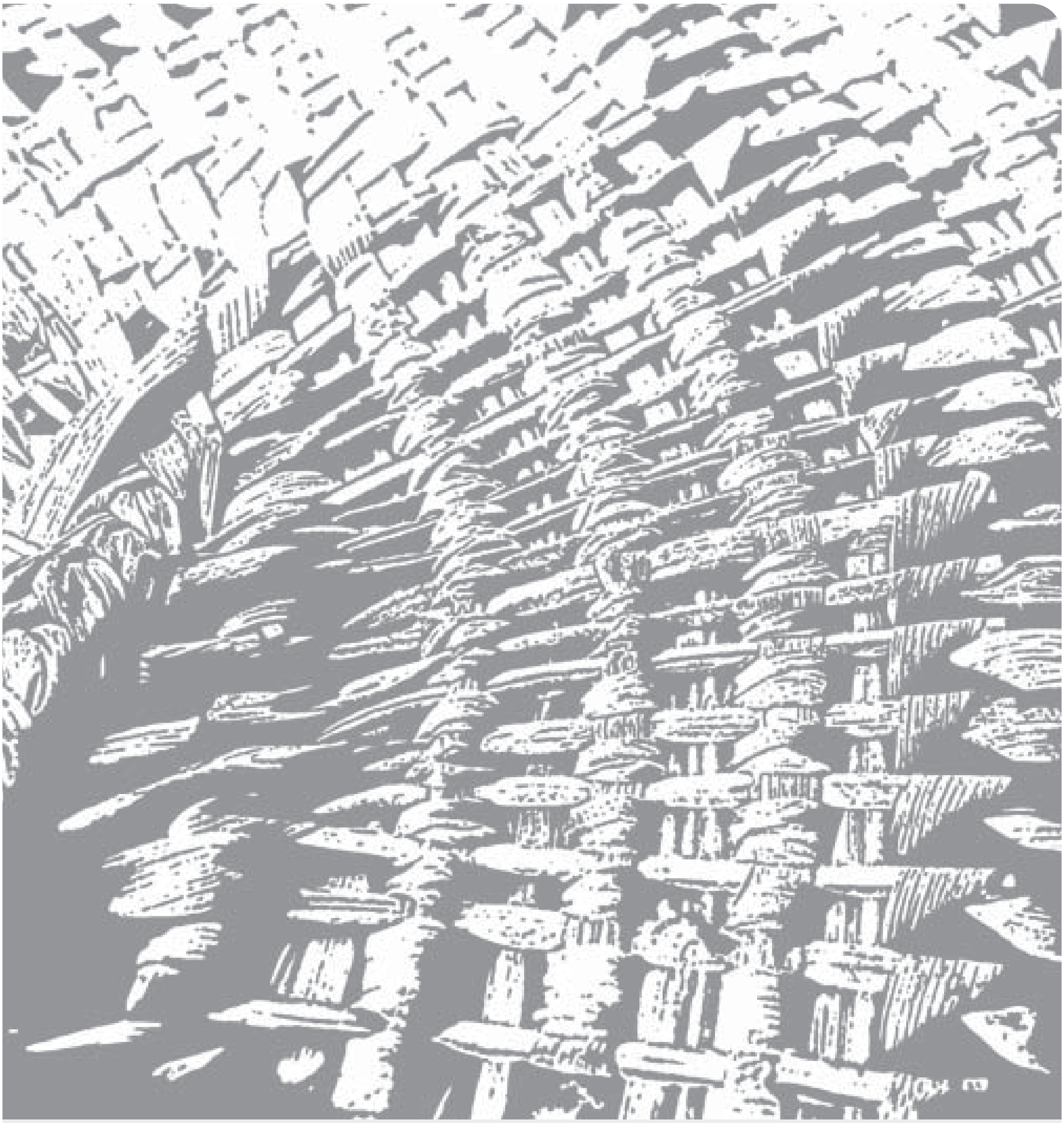
Fiji Development Bank's market share into selected sectors

NOTE:

Fiji total refers to total loans and advances outstanding by all commercial banks and the Fiji Development Bank as at 30th June 2007. The Bank's market share into selected sectors are highlighted below.

The FDB Total is inclusive of Staff Loans and Loans to the Fiji Government.

	FDB ($M)	Commercial Banks ($M)	Credit Institutions ($M)	Fiji Total ($M)	FDB as a % of Fiji Total
Agriculture	38.1	31.0	13.7	82.8	46.0
Sugarcane Growing	5.8	2.3	0.3	8.4	69.0
Forestry & Logging	12.7	11.1	10.0	33.8	37.5
Others	19.7	17.6	3.4	40.7	48.4
Mining & Quarrying	1.3	1.7	4.2	7.2	18.5
Manufacturing	19.9	254.5	18.1	292.5	6.8
Food, Beverages and Tobacco	2.1	108.7	0.7	111.5	1.9
Textiles, Clothing and Footwear	4.2	30.9	1.8	36.9	11.4
Metal Products and Machinery	2.3	14.8	1.3	18.4	12.7
Others	11.3	100.1	14.3	125.7	9.0
Building and Construction	74.1	219.5	23.1	316.7	23.4
Real Estate (Development)	126.1	230.0	17.0	373.1	33.8
Non-Bank Financial Institutions	-	4.6	-	4.6	-
Public Enterprises	**-**	**69.8**	**0.1**	**69.9**	**-**
Wholesale, Retail, Hotels and Restaurants	57.6	567.2	23.5	648.3	8.9
Hotels and Restaurants	12.3	249.0	3.9	265.2	4.6
Other Commercial Advances	45.3	318.2	19.6	383.1	11.8
Transport, Communications and Storage	29.8	74.3	49.5	153.6	19.4
Professional Business Services	9.3	90.5	32.7	132.5	7.0
Private Individuals	63.0	782.3	130.7	976.0	6.5
Housing	55.5	621.8	-	677.3	8.2
Car or Personal Individual Transport	0.7	15.1	-	15.8	4.7
Others	6.8	145.4	-	152.2	4.5
Central and Local Government	25.1	7.9	0.3	33.3	75.4
Other Sectors	2.5	128.9	8.6	140.0	1.8
TOTAL	446.8	2,462.2	321.5	3,230.5	13.8



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Statement of Changes in Equity	44
Consolidated Statement of Cash Flows	45
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In accordance with the resolution of the Board of Directors, the directors herewith submit the Balance Sheet of the Fiji Development Bank and its subsidiary as at 30th June 2007, the related Income Statement, Statement of Cash Flows and Statement of Changes in Equity for the year ended on that date and report as follows.

Directors

The following were directors of the Bank during the financial year ended 30th June 2007:

Mrs. Sereana Qoro	- Chairperson
Mr. Adish Naidu	
Mr. Ian Chute	- Term expired in March 2007
Mr. Ian Hawthorn	
Mr. John Samisoni	- Term expired in March 2007
Mr. Kalivati Bakani	
Mr. Sam Foy Chung	
Mr. Solomone Vosaicake	- Term expired in March 2007
Mrs. Taina Ravutu	

Principal Activities

The principal business activities of the Bank during the course of the financial year were providing finance, financial and advisory services to assist in the development of agriculture, commerce and industry in Fiji. There were no significant changes in the nature of the activities of the Bank during the year.

Results

The consolidated operating profit after income tax expense for the year ended 30th June 2007 was $4,597,280 (2006 – $5,345,755).

The operating profit for the Bank for the year was $4,570,023 (2006 - $5,346,651).

Dividends

The directors recommend that no dividend be declared or paid.

Reserves

During the year independent valuations of land and building were obtained resulting in a net surplus of $3,096,212 being transferred to the asset revaluation reserve. Apart from this, the directors recommend that no amount be transferred to or from reserves.

Bad And Doubtful Debts

Prior to the completion of the Bank's financial statements, the directors took reasonable steps to ascertain that action had been taken in relation to writing off of bad debts and the provision for doubtful debts. In the opinion of the directors, adequate provision has been made for doubtful debts.

As at the date of this report, the directors are not aware of any circumstances, which would render the amount written off for bad debts, or the provision for doubtful debts in the Bank inadequate to any substantial extent.

Non Current Assets

Prior to the completion of the financial statements of the Bank, the directors took reasonable steps to ascertain whether any non current assets were unlikely to be realised in the ordinary course of business as compared to their values as shown in the accounting records of the Bank. Where necessary, these assets have been written down or adequate provision has been made to bring the values of such assets to an amount that they might be expected to realise.

As at the date of this report, the directors are not aware of any circumstances, which would render the values attributed to non current assets in the Bank's financial statements misleading.

Unusual Transactions

Apart from these matters and other matters specifically referred to in the financial statements, in the opinion of the directors, the results of the operations of the Bank during the year were not substantially affected by any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect substantially the results of the operations of the Bank in the current financial year, other than those reflected in the financial statements.

Events Subsequent To Balance Date

There has not arisen in the interval between the end of the financial year and the date of this report any item or transaction of a material and unusual nature likely, in the opinion of the directors, to affect significantly the operations of the Bank or its subsidiary company, the results of those or the state of the Bank or its subsequent financial years.

Other Circumstances

As at the date of this report:

(i) no charge on the assets of the Bank has been given since the end of the financial year to secure liabilities of any ther person;

(ii) no contingent liabilities have arisen since the end of the financial year for which the Bank could become liable;

(iii) no contingent liabilities or other liabilities of the Bank has become or is likely to become enforceable within the year of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the Bank and the subsidiary company to meet its obligations as and when they fall due.

As at the date of this report, the directors are not aware of any circumstances that have arisen, not otherwise dealt with in this report or the Bank's financial statements, which would make adherence to the existing method of valuation of assets or liabilities of the Bank misleading or inappropriate.

Directors' Benefits

Since the end of the previous financial year, no director has received or become entitled to receive a benefit (other than those included in the aggregate amount of emoluments received or due and receivable by the directors shown in the financial statements or received as the fixed salary of a full-time employee of the Bank or of a related corporation) by reason of contract made by the Bank or by a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

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

Dated at Suva this 22nd October 2007

Director

Director

In accordance with a resolution of the Board of Directors of Fiji Development Bank we state that in the opinion of the directors:

(i) the accompanying income statement of the Bank and subsidiary is drawn up so as to give a true and fair view of the results of the group for the year ended 30th June 2007;

(ii) the accompanying statement of changes in equity of the Bank and subsidiary is drawn up so as to give a true and fair view of the changes in equity of the group for the year ended 30th June 2007;

(iii) the accompanying balance sheet of the Bank and subsidiary is drawn up so as to give a true and fair view of the state of affairs of the group as at 30th June 2007;

(iv) the accompanying statement of cash flows of the Bank and subsidiary is drawn up so as to give a true and fair view of the cash flows of the group for the year ended 30th June 2007;

(v) at the date of this statement there are reasonable grounds to believe the Bank and subsidiary will be able to pay its debts as and when they fall due; and

(vi) all related party transactions have been adequately recorded in the books of the Bank and subsidiary.

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

22nd day of October 2007

Director

Director

REPUBLIC OF THE FIJI ISLANDS

OFFICE OF THE AUDITOR GENERAL

ACCOUNTABILITY IN THE PUBLIC SECTOR THROUGH QUALITY AUDIT SERVICES

8th Floor, Ratu Sukuna House,
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Independent Audit Report

Scope

I have audited the financial statements of the Fiji Development Bank for the financial year ended 30th June 2007, consisting of the balance sheet, income statement, statement of changes in equity, statement of cash flows and accompanying notes as set out on pages 42 to 59. The financial statements comprise the financial statements of the Bank and the consolidated financial statements of the Group, being the Bank and its subsidiary. The Bank's directors are responsible for the preparation and presentation of the financial statements and the information they contain. I have conducted an independent audit of these financial statements in order to express an opinion on them to the members of the Bank and its subsidiary.

My audit has been conducted in accordance with Fiji Standards on Auditing to provide reasonable assurance as to whether the financial statements are free of material misstatement. My procedures included examination on a test basis, of evidence supporting the amounts and other disclosures in the financial statements and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion, as to whether, in all material aspects, the financial statements are presented fairly in accordance with Fiji Accounting Standards and statutory requirements which is consistent with my understanding of the Bank's and the Group's financial position and the results of their operations and cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In my opinion:

(a) proper books of account have been kept by the Bank and the Group, so far as it appears from my examination of those books; and

(b) the accompanying financial statements which have been prepared in accordance with Fiji Accounting Standards:

- (i) are in agreement with the books of account;
- (ii) to the best of my information and according to the explanations given to me:
  - (a) give a true and fair view of the state of affairs of the Bank and of the Group as at 30th June 2007 and of the results, cash flows and changes in equity of the Bank and the Group for the year ended on that date;
  - (b) give the information required by Section 35 of the Fiji Development Bank Act in the manner so required.

I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of my audit.

Eroni Vatuloka
Auditor-General

24th October, 2007
Suva, Fiji

AUDITOR-GENERAL FIJI

	Notes	Consolidated		The Bank	
		2007 $	2006 $	2007 $	2006 $
Capital and reserves					
Capital	2	**56,050,636**	56,050,636	**56,050,636**	56,050,636
Reserves	3	**11,709,671**	8,613,459	**11,709,671**	8,613,459
Accumulated profits		**29,380,819**	24,756,189	**29,350,062**	24,752,689
Total capital and reserves		**97,141,126**	89,420,284	**97,110,369**	89,416,784
Non-current liabilities					
Borrowings	4	**237,332,285**	227,048,034	**237,332,285**	227,048,034
Provisions	5	**825,023**	746,271	**825,023**	746,271
Total non-current liabilities		**238,157,308**	227,794,305	**238,157,308**	227,794,305
Current liabilities					
Borrowings	4	**105,836,630**	71,116,703	**105,836,630**	71,116,703
Provisions	5	**442,556**	439,078	**442,556**	439,078
Accounts payable and accruals	6	**5,279,736**	3,509,071	**5,265,012**	3,508,993
Other liabilities	7	**2,777,756**	2,699,762	**2,777,756**	2,699,762
Total current liabilities		**114,336,678**	77,764,614	**114,321,954**	77,764,535
Total Liabilities, Capital and Reserves		**449,635,112**	394,979,203	**449,589,631**	394,975,624
Commitments and contingent liabilities	8				
Non-current assets					
Loans and advances	10	**324,204,238**	292,052,253	**324,204,238**	292,052,253
Property, plant and equipment	11	**14,962,553**	12,136,131	**14,962,553**	12,136,131
Investment in subsidiary	18	**-**	-	**20,000**	20,000
Investments	12	**1,570,251**	1,735,251	**1,570,251**	1,735,251
Land held for resale	13	**438,073**	338,943	**438,073**	338,943
Total non-current assets		**341,175,115**	306,262,578	**341,195,115**	306,282,578
Current assets					
Cash		**19,283,895**	18,483,460	**19,239,014**	18,405,051
Amounts due from subsidiary	9	**-**	-	**-**	81,185
Loans and advances	10	**80,177,537**	65,711,406	**80,177,537**	65,711,406
Other debtors	14	**8,998,565**	4,521,759	**8,977,965**	4,495,404
Total current assets		**108,459,997**	88,716,625	**108,394,516**	88,693,046
Total Assets		**449,635,112**	394,979,203	**449,589,631**	394,975,624

On behalf of the Board

Director

Director

The **balance sheets** are to be read in conjunction with the **notes to and forming part of the financial statements** set out on pages 46 to 59.

	Notes	Consolidated		The Bank	
		2007 $	2006 $	2007 $	2006 $
Income					
Income from loans:					
Interest	15	**39,039,925**	30,555,541	**39,038,963**	30,554,579
Fees		**3,916,195**	3,606,041	**3,916,195**	3,606,041
Other Income	16	**2,583,067**	2,866,237	**2,542,314**	2,799,738
Total Income		**45,539,187**	37,027,819	**45,497,472**	36,960,358
Expenses					
Interest and other borrowing expenses	17	**21,164,154**	10,135,228	**21,164,154**	10,135,228
Administrative expenses	17	**12,277,649**	11,469,345	**12,275,459**	11,400,988
Total Expenses		**33,441,803**	21,604,573	**33,439,613**	21,536,216
Operating Profit Before Provisions		**12,097,384**	15,423,246	**12,057,859**	15,424,142
Doubtful loans and advances	10	**7,322,836**	10,077,491	**7,322,836**	10,077,491
Diminution in investments	12	**165,000**	-	**165,000**	-
Operating Profit Before Income Tax Expense		**4,609,548**	5,345,755	**4,570,023**	5,346,651
Income tax expense	1(K)	12,268	-	-	-
Operating Profit After Income Tax		**4,597,280**	5,345,755	**4,570,023**	5,346,651

The income statements are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 46 to 59.

	Consolidated				
	Capital $	Revaluation reserve $	General reserve $	Accumulated profits $	Total $
Balance at 30 June 2005	56,050,636	6,335,395	2,500,000	19,188,498	84,074,529
Net profit for the year	-	-	-	5,345,755	5,345,755
Effect of sale of revalued assets	-	(221,936)	-	221,936	-
Balance at 30 June 2006	56,050,636	6,113,459	2,500,000	24,756,189	89,420,284
Net profit for the year	-	-	-	4,597,280	4,597,280
Effect of sale of revalued assets	-	(27,350)	-	27,350	-
Revaluation of Bank Properties	-	3,123,562	-	-	3,123,562
Balance at 30 June 2007	**56,050,636**	**9,209,671**	**2,500,000**	**29,380,819**	**97,141,126**

	The Bank				
	Capital $	Revaluation reserve $	General reserve $	Accumulated profits $	Total $
Balance at 30 June 2005	56,050,636	6,335,395	2,500,000	19,184,102	84,070,133
Net profit for the year	-	-	-	5,346,651	5,346,651
Effect of sale of revalued assets	-	(221,936)	-	221,936	-
Balance at 30 June 2006	56,050,636	6,113,459	2,500,000	24,752,689	89,416,784
Net profit for the year	-	-	-	4,570,023	4,570,023
Effect of sale of revalued assets	-	(27,350)	-	27,350	-
Revaluation of Bank Properties	-	3,123,562	-	-	3,123,562
Balance at 30 June 2007	**56,050,636**	**9,209,671**	**2,500,000**	**29,350,062**	**97,110,369**

The statements of changes in equity are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 46 to 59.

	NOTES	2007 $ INFLOWS (Outflows)	2006 $ INFLOWS (Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest and subsidy received		**39,294,415**	32,785,251
Interest and other costs of borrowing paid		**(19,345,090)**	(9,306,300)
Fees received		**3,916,195**	3,606,041
Cash paid to suppliers and employees		**(11,054,169)**	(9,483,002)
Other receipts		**290,287**	537,542
Net cash provided by operating activities	23 (ii)	**13,101,638**	18,139,532
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for investments		-	(1,685,000)
Customer loans granted		**(112,531,000)**	(159,626,000)
Customer loans repaid		**55,870,393**	70,373,954
Payments for property, plant and equipment		**(672,054)**	(695,842)
Receipts from disposal of property and equipment		**185,747**	584,281
(Payments)/receipts for land held for resale		**(99,130)**	(49,856)
Net cash (used in)/provided by investing activities		**(57,246,046)**	(91,098,463)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term borrowings		**88,074,917**	50,448,241
Repayment of long-term borrowings		**(77,850,000)**	(32,869,282)
Net increase/(decrease) in short-term borrowing		**34,719,926**	60,116,109
Net cash provided by/(used in) financing activities		**44,944,843**	77,695,068
Net increase in cash held		**800,435**	4,736,137
Cash at the beginning of the financial year		**18,483,460**	13,747,323
Cash at the end of the financial year	23(i)	**19,283,895**	18,483,460

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 46 to 59.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Fiji Development Bank is a fully owned Government of Fiji ("Government") entity domiciled in Fiji. The consolidated financial statements of the Bank for the year ended 30th June 2007 comprise the Bank and its subsidiary company. The financial statements were authorised for issue by the Directors on 22nd October 2007.

The significant policies which have been adopted in the preparation of these financial statements are:

(a) Basis of accounting

The general purpose financial statements of the Group and the Bank have been prepared in accordance with the requirements of the Fiji Accounting Standards and the law. Unless otherwise stated, the financial statements have been prepared under the historical cost convention and do not take into account changing money values or, except where stated, current valuations of non-current assets. The accounting policies have been consistently applied.

The financial statements are presented in Fiji dollars rounded to the nearest dollar.

(b) Principles of consolidation

The consolidated financial statements of the Group include the financial statements of the Bank being the chief entity and its controlled entity as disclosed in Note 18.

The balances and effects of transactions between the Bank and the controlled entity have been eliminated.

(c) 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.

Unearned interest on lease finance is brought into account at the time of realisation.

Government interest subsidies

Government provides interest subsidies on certain loans schemes. These interest subsidies are recognised as interest income as they accrue.

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.

(d) Borrowings

Bonds

FDB registered bonds are recorded at face value. The discount on these bonds is amortised on a straight-line basis over the term of the bond to which it relates. Borrowing costs are recognised as expenses in the period in which they are incurred.

(e) Property, plant and equipment

Acquisition

Items of property, plant and equipment are recorded at cost and depreciated as outlined below. Items purchased at less than $500 are expensed.

Revaluation

Revaluations reflect independent assessments of the fair market value of land and buildings based on existing use. Revaluation increments or decrements are credited or debited directly to the asset revaluation reserve, respectively.

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

Depreciation

Property, plant and equipment with the exception of freehold and leasehold land are written off over their expected useful lives using the straight line method of depreciation at the following rates, whilst leasehold improvements are amortised over the shorter of their useful lives and the terms of their respective leases.

Buildings and improvements	1.25%
Plant, equipment, furniture and fittings	10%
Motor vehicles	20%
Computer hardware and software	20%
Leasehold land	Term of the lease

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the asset or cash generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs. Impairment losses are recognised in the income statement.

(f) Loans and advances

Loans and advances net of lending provisions include direct finance provided to customers such as term loans, lease finance, working capital and import letter of credits.

Term loans are carried at principal balances outstanding plus interest accrued. Finance leases are shown net of unearned interest.

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.

* *Restructured loans*

Restructured loans are those where the original terms of the contract have been modified to provide concessions of principal and/or interest to the borrower because of financial difficulties.

* *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.

(g) Bad and doubtful loans and advances

Loan accounts are reviewed throughout the year to assess the provision for bad and doubtful loan requirements.

The collectibility 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.

All known bad debts are written off against the provision in the year in which they are classified as irrecoverable.

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.

Unallocated specific provisions

An unallocated specific provision is maintained by the Bank on loans graded substandard and below. This policy is in accordance with the Reserve Bank of Fiji's minimum provisioning guidelines.

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 Credit Risk Rating "(CRR)" and is allocated monthly to reflect the highest risk. The general provision is based on a percentage and is reviewed on a yearly basis.

(h) Investments

Investments are those that the Bank has purchased with positive intent and ability to hold until maturity. These securities are recorded at cost or at cost adjusted for amortisation of premium or discounts. Premiums and discounts are capitalised and amortised from date of purchase to maturity. Interest income is accrued.

Equity investments in companies that are not subsidiaries are carried at the lower of cost and net realisable value. Marketable equity securities are valued at the lower of cost and market value.

(i) Transactions in foreign currencies

Borrowings and amounts payable in foreign currencies have been translated to Fiji dollars at the exchange rates ruling at balance date. Exchange gains and losses whether realised or unrealised, for which exchange risk cover has not been provided by the Government, are recognised in full in the income statement.

(j) Land held for sale

The Cane Estate and other land held for subdivision and resale are carried at the lower of cost and net realisable value. Cost includes the costs of acquisition and development.

(k) Taxation

The Bank has made no provision for taxation, as it is not subject to income tax in accordance with section 17(29) of the Income Tax Act 1985. The banks subsidiary adopts the principles of tax effect accounting.

(l) Employee entitlements

Annual leave

The provision for annual leave represents the amount which the Bank has a present obligation to pay, resulting from employees' services provided up to the balance date. The provision is based on current wage and salary rates and includes related on-costs.

Long service leave

The liability for employees' entitlements to long service leave represents the amount payable to employees, based on current wage and salary rates, for services provided up to balance date. The provision for long service leave increases according to the number of years of service completed by the employee.

Gratuity

The provision for gratuity represents amounts payable to employees who have achieved in excess of the minimum ten years of service on retirement, and is based on current wage and salary rates.

Triennial leave allowance

The triennial leave allowance is payable to employees on completion of every three years of service and is based on staff's grade.

Number of Employees

The number of employees as at 30th June 2007 was 215 (2006: 211).

(m) Capital grants from Government

Capital grants received from Government are credited directly to equity.

		Consolidated		The Bank	
		2007 $	**2006 $**	**2007 $**	**2006 $**
2	**Capital**				
	Authorised capital	**100,000,000**	100,000,000	**100,000,000**	100,000,000
	Contributed capital	**56,050,636**	56,050,636	**56,050,636**	56,050,636
	Contributed capital consists of equity contribution from the Government of Fiji.				
3	**Reserves**				
	Asset revaluation reserve				
	Balance at beginning of year	**6,113,459**	6,335,395	**6,113,459**	6,335,395
	Prior year revaluation realised on sale of land & buildings transferred to accumulated profits	**(27,350)**	(221,936)	**(27,350)**	(221,936)
	Revaluation of Bank Properties	**3,123,562**	-	**3,123,562**	-
	Balance at the end of the year	**9,209,671**	6,113,459	**9,209,671**	6,113,459
	General reserve				
	Balance at beginning of year	**2,500,000**	2,500,000	**2,500,000**	2,500,000
	Transfer from/(to) accumulated profits	-	-	-	-
	Balance at the end of the year	**2,500,000**	2,500,000	**2,500,000**	2,500,000
	Total reserves	**11,709,671**	8,613,459	**11,709,671**	8,613,459
4	**Borrowings**				
	Non-current				
	Local borrowings	**237,332,285**	227,048,034	**237,332,285**	227,048,034
	Foreign borrowings	-	-	-	-
		237,332,285	227,048,034	**237,332,285**	227,048,034
	Current				
	Local borrowings	**105,836,630**	71,116,703	**105,836,630**	71,116,703
	Foreign borrowings	-	-	-	-
		105,836,630	71,116,703	**105,836,630**	71,116,703
		343,168,915	298,164,737	**343,168,915**	298,164,737

4 BORROWINGS - continued

	Consolidated and The Bank 2007 $	Consolidated and The Bank 2006 $	Repayment	Security
FDB Registered bonds-face value	**237,272,951**	227,050,000	Maturity varying 1-11 years	Guaranteed by Govt. of Fiji
Less: Unamortised discount	**(59,334)**	1,966		
	237,332,285	227,048,034		
Short term borrowings	**104,635,583**	70,038,192	Maturity less than 1 year	Guaranteed by Govt. of Fiji
Staff savings accounts	**1,201,047**	1,078,511	At call	
	105,836,630	71,116,703		
Total local borrowings	**343,168,915**	298,164,737		
Total foreign borrowings	-	-		
Total borrowings	**343,168,915**	298,164,737		

	Consolidated 2007 $	Consolidated 2006 $	The Bank 2007 $	The Bank 2006 $
5 PROVISIONS				
Non-current				
Provision for gratuity	**521,498**	453,873	**521,498**	453,873
Provision for long service leave	**252,215**	240,130	**252,215**	240,130
Provision for triennial leave	**51,310**	52,268	**51,310**	52,268
	825,023	746,271	**825,023**	746,271
Current				
Provision for annual leave	**442,556**	439,078	**442,556**	439,078
	442,556	439,078	**442,556**	439,078
Total provisions	**1,267,579**	1,185,349	**1,267,579**	1,185,349
6 ACCOUNTS PAYABLE AND ACCRUALS				
Interest accruals	**4,619,032**	2,859,303	**4,619,032**	2,859,303
Others	**660,704**	649,768	**645,980**	649,690
	5,279,736	3,509,071	**5,265,012**	3,508,993

	Consolidated 2007 $	Consolidated 2006 $	The Bank 2007 $	The Bank 2006 $
7 Other Liabilities				
Seed Capital Fund	**2,528,422**	2,399,762	**2,528,422**	2,399,762
Farmers Assistance Scheme	**249,334**	300,000	**249,334**	300,000
	2,777,756	2,699,762	**2,777,756**	2,699,762

Seed Capital Fund is a revolving fund from the Government of Fiji for lending to specialised business activities in forestry, fishing and eco-tourism. Principal repayments for the seed capital loans are added back to the initial fund for re-lending. Seed Capital Fund amounts that are not utilised are repayable to the Government.

	Consolidated and the Bank 2007 $	Consolidated and the Bank 2006 $
8 Commitments And Contingent Liabilities		
(a) Commitments		
(i) Capital commitments	-	-
(ii) Loans approved but not disbursed	**43,036,329**	74,250,762
	43,036,329	74,250,762
(b) Contingent liabilities		
(i) Guarantees	**2,945,330**	2,290,534

(ii) Litigation

The Bank has claims by former customers and a former employee for specified and unspecified losses or damages relating to actions taken by the Bank in the normal course of operations. The directors and management of the Bank deny these claims, or are defending these claims rigorously and are of the opinion that these claims will be unsuccessful.

	Note	Consolidated 2007 $	Consolidated 2006 $	The Bank 2007 $	The Bank 2006 $
9 Amounts Due From Subsidiary					
FDB Nominees Ltd	19	-	-	-	81,185

10 Loans And Advances

	Consolidated 2007 $	Consolidated 2006 $	The Bank 2007 $	The Bank 2006 $
Current	**122,073,534**	100,633,884	**122,073,534**	100,633,884
Less: Interest and fees suspended	**3,086,343**	2,285,687	**3,086,343**	2,285,687
	118,987,191	98,348,197	**118,987,191**	98,348,197
Provision for doubtful debts	**38,809,654**	32,636,791	**38,809,654**	32,636,791
	80,177,537	65,711,406	**80,177,537**	65,711,406
Non-current	**324,204,238**	292,052,253	**324,204,238**	292,052,253
Total loans and advances	**404,381,775**	357,763,659	**404,381,775**	357,763,659
Provision for doubtful debts is represented as follows:				
Specific provision				
Balance at the beginning of the year	**3,924,384**	20,845,272	**3,924,384**	20,845,272
Charge to the income statement	-	-	-	-
	3,924,384	20,845,272	**3,924,384**	20,845,272
Transfer to General Provision	**3,587,680**	2,077,739	**3,587,680**	2,077,739
	7,512,064	22,923,011	**7,512,064**	22,923,011
Written off as bad debts against provision for doubtful debts	**(2,272,079)**	(18,998,627)	**(2,272,079)**	(18,998,627)
Balance at the end of the year	**5,239,985**	3,924,384	**5,239,985**	3,924,384
Unallocated specific provision				
Balance at beginning of year	**7,632,396**	7,632,396	**7,632,396**	7,632,396
Charge/(credit) to the income statement	**1,000,000**	-	**1,000,000**	-
Balance at the end of the year	**8,632,396**	7,632,396	**8,632,396**	7,632,396
General provision				
Balance at beginning of year	**21,080,011**	10,128,787	**21,080,011**	10,128,787
Charge/(credit) to the income statement	**6,322,836**	10,077,491	**6,322,836**	10,077,491
	27,402,847	20,206,278	**27,402,847**	20,206,278
Transfer to Specific Provision	**(3,425,123)**	(1,265,085)	**(3,425,123)**	(1,265,085)
	23,977,724	18,941,193	**23,977,724**	18,941,193
Bad debt recovered	**959,549**	2,138,818	**959,549**	2,138,818
Balance at the end of the year	**24,937,273**	21,080,011	**24,937,273**	21,080,011
Total provision for doubtful debts	**38,809,654**	32,636,791	**38,809,654**	32,636,791

11 PROPERTY, PLANT AND EQUIPMENT

	Consolidated and the Bank			
	Land and Buildings $	Plant and Equipments $	Fixtures and Fittings $	Total $
Cost/Valuation				
Balance at beginning of the year	11,950,518	5,091,976	1,293,510	18,336,004
Acquisitions during the year	63,834	590,887	17,333	672,054
Net movement in revaluation	1,199,379	-	-	1,199,379
Disposals	(102,455)	(210,198)	(1,219)	(313,872)
Balance at end of the year	13,111,276	5,472,665	1,309,624	19,893,565
Accumulated depreciation				
Balance at beginning of the year	1,867,244	3,574,355	758,275	6,199,874
Depreciation charge for the year	222,768	592,531	48,590	863,889
Reversal on revaluation	(1,924,183)	-	-	(1,924,183)
Disposals	(12,815)	(195,753)	-	(208,568)
Balance at end of the year	153,014	3,971,133	806,865	4,931,012
Carrying amount				
Balance at beginning of year	10,083,275	1,517,621	535,235	12,136,131
Balance at end of the year	**12,958,262**	**1,501,532**	**502,759**	**14,962,553**

The directors have adopted a policy of obtaining regular independent valuations for the banks properties on an existing use basis of valuation. The authority and frequency of any revaluation made is solely at the discretion of the Board of Directors. The land and buildings were valued by Rolle Associates and this valuation was adopted by the Directors on 29th May 2007.

12 INVESTMENTS

	Consolidated		The Bank	
	2007 $	2006 $	2007 $	2006 $
Shares in companies - at cost	**6,634,541**	6,634,541	**6,634,541**	6,634,541
Less: Provision for diminution in value	**(5,064,290)**	(4,899,290)	**(5,064,290)**	(4,899,290)
	1,570,251	1,735,251	**1,570,251**	1,735,251
Provision for diminution in investments is represented as follows:				
Balance at the beginning of the year	**4,899,290**	4,899,290	**4,899,290**	4,899,290
Charge to the income statement	**165,000**	-	**165,000**	-
Balance at the end of the year	**5,064,290**	4,899,290	**5,064,290**	4,899,290

The bank does not have a significant control in investment other then FDB Nominees Ltd and Tokatoka Nadrau Investments Ltd. Therefore, the bank records these investments at the lower of the cost and net realisable value. The bank has significant control over FDB Nominees Ltd and thus the investment is consolidated with the total Banks operation. However, the investment in Tokatoka Nadrau Investments Ltd is acquired and held exclusively with a view to its disposal in the near future, thus is not consolidated.

		Consolidated		The Bank	
		2007 $	2006 $	2007 $	2006 $
13	**Land Held For Resale**				
	Nasarawaqa Estate				
	Cost	**99,426**	99,426	**99,426**	99,426
	Less: Provision for diminution in value	**(51,950)**	(51,950)	**(51,950)**	(51,950)
		47,476	47,476	**47,476**	47,476
	Contributions to project	**(4,495)**	(4,395)	**(4,495)**	(4,395)
		42,981	43,081	**42,981**	43,081
	Cane Estate				
	Cost	**1,000,000**	1,000,000	**1,000,000**	1,000,000
	Other expenses capitalised	**295,092**	195,862	**295,092**	195,862
		1,295,092	1,195,862	**1,295,092**	1,195,862
	Less: Provision for diminution in value	**900,000**	900,00	**900,000**	900,000
		395,092	295,862	**395,092**	295,862
	Balance at the end of the year	**438,073**	338,943	**438,073**	338,943
14	**Other Debtors**				
	Government interest subsidies	**3,264,280**	799,110	**3,264,280**	799,110
	Government guarantees	**4,458,189**	2,682,174	**4,458,189**	2,682,174
	Other	**1,276,096**	1,040,475	**1,255,496**	1,014,120
		8,998,565	4,521,759	**8,977,965**	4,495,404
15	**Interest Income**				
	Included in interest income are interest subsidies received / receivable from the Government for:				
	- Agricultural loans	**359,726**	391,953	**359,726**	391,953
	- Commercial Loans to Fijians scheme	**2,546,434**	2,504,994	**2,546,434**	2,504,994
	- Economic Rehabilitation Package Scheme	**278,564**	367,744	**278,564**	367,744
	- Small Business Scheme	**277,369**	207,684	**277,369**	207,684
	- Northern Rehabilitation Package	**297,318**	287,768	**297,318**	287,768
		3,759,411	3,760,143	**3,759,411**	3,760,143

	Consolidated 2007 $	Consolidated 2006 $	The Bank 2007 $	The Bank 2006 $
16 Other Income				
The following items are included in other income:				
Gain on sale of property, plant and equipment	**80,642**	179,419	**80,642**	179,419
Gain on sale of investments	**-**	-	**-**	-
Legal fee income	**767,427**	892,112	**767,427**	892,112
Insurance commission	**268,252**	221,834	**268,252**	221,834
Rental income	**455,650**	478,395	**455,650**	478,395
17 Expenses				
Exchange losses included in interest expense	**-**	370,075	**-**	370,075
Items included in administrative expenses:				
Amortisation of bond discounts	**129**	1,966	**129**	1,966
Auditors' remuneration	**43,163**	47,017	**41,663**	45,396
Directors' fees	**170,452**	118,065	**170,452**	118,065
Depreciation	**863,889**	837,022	**863,889**	837,022
Loss on property, plant and equipment	**199**	11,822	**199**	11,822
Employee costs	**7,305,016**	6,802,563	**7,305,016**	6,802,563

	Contribution to Group Results 2007 $	Contribution to Group Results 2006 $	Book Value 2007 $	Book Value 2006 $
18 Investment In Subsidiary				
FDB Nominees Limited - at cost	**27,257**	(896)	**20,000**	20,000

The Bank has 100% beneficial interest in the ordinary share capital of the subsidiary company which is incorporated in Fiji.

19 Related Party Transactions

Transaction with Directors

Loans amounting to $584,597.91 (2006: $1,277,750.78) to certain companies with directors interest are included in "Loans and Advances" (refer note 10) . The loans were provided under normal terms and conditions.

Other related party transactions

During the year ended 30th June 2007, the total management fees received or receivable by the Bank from its subsidiary, FDB Nominees Limited in respect of services provided to the company, amounted to nil (2006: $81,185). All transactions with the related party are on normal commercial terms and conditions.

20 Credit Risk Concentration

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

	2007	2006
	$	$
Industry		
Agro-industry	**72,264,862**	68,580,231
Financial institution	**5,993,777**	3,608,854
Infrastructure	**2,152,056**	568,003
Manufacturing	**13,247,082**	13,846,635
Mining and quarrying	**1,321,109**	1,149,183
Professional and business services	**38,595,640**	27,816,681
Real estate	**180,262,462**	150,689,793
Tourism	**57,339,492**	50,899,343
Transport	**23,676,873**	22,478,558
Wholesale, retail and restaurant	**46,568,821**	51,002,525
Leasing	**4,855,598**	2,046,331
	446,277,772	392,686,137

21 Maturity Analysis

The following analysis of monetary assets and liabilities is based on contractual terms. The majority of longer term loans are variable rate products.

2007	Consolidated ($'000)						
	At Call	1 day to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Specific provision	Total
Assets	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash	19,284	-	-	-	-	-	19,284
Loans	5,355	51,776	64,943	157,092	167,112	(5,240)	441,038
Total	**24,639**	**51,776**	**64,943**	**157,092**	**167,112**	**(5,240)**	**460,322**
Liabilities							
Borrowings	1,201	38,786	66,909	186,745	49,528	-	343,169
Total	**1,201**	**38,786**	**66,909**	**186,745**	**49,528**	**-**	**343,169**
2006							
Assets							
Cash	18,481	-	-	-	-	-	18,481
Loans	4,213	42,506	53,915	148,935	143,117	(3,924)	388,762
Total	**22,694**	**42,506**	**53,915**	**148,935**	**143,117**	**(3,924)**	**407,243**
Liabilities							
Borrowings	1,079	44,279	53,557	145,590	53,660	-	298,165
Total	**1,079**	**44,279**	**53,557**	**145,590**	**53,660**	**-**	**298,165**

	The Bank 2007 $	The Bank 2006 $
22 IMPAIRED AND PAST-DUE ASSETS		
Non-accrual loans without specific provisions for impairment		
Gross	**14,595,094**	12,093,114
Less: suspended debt	**1,176,284**	553,620
Net non-accrual loans without specific provisions for impairment	**13,418,810**	11,539,494
Non-accrual loans with specific provisions for impairment		
Gross	**14,282,250**	10,547,504
Less: suspended debt	**1,645,234**	1,553,684
	12,637,016	8,993,820
Less: specific provisions	**4,820,542**	3,994,457
Net non-accrual loans with specific provisions for impairment	**7,816,474**	4,999,363
Restructured loans without specific provision		
Gross	**1,156,103**	2,868,325
Less: suspended debt	**91,805**	51,616
	1,064,298	2,816,709
Total impaired loans	**22,299,582**	19,355,566
Past-due loans		
Gross	**38,791,738**	36,570,422
Less: suspended debt	**2,642,790**	38,446
Total past-due loans	**36,148,948**	36,531,976
Total impaired and past-due loans	**58,448,530**	55,887,542

23 NOTES TO THE STATEMENT OF CASH FLOWS

(i) Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and other amounts which are integral to the cash management function and which are not subject to a term facility.

	CONSOLIDATED	
	2007 $	2006 $
Cash	**19,283,895**	18,483,460
(ii) Reconciliation of operating profit after income tax to net cash provided by operating activities		
Operating profit after income tax	**4,597,280**	5,345,755
Add / (less) non-cash items:		
Amortisation of bond discounts	**59,334**	1,966
Depreciation	**863,889**	837,022
Loss on disposal of fixed assets	**(80,443)**	(167,597)
Provision for annual and long-service leave	**82,230**	(217,656)
Provision for doubtful loans and investments	**7,322,836**	10,077,491
Provision for diminution in investment	**165,000**	-
Provision for tax	**12,268**	-
Translation of foreign currency loans	-	370,075
	13,022,394	16,247,056
Change in assets and liabilities:		
Decrease in interest receivable	**2,719,660**	2,498,480
Increase in accounts receivable	**(2,212,137)**	(2,149,276)
(Increase) in grants and subsidies receivable	**(2,465,170)**	(268,770)
Increase in interest payable	**1,759,730**	456,886
Decrease in other accruals	**277,161**	1,355,156
Net cash provided by operating activities	**13,101,638**	18,139,532

24 COMPARATIVES

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures. Where this information is not available and impracticable to obtain, they are not disclosed.

25 PRINCIPAL ACTIVITIES

The principal activities of the Bank during the course of the financial year were providing finance, financial and advisory services to assist in the development of agriculture, commerce and industry in Fiji.

26 PRINCIPAL PLACE OF BUSINESS

The Bank's head office is located at the Development Bank Centre, 360 Victoria Parade, Suva. The Bank also has nine branches located throughout Fiji.

Central/Eastern Region

Head Office
360 Victoria Parade
Suva
P.O. Box 104, Suva
(679) 3314 866
(679) 3314 886

Nausori
60 Main Street,
P.O. Box 317, Nausori
(679) 347 7277
(679) 340 0484

Western Region

Sigatoka
Vunasalu Road
P.O. Box 81, Sigatoka
(679) 650 0122
(679) 652 0399

Nadi
Main Street
P.O. Box 1718, Nadi
(679) 670 1900
(679) 670 3552

Lautoka
38 Vitogo Parade
P.O. Box 716, Lautoka
(679) 666 0639
(679) 666 5950

Rakiraki
Vaileka Parade
P.O. Box 82, Rakiraki
(679) 669 4088
(679) 669 4784

Ba
Varoka
P.O. Box 110, Ba
(679) 667 4211
(679) 667 4031

Northern Region

Labasa
Nasekula Road
P.O. Box 41, Labasa
(679) 881 1944
(679) 881 4009

Savusavu
Hugh Street, Verevere
P.O. Box 42, Savusavu
(679) 885 0055
(679) 885 0629

Seaqaqa
Seaqaqa Town
(679) 886 0166
(679) 886 0168

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