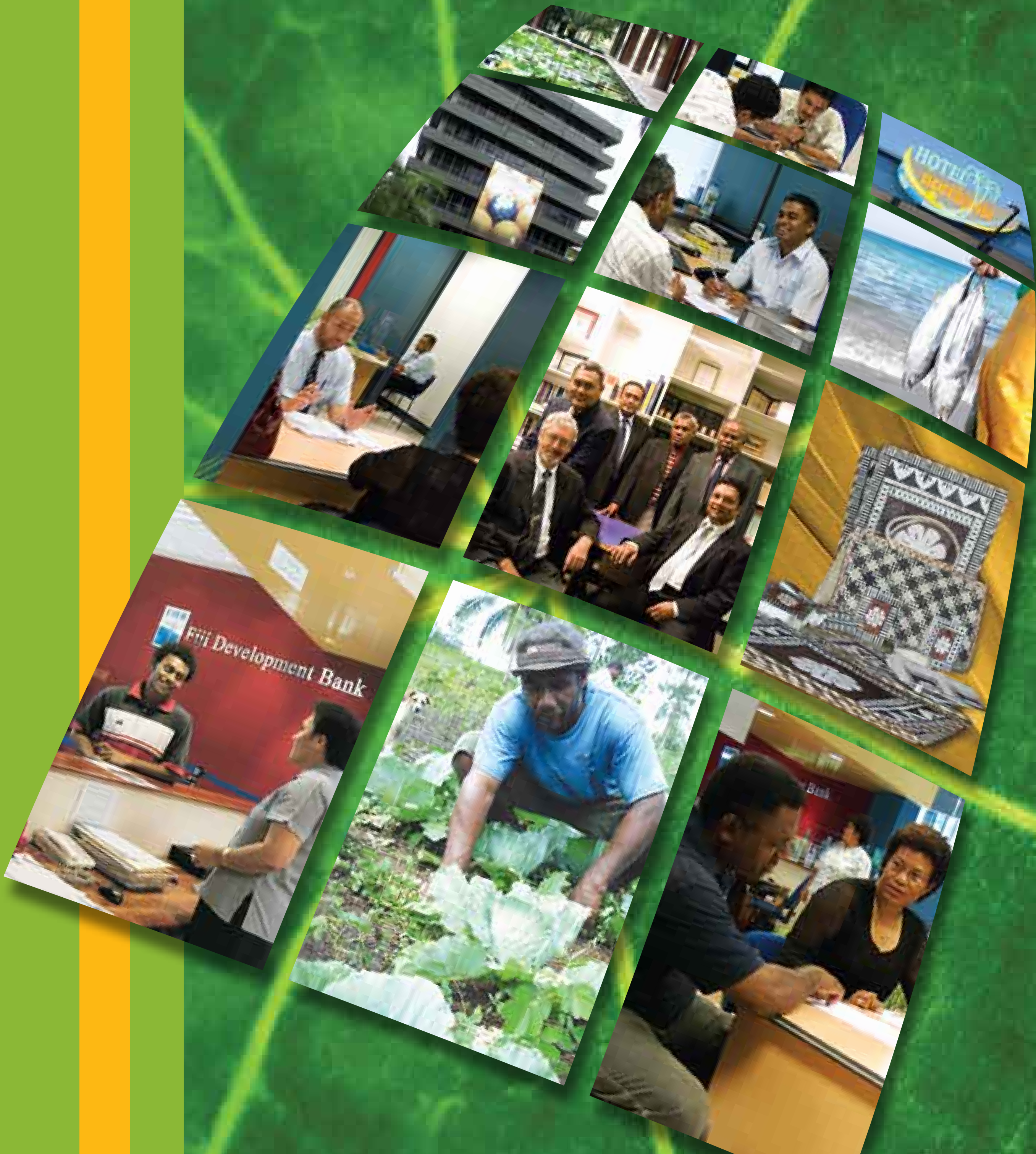


F·D·B

Annual Report 2008

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 the development of agriculture, commerce and industry.

F·D·B

Sustainability and Growth

Annual Report 2008

Contents

Our Business Structure

Chief Executive Officer

- Audit
- General Manager Operations
  - Corporate
  - New Products- Micro Loans / HomeLoans
  - Small & Medium Enterprise (SME)
  - Asset Management Unit
  - Agriculture
  - 9 Branches
- General Manager Business Risk Services
  - Business Risk Services
  - Legal / Insurance / Records
  - Tender
- General Manager Finance and Administration
  - MIS / IT
  - Finance / Treasury
  - Administration
  - Research, Marketing and Business Development

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

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

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

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

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

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

Savusavu, Hugh Street
P.O. Box 42, Savusavu
P :(679) 885 0055 | F :(679) 885 0629

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

Seaqaqas, Seaqaqa Town
P :(679) 886 0166 | F :(679) 886 0168

F·D·B
Fiji Development Bank

Development
Bank Centre
360 Victoria Parade
GPO Box 104
Suva Fiji
Tel: 331 4866
Fax: 331 4886

31st December, 2008

Commodore Frank Bainimarama,
The Acting Interim Minister for Finance & National Planning,
Ministry of Finance & National Planning,
Ro Lalabalavu House,
Victoria Parade,
SUVA

I have much pleasure in submitting the Annual Report and accounts of the Fiji Development Bank for the financial year ending 30th June 2008.

The financial year 2008 was extremely challenging. There was a slight decline in our client base, attributed to a Government policy directive for the FDB to focus on the resource-based and agro sectors. In addition there was a slow-down of investment and a low level of commercial opportunities.

Despite this environment the Bank recorded a profit of $3.82 million. Although this was a decline of 11.34 per cent over 2007, it was a worthy result in the light of prevailing conditions.

During the year, the Bank approved loans valued at $84.10 million. By the end of June 2008, the FDB's portfolio stood at $443.07 million, a marginal drop of 0.72 per cent compared to the previous year.

The Board wishes to express its thanks to the Bank's management and employees for their efforts and commitment during this difficult period. I am sure they will continue to give their support to the Bank's plan for future success.

Yours faithfully

John Prasad

John Prasad

Chairperson

Board Members

Back (L to R): Jitoko Tikolevu, Ilaisa Cavu, Manasa Vaniqi, Joseva Serulagilagi.
Front (L to R): Richard Beyer, John Prasad.

Dr. Richard Beyer - Director

Dr. Beyer is the Permanent Secretary for the Ministry of Agriculture and Primary Industries. He is a graduate of Strathclyde University in Scotland and holds a Degree in Food Science. As a Commonwealth scholar he graduated with a PhD from Otago University, New Zealand. He also holds a post graduate Diploma in Management and Marketing. In Fiji he has managed the Institute of Applied Science at the University of the South Pacific. He was a special project director for the Ministry of Agriculture and Primary Industries from 1998 to 2000.

Mr. John Prasad - Chairperson

Mr. Prasad is a Project Officer at the Prime Minister's Office. He holds a Masters Degree in Business from Massey University, New Zealand and a Post Graduate Business Diploma from Auckland University together with a Diploma in Dairy Technology. He is a member of the Institute of Directors in New Zealand. His work experience in New Zealand has been in food processing, process engineering and management at executive level.

Jitoko Tikolevu - Director

Mr. Tikolevu is the Chief Executive Officer of the Fiji Islands Revenue and Customs Authority. He is a graduate in Business Studies from the University of the South Pacific and holds a Masters of Commerce in Taxation (Honors) from the University of Auckland, New Zealand.

Joseva Serulagilagi - Director

Mr. Serulagilagi is the Chairman of the Tailevu Provincial Council. He is also the Chairman of Rewa Cooperative Dairy Company Limited. He holds Bachelor of Arts in Sociology, Diploma and Certificate in Development Planning from Bradford, United Kingdom.

Ilaisa Cavu - Director

Mr. Cavu is the CEO of the Agricultural Marketing Authority. He holds a Diploma in Hotel Management from the Fiji Institute of Technology. Prior to this he was Rooms Division Manager at the Outrigger Resort. He has spent nearly 30 years working in the hotel and tourism industry.

Manasa Vaniqi - Director

Mr. Vaniqi is the Permanent Secretary for the Ministry of Provincial Development & Multi Ethnic Affairs. Prior to this he was a Deputy Secretary in the Ministry of Home Affairs. He holds a Diploma in Business English from Manchester, UK, and a Diploma in Administrative Studies from the University of the South Pacific.

Directors who also served during the year.

Mr Taito Waradi - Chairperson
(from February 2008 to September 2008)

Mrs Sereana Qoro - Chairperson
(term expired in January 2008)

Mr Alok Mishra – Deputy Chairperson
(From November 2007 to August 2008)

Mr Ashok Kumar
(From September 2007 to September 2008)

Mr Adish Naidu
(Term expired in August 2007)

Mr Kalivati Bakani
(Term expired in August 2007)

Mr Ian Hawthorn
(Term expired in July 2007)

Mr Sam Foy Chung
(Term expired in July 2007)

Mrs Taina Ravutu
(Term expired in July 2007)

Senior Management

Deve Toganivalu

Chief Executive Officer

(from October, 2008)

General Manager,

New Business –

(up to June, 2008)

Tukana Bovoro

Chief Executive Officer

(up to July, 2008)

Umarji Musa

General Manager Operations

(General Manager Corporate Business Services up to June, 2008)

Lasantha Thennakoon

General Manager Finance and Administration

(General Manager Financial Operations - up to June 2008)

Nafitalai Cakacaka

Acting General Manager

Business & Risk Services

Nesbitt Hazelman

General Manager

Divisional Support Services

(up to June 2008)

Executive Report

A creditable result

The financial year ending June 2008 for the Fiji Development Bank was extremely challenging. Economic activity remained subdued following uncertainties caused by the coup of December 2006. Investment was down; there was low consumer and market demand and limited commercial opportunity. All these naturally had an impact on the FDB's business.

Policy directive issued by the Government to focus on resource based sectors was challenging. It was therefore necessary for major operational and organisational changes to be introduced half-way through the year. To accommodate the directives, the Bank had to review its liability position, funding plans, terms of loan maturities and future gearing.

The objective of the directive was to align FDB's activities more closely with development, especially in the resources based sector.

In light of the demands posed by a period of substantial and urgent internal restructuring, and the general economic and commercial difficulties, the Bank was pleased to post a net profit of $3.82 million for the year. Although this was a drop of 11.34 percent from 2007, it was a creditable result given the circumstances. Strict control of costs and a continuing good yield from credit assets provided a solid foundation for the profit performance.

The Bank was able to slow a declining trend in its portfolio and consolidate its position. By the end of June, the FDB's portfolio stood at $443.07 million, a fall of 0.72 percent from 2007.

The arrears as a percentage of portfolio increased to 2.54 percent from 1.20 percent the previous year. Arrears are always a major factor for a development financing institution such as the FDB, which has to be prepared to offer credit and support to clients who might not qualify for financing from mainstream banks. The FDB's objective is to hold arrears at manageable and acceptable levels.

Risk and Compliance

The Bank adopted the Enterprise Risk Management concept which will lead to a total and holistic approach to a crucial part of the Bank's affairs.

The fundamental objective is to contain and successfully manage risk and therefore maximise the value of returns. In this process, the FDB's overall capital needs were assessed, and improvements introduced to the deployment of resources for the achievement of the Bank's corporate mission.

From a broader perspective, the aim is to strengthen the Bank's role in providing high-risk finance to spur development while remaining competitive in a highly commercialised environment.

The Government's policy directives obviously had great significance for these important elements of the FDB's mission and purpose. New policies were created to accommodate the changes that had been stipulated. However, despite the complexities of the transition and the apparent reorganisation, the Bank held steady and stable. It also remained committed to another of its objectives - gaining a licence authorising it to accept deposits. This will help enhance the FDB's competitive position in the market.

The FDB was able to compete with other Banks on interest rates offered. Careful administration of investments, maturities, short-term borrowings, government-backed bonds and promissory notes allowed the Bank to manage its liquidity satisfactorily.

The cost of funds paid on the Bank's interest-bearing liabilities is determined by market rates. These are highly sensitive to factors beyond the Bank's control, including general economic conditions and the political environment.

Our People

Like all the other financial institutions in Fiji, the FDB competes to recruit the best candidates in an increasingly globalised environment. A national shortage due to migration of skilled personnel affects the Bank at all levels, but more so in the technical areas.

Training and professional development are therefore critical for upgrading and maintaining the skills of its employees. Key factors which form a context for this are the competitive climate, the new direction the Bank has taken and the changing nature and sophistication of the financial markets.

The Bank's staff – its human resources – are its greatest asset for the delivery of services. The staff development policy and training needs analysis supports a culture of continuous learning and up-skilling through on-the-job training, part-time studying and correspondence and short courses at both overseas and local institutions.

Comprehensive training and refresher programmes have therefore been developed and implemented to cater for all categories of FDB employees. In addition to on-going courses, special training was conducted during the year. This focussed on principles of customer service and workplace behaviour.

The Bank has a current staff complement of 198 and is a regular participant in national remuneration surveys conducted by PriceWaterhouseCoopers.

The Bank, an equal opportunity employer, strives to achieve gender balance.

It enjoys a cordial working relationship with the Fiji Bank & Finance Sector Employees Union (FBEU).

Our Customers

Customer service centres at the FDB branches are an important point of contact with our clients and potential customers. There is a steady stream of inquiries daily about accounts, new products and loan application procedures. The Bank ensures that it meets its expected turn around time in loan processing to provide an efficient delivery of service.

Customers from the agricultural sector tend to need extra guidance and assistance. The Bank's branch network is geared to give them the service they are entitled to.

Conclusion

The profession of development banking carries with it special responsibilities for contributing to the economic progress of a nation. The FDB has consistently met these obligations while leading the way in innovation and diversification among the region's development finance organisations.

The board of directors will ensure that the Bank's main priority is on catering for rural people earning a living in agriculture, forestry and fisheries and assisting small businesses.

It will never lose sight of its prime task of promoting the rural economy. It is dedicated to providing greater volumes of working capital and loan finance for agricultural expansion.

The Bank envisages a better business and banking climate in 2009 and looks forward with a keen anticipation to once more working with the Government and the people in promoting prosperity and a strong economy.

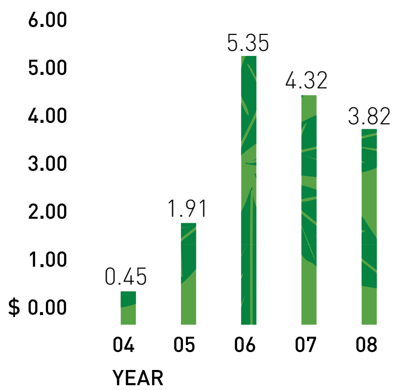
Ratu Deve Toganivalu

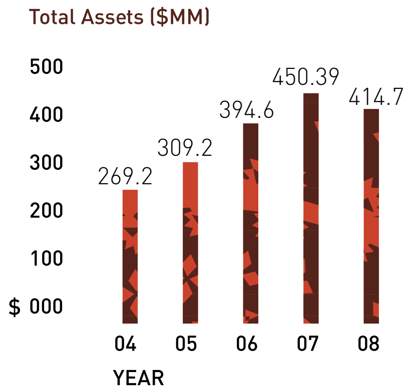
Chief Executive Officer

Financial Review

Overview

Despite the challenging economic climate, the Bank was able to generate a significant profit of $3.82 million. This was, however, a reduction of 11.34 percent over 2007 due partly to a high allowance for credit impairment after the implementation of International Financial Reporting Standards.





Financial Income and Expense

$ in million	2008	2007	Change	Change rate (%)
Interest income	45.03	39.04	5.99	15.34
Interest & other borrowing expenses	(20.50)	(21.16)	0.66	(3.12)
Net interest income	24.53	17.88	6.65	37.19
Net Fees income	7.82	3.65	4.17	114.25
Other income	10.77	5.31	5.46	102.82
Operating expenses	(13.03)	(12.28)	(0.75)	6.11
Allowance for credit impairment	(21.23)	(10.08)	(11.15)	110.62
Allowance for loss - Govt. guarantee	(5.04)	-	(5.04)	-
Diminution in investments	-	(0.17)	0.17	(100.00)
Profit before income tax	3.82	4.32	(0.49)	(11.34)
Income tax expense	-	-	-	-
Net profit	3.82	4.32	(0.49)	(11.34)

Income

Interest income, the Bank's main source of revenue, grew by 15.34 percent, compared to the previous year. This increase was largely attributed to the quality of the FDB loan portfolio which has significantly improved the Bank's earnings base. Other sources of revenue include fees, recovery of bad debt and rental income.

Interest & Borrowing Expenses

With constant high liquidity, credit ceiling issues and weak demand for funds, interest rates have been sloping downwards. By capitalising on certain market factors, the Bank reduced its borrowing expenses by 3.12 percent.

While replacing high rate long-term bonds with low rate short-term funds, FDB cut its weighted average cost of funds to 5.37 percent in 2008, compared to 6.92 percent in 2007.

Operating Expenses

Operating expenses amounted to $13.03 million, an increase of 6.11 percent over 2007. The increase was mainly due to higher staff costs associated with an organisational restructure. Other operating expenditures were kept under effective control and within approved budget levels.

Allowance for Credit Impairment

Given the directives to increase the Bank's portfolio in resource based projects, the Bank gave closer consideration to the large elements of risk and volatility associated with small loans to finance projects in these sectors. It also took into account an increase in total impaired asset value resulting from low economic activity. The Bank then decided to set aside a significantly large allowance ($21.23 million) for credit impairment in 2008 to cater for future losses.

Financial Conditions Asset Structure

$ in million	2008	Composition (%)	2007	Composition (%)
Cash	11.56	2.79%	19.24	4.27%
Amounts due from subsidiary	0.01	0.00%	-	-
Loans and advances	381.46	91.99%	405.19	89.96%
Other Debtors	4.86	1.17%	8.98	1.99%
Property, plant & equipment	14.77	3.56%	14.96	3.32%
Investments (incl. subsidiary)	1.59	0.38%	1.59	0.35%
Land held for resale	0.44	0.11%	0.44	0.10%
Total	414.69	100.00%	450.40	100.00%

As at 30th June 2008, the Bank's total assets amounted to $414.69 million, a decrease of 7.93 percent from 2007.


Liability Structure

$ in million	2008	Composition (%)	2007	Composition (%)
Total Borrowings	300.85	95.40%	341.96	96.36%
Employee entitlements	1.24	0.39%	1.27	0.36%
Deferred income	2.36	0.75%	2.41	0.68%
Accounts payable and accruals	5.31	1.68%	5.27	1.48%
Other liabilities	5.59	1.77%	3.98	1.12%
Total	315.36	100.00%	354.89	100.00%

In 2008, total liabilities amounted to $315.36 million, representing a decrease of $39.53 million or 11.14 percent. The Bank raises funds mainly through bonds and promissory notes in the domestic market.

Profitability

The Bank's yield from credit assets maintained healthy growth, which underpinned profitability. In view of the tightening of monetary policy and volatility in the financial market, the Bank proactively assessed the impact of various risks on asset quality, and established provisions for losses where appropriate. The Bank preserved the quality of its assets while it was in the midst of making changes to its business focus. Overall, the Bank's return on average assets and return on average equity remained satisfactory.

	2008	2007
Return on average assets (ROA)	0.86%	1.03%
Return on average equity (ROE)	3.92%	4.67%

Historical Performance	2001	2002	2003	2004	2005	2006	2007	2008
Financial								
Net profit($M)	0.30	0.70	2.04	0.45	1.91	5.35	4.32	3.82
Total Assets ($M)	322.30	284.70	271.40	269.20	309.20	394.60	450.39	414.69
Total Assets / Equity (%)	4.08	3.57	3.32	3.28	3.68	4.41	4.72	4.17
Average Earning Assets (AVE) ($M)	345.80	327.70	302.00	282.70	302.90	359.80	421.10	446.20
Borrowing Cost / AVE (%)	5.12	4.67	3.85	3.09	2.63	2.82	5.02	5.37
Total Cost / AVE (%)	7.59	7.50	7.10	7.06	6.44	6.00	7.94	7.51
Profit (Loss) / Average Equity (%)	0.39	0.88	2.53	0.55	2.27	5.98	4.67	3.92
Long Term Debt : Equity	2.99:1	2.43:1	2.12:1	1.99:1	2.49:1	2.55:1	2.49:1	1.90:1
Interest Spread (%)	2.01	2.51	3.97	3.73	3.79	4.11	2.39	4.76
Earning Spread (%)	2.84	3.30	4.61	6.13	5.55	5.79	4.48	8.89
Operating Efficiency								
Staff Cost / AVE (%)	1.64	1.75	2.09	2.50	2.14	1.89	1.73	1.87
Total Income / AVE (%)	10.19	10.42	10.88	11.73	10.21	10.29	6.37	9.66
Lending								
Approvals (Number)	1,751	1,019	1,007	1,105	1,903	2,104	1,709	1,502
Approvals ($M)	50.40	24.43	67.19	76.45	227.27	188.21	115.24	84.10
Loan Portfolio (Number)	6,092	6,282	5,990	4,372	5,588	5,888	5,251	5,989
Gross Loan Portfolio ($M)	321.70	293.30	282.50	281.18	325.01	392.69	446.27	443.07
Growth in Loan Portfolio (%)	1.41	-8.83	-3.68	-0.46	15.59	20.79	13.64	-0.72
Arrears / Loan Portfolio (%)	7.29	6.84	6.66	7.42	4.32	1.32	1.20	2.54

FIJI DEVELOPMENT BANK'S MARKET SHARE AS AT JUNE, 2008

	FDB ($M)	Commercial Banks ($M)	Credit Institutions ($M)	Total ($M)	FDB as a % of Fiji Total
Agriculture	40.2	33.6	12.3	86.1	46.7
Sugarcane Growing	5.5	1.1	0.1	6.7	82.0
Forestry & Logging	11.6	11.2	9.1	31.9	36.4
Others	23.1	21.3	3.1	47.5	48.6
Mining & Quarrying	1.2	2.1	1.8	5.1	23.6
Manufacturing	25.9	282.4	11.6	319.9	8.1
Food, Beverages & Tobacco	2.6	117.5	0.6	120.7	2.1
Textiles, Clothing & Footwear	3.5	28.8	1.6	33.9	10.4
Metal Products & Machinery	1.8	18.0	1.2	21.0	8.5
Others	18.0	118.1	8.2	144.3	12.5
Building & Construction	62.6	185.2	24.4	272.2	23.0
Real Estate (Development)	121.7	285.9	14.4	422.0	28.8
Non-Bank Financial Institutions	-	5.5	-	5.5	-
Public Enterprises	-	79.4	0.0	79.4	-
Wholesale, Retail, Hotels & Restaurants	63.5	612.2	21.0	696.7	9.1
Hotels and Restaurants	20.2	244.0	2.8	267.0	7.6
Other Commercial Advances	43.3	368.2	18.2	429.7	10.1
Transport, Communication & Storage	28.6	83.3	46.5	158.4	18.0
Professional Business Services	9.5	93.1	24.2	126.8	7.5
Private Individuals	65.9	796.7	116.0	978.6	6.7
Housing	62.9	645.7	116.0	824.6	7.6
Car or Personal Individual Transport	1.0	12.5	-	13.5	7.6
Others	1.9	138.5	-	140.4	1.4
Central and Local Government	22.0	10.7	0.2	32.8	66.9
Other Sectors	2.7	101.4	8.7	112.8	2.4
TOTAL	443.7	2,571.5	281.1	3,296.4	13.5

NOTE: Fiji total refers to total loans and leases advances outstanding by all commercial banks, licensed credit institutions and the Fiji Development Bank as at 30 June 2008. The Bank's market share is highlighted.

Operations Review

For the financial year ended 30th June 2008 the Bank's portfolio was recorded at 5,209 accounts with a value of $443.07 million.

The single highest portfolio by number was the Agricultural sector at about 33.4 per cent reflecting that assistance to the farmers is the mainstay operation of the Bank. Commitment to the farming sector is reaffirmed by a strong market share of 46.7 per cent held by the FDB in comparison to all commercial banks and credit institutions.

On the other hand the highest value of portfolio is represented by the real estate sector at 27.4 per cent. This sector, in terms of the market share, is 28.8 per cent. The Bank is conscious of maintaining a portfolio mix that presents a reasonably healthy bottom line and in congruent with delivering its core business which are considered high risk ventures.

Portfolio in the Private Individual sector, largely comprising of home loans, remains significant at $65.9 million or 14.8 per cent. Whilst the Bank is not giving out new loans in this sector after a strategic restructure during the year, it continues to manage the existing portfolio.

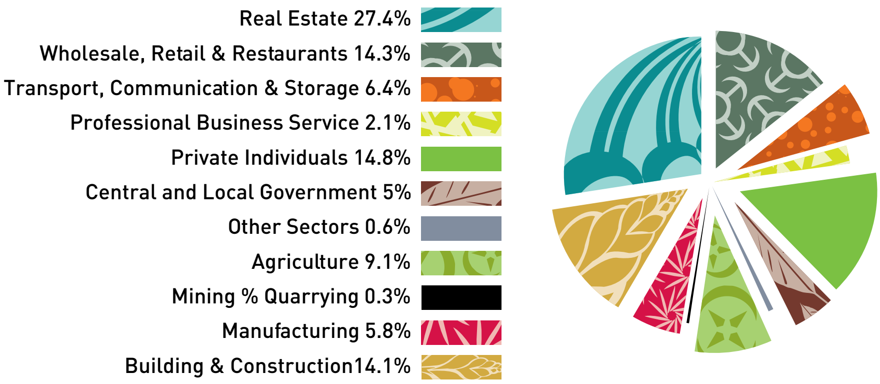
The Wholesale, Retail, Hotels and Restaurant portfolio share of 14.3 per cent demonstrates the Bank's level of assistance to various sizes of operators in this essential sector. Village shop operators are significantly small and trade in basic grocery items. Medium and larger operators cater to the demands of urban and tourism clientele.

A fundamental measure of economic activity is the level of building and construction activity; the Bank's support in this sector is measured at $62.6 million or 14.1 per cent of the portfolio. The FDB's market share in this sector at just over a fifth, 23 per cent, is laudable.

Northern Facility

A pillar of the Government's Look North Policy, this scheme was set-up to stimulate the economy of the northern division. To date it has assisted more than 300 customers. Fund allocations for the Facility have been fully utilised. As at the end of

FDB Portfolio 2008



the financial year the portfolio stood at $4.4 million. The Bank, however, continues to consider loans from the North which is covered by its other lending schemes.

Seed Capital Revolving Fund (SCARF)

SCARF was established in 2002 as part of the affirmative action for indigenous Fijians and Rotumans. It was geared to promote entrepreneurship development in the resource based sectors of the economy, with special emphasis on eco-tourism, fishing and forestry sectors.

A portion of the loan funds was in the form of refundable grant from the Government; this portion was given to borrowers interest-free. The FDB administers the grant component as a revolving fund, which continues to finance projects.

At the end of the financial year, the value of SCARF portfolio stood at $2.81 million.

Commercial Loans to Fijian Scheme (Indigenous Loan Scheme)

The Scheme is another facet of the Bank's policy of encouraging greater participation by the indigenous people in business and commerce. In 1994, the Scheme was expanded to include eligible general electors.

Approvals during the year totalled 166 by number and $11.6 million by value. The portfolio for the financial year was valued at $69.5 million for 1,156 accounts.

Small Business Scheme (SBS)

Introduced in October 2000, this soft loan scheme is for other communities that do not qualify for assistance under the Bank's Commercial Loans to Fijian Scheme.

The SBS considers loan applications from potential borrowers with a projected annual business turnover of up to $100,000.

The Scheme recorded a closing portfolio of $6.3 million as at the end of the financial year.

New Products

To strengthen its role in development lending, the Bank, during the year, introduced five new products targeting rural and agricultural projects and export financing. These include the Agriculture and Rural Credit Scheme, lending for coconut, dairy and beef farming and an Export Credit Facility.

The livestock loans aim at boosting the local production of dairy and beef products to reduce dependency on imports; both sectors are heavily backed by imports to satisfy the local consumption demands.

Another product the Bank views has strong growth potential is the coconut sector, especially in the processing and value adding, which can realize a premium price in the export market.

The Export Credit Facility will assist exporters to raise short term working capital needs and boost the local export industry.

Other Products

Choice Home Loan

From its inception in 2004, the Choice Home Loan (CHL) product found a clear market niche, despite strong competition from other lenders. CHL occupied a unique position in the marketplace setting it apart from its competitors. The three main products which comprised CHL were Owner Occupier, Line of Credit and Investment Loans.

By June 2008, the portfolio had dropped to $44.9 million, with 743 accounts, mainly due to refinancing of some loans by other institutions.

Maxilease

The Bank's leasing facility was revamped in November 2006 to spur fresh interest in this product. It was offered as the Maxilease brand, with flexibility for negotiating lease finance arrangements for vehicles, plant and equipment.

The Other Products noted above will be discontinued due to the revision in the strategic direction of the Bank. The Bank will nevertheless continue to service its existing customers with continued dedication.

Risk Management

In adopting the Enterprise Risk Management (ERM) concept, the Bank acknowledged that while risk is integral to its business, it can be minimised. The ERM concept facilitates risk identification throughout the organisation. In addition to conventional credit risk management, the entire risk reduction process was expanded to include strategic operational functions, reporting and compliance.

A fundamental consideration for the Bank is to sustain its operations while managing the significant risk element associated with its development role. On the other hand it faces strong competition on its margins on commercial lending. Obtaining a licence to accept deposits will cushion its funding arrangements. Implementation of the ERM plan also prepared the way for establishing a risk-based audit.

The forerunner of the ERM framework was an Integrated Risk Management System. This provided an initial structure for evaluating the risk factors inherent in the Bank's operations. The first phase involved incorporation of a Credit Policy Unit, Treasury Department, Asset Management Unit and Credit Risk Unit. There was emphasis on centralising monitoring and management of risk within the context of both liabilities and assets. Other procedures were introduced to cover all the probabilities associated with hazard and to ensure that the FDB achieved maximum value from its business.

Policy Directives

The policy directives from the Government were obviously a challenging task. The Bank, therefore, had to review its organisational and cost structure to align its resources to meet expectations. Urgent strategic planning and budget revisions were conducted as part of a platform for the Bank to move in its new direction.

Competition

Fiji's money market is very competitive. The FDB was obligated to match, as far as possible, the flexible loan pricing of the commercial banks. There is also competition from private institutions, insurance companies, credit unions and other credit institutions. The Bank maintained pricing strategies to sustain its operations during the financial year.

Apart from its positioning and products in the market, the FDB also competes through the experience of its staff, customer service, promotional initiatives, networking and personal contacts to grow its market share.

Regulation

The Bank is mandated by its charter to provide finance for developmental loans that effectively contribute to the economy, with special focus on the rural and agricultural sectors. Its operation is subject to certain requirements under the Consumer Act, Banking Act and the FDB Act. It is accountable to the Minister of Finance, and has obligations to report to the Reserve Bank.

The RBF has an important role in directing and regulating the Bank's lending activities through regular reviews and policy implementation. The FDB welcomed the consistency

of the RBF's monetary policies during the year. This helped to stabilise some elements of the financial markets. The RBF also lifted some foreign exchange control restrictions and enhanced the export financing facility, designed to promote growth in exports.

Insurance

Loan insurance arrangements are central to the Bank's operations. This means adequate and appropriate cover is in place, premiums are paid and policies maintained – including attendance to claims – throughout the duration of a loan. To enhance its service to customers, the FDB provides insurance through the concept of a one-stop shop. Under the Consumer Credit Act, however, customers can choose their own insurer.

Liquidity Risk

The tight liquidity situation in late 2006/2007 led to a sudden rise in overnight borrowings and conversion of long-term investments into short-term, high interest-bearing deposits. Regulation of this situation was effectively controlled by the Reserve Bank. Conditions eased gradually through the RBF's foreign exchange policy which was designed to dampen local spending and discourage foreign expenditure. New interest ceilings set by the RBF acted as a cushion for the liquidity position.

When the market improved, the FDB maintained its competitiveness. Grants and guarantees provided by the Government for certain lending sectors gave the FDB an element of advantage as investors had options for higher return on the short-term markets. Timely management of investments, maturities, short-term borrowings, government-backed bonds and promissory notes enabled the Bank to keep liquidity at a satisfactory level.

Interest Rate Risk

The Bank observed there was a downward trend on average market interest rate during the year and this had major impact on its cost of funds.

Cost of funds paid on the Bank's interest-bearing liabilities is determined by market rates. These are highly sensitive to factors beyond the Bank's control, including general economic conditions, the political situation, policies of government, and the Reserve Bank.

Political and Other Risk Factors

Changes in the political environment had an impact on Fiji's international reputation, investor confidence and ratings by the Standard and Poor credit agency. Some large projects involving the FDB were affected. Generally low business activity extended into the tourism industry and its support services. Hotel occupancy started to slowly recover towards the end of the year.

As a statutory body, owned by the Government of Fiji, the FDB is subject to Government policy directives. It is for the Bank to implement these, while protecting the interests of its customers and other stakeholders and maintain sustainability.

Allowance for Loan Losses (credit impairment)

The Bank follows the Reserve Bank's guidelines for account grading which determines provisions for credit impairment. Individually Assessed Allowance is estimated on TIA (Trouble and Impaired Assets) to ensure doubtful accounts are well provided for.

The Banks allowance for credit impairment is in compliance with International Financial Reports Standards (IFRS)

TRAINING & DEVELOPMENT

The Bank continued to invest substantially in staff training.

An annual Training Needs Analysis determines both general and specific training requirements of its human resources. As a result the Bank has its on-going, in-house training for its staff in various sectors of its operations.

Eight FDB officers attended their second and third year segment of the Pacific Coast Banking School (PCBS) at the University of Washington, Seattle, USA. The PCBS, a specialised banking institute helps to equip and groom selected staff for leadership and senior management positions.

The Bank also supports personnel engaged in higher learning at the University of the South Pacific (USP), Fiji Institute of Technology (FIT) and other recognized educational institutions.

Corporate Governance

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 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 the 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 members are paid Directors Fees as directed by the Ministry of Finance. Directors are also paid a sitting allowance for every sub-committee meeting attended.

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

The Board met 17 times during the financial year ended 30 June 2008.

Names of Directors	No. of meetings attended
Sereana Qoro (Ms) – Chairperson (term expired in January 2008)	7
Kalivati Bakani (term expired in August 2007)	-
Adish Naidu (term expired in August 2007)	-
Samuel Foy Chung (term expired in July 2007)	-
Ian Hawthorn (term expired in July 2007)	-
Taina Ravutu (Ms) (term expired in July 2007)	-
Ilaisa Cavu	16
Jitoko Tikolevu	16
Ashok Kumar	16
Alok Mishra (Appointed in the Board from December 2007)	12
Taito Waradi (Appointed in the Board from Feb 2008)	9

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 Agriculture & Rural 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 decisions and evaluates the treasury function 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 task of 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 Bank's 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.

HR Committee

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

Agriculture & Rural Development Charter Committee

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

Name of Director	ALCO	Audit	HR	A&RD
Sereana Qoro (Ms)**	√	√*	√*	
Sam Foy Chung**				√*
Kalivati Bakani**		√		
Ian Hawthorn**	√	√		
Adish Naidu**				
Taito Waradi	√*	√*	√*	√*
Alok Mishra	√	√	√	√
Jitoko Tikolevu	√	√	√	√
Ilaisa Cavu	√	√	√	√
Ashok Kumar	√	√	√	√

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

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 basically manages the day to day operations of the Bank based on the operational plan and strategic direction and within the budget set by the Board.

Compliance Framework Internal Audit

The Internal Audit team is responsible for ensuring that operations of the Bank are in compliance with the internal control systems and procedures on the Bank. The 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 statement of the Bank is 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 are dealt with in accordance with 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 Bank's code of conduct, oath of secrecy and to declare any conflict of 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 our customers are our most valuable stakeholders. The Bank strives to maintain the highest standard customer service as possible. Where customers believe they have not been treated fairly, a complaint procedure is in place whereby they can lodge a written complaint directly to the CEO of the Bank. These complaints are dealt with 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 on educating students in financial management and in maintaining our environment.

Corporate Social Responsibility

Overview

The FDB's commitment to Corporate Social Responsibility is reflected through sponsorships, some donations and generally focussing on national concerns. It endeavours to align this aspect of its activities with its overall corporate focus.

Money $mart

For the last four decades, the FDB has been creating opportunities for small businesses and entrepreneurs to further its mission of assisting in Fiji's overall economic development.

The Money $mart Programme, launched in February 2007, is closely associated with this work of the Bank in building the economy.

Money $mart is designed to give school children early knowledge and appreciation of money and how to manage it. It emphasises wise spending, budgeting and the importance of saving. The Money $mart syllabus in form three Commercial Studies is completely practical in its application and is examinable in the Fiji Junior Examination (FJC). The students are provided with a workbook to be used as part of internal assessment for the FJC. The Bank's initial commitment towards this programme is for three years.

Small Business Awards

The concept driving this initiative, launched in 2004, is to recognise, encourage and reward people who have demonstrated initiative and entrepreneurship through establishing small and micro enterprises (SMEs). Such businesses form an important part of Fiji's commercial economy and are a central element of the FDB's mission to stimulate economic growth.

The Award's multi-lingual slogan "Bisinisi lailai, paisa acha!" captures the idea that small enterprises can be profitable. There is a definite growth in awareness, both of the promotion and the principles it represents.

Support for the competition came from stakeholders such as micro finance groups who rallied behind the award together with sponsors such as Asco Motors, Fiji Sun, the Reserve Bank of Fiji, Connect and Fijilive.

Support for Charitable Causes

The Bank recognises the need and support for organisations which deliver charity assistance where this is most needed. During the year, the FDB made financial contributions to the Fiji Red Cross and United Blind Persons of Fiji as well as the Hibiscus Carnival.

Small Business Awards

Faith and resourcefulness bring business success for Makereta

Makereta Matemosi's story is one of persistence and hard work. The winner of the 2007 Fiji Development Bank Small Business Awards overcame desperation and hardship to succeed in her small handicrafts business. She is a role model for those who, although shaken by life's circumstances, refuse to give up. Her success in building a small business, is a result of her determination and enterprise. This made Makereta the ideal person for the FDB to call on to launch its Small Business Awards competition for 2008.

"My husband was one of the many people who lost their jobs following the 2000 coup," explains Makereta. The couple had four young children at the time, and Makereta, who is from Namuka-i-Lau, knew she had to do what she could to support her family.

Their situation worsened to a point where her two older children were attending school for only two days a week. "I vividly remember those days when my family was on the verge of ruin because there was no money," Makereta said.

She refused to give up. "Towards the end of 2000, I decided to try my hand at making traditional craft," Makereta said.

With just $20, she began making masi (bark cloth from the paper mulberry tree) gift bags that she initially sold for $1.50 each. This earned her about $7 a day.

She then asked her eldest daughter to make a big sacrifice and leave school to help her with the growing business.

Together they now produce woven baskets made of masi and pandanus (voivoi) to package products of Fiji's international award-winning Mokosoi soap and cosmetics.

Other quality products she makes, such as drinks coasters, tablemats and soap dishes, are snapped up by buyers like Wakaya Island Resort, the exclusive holiday retreat for some of the world's rich and famous.

Since winning the FDB's Small Business Award, Makereta has attracted additional orders, including from New Zealand, and is now enjoying the success of her labour and perseverance.

Asaeli chooses farming to secure his family's future

Just over four years ago, 36-year-old Asaeli Tokilala found it very hard to build a secure future for his young family while he was living in Suva and working for a shipping company. That's when he began thinking seriously about returning to the land of his forefathers in Vanua Levu.

A member of the mataqali Navisogo, he approached the mataqali head for a piece of land to farm.

"In the beginning the land I was given was covered with mission grass as tall as a man," Asaeli said. "I had to start in a small way, clearing the area to plant cassava and other vegetables to feed my family, and selling the surplus at the local market."

Today his farm has greatly transformed some 27 acres of idle land. The grassy expanses have been pushed back to make way for the variety of crops Asaeli is successfully cultivating.

To begin farming on a commercial basis, he realised he would need financial help.

"This would never have been possible without the assistance of the Fiji Development Bank," says Asaeli. "I took out a small loan from the Bank and hired a tractor to plough the land. I then bought vegetable and watermelon seeds, as well as fertilizer and other items."

The determined young farmer also cultivated three acres of virgin land and planted watermelons. He anticipates a good, healthy crop over the next few months.

He started his farm with some cash crops, cassava and pineapple, and has now gone commercial with these commodities.

"I have more than 12,000 pineapple plants that are now fruiting," he says proudly. "During the main pineapple season – November to December – I am able to harvest and supply the Savusavu market with about 600 to 700 fruits per week."

In addition, Asaeli supplies Labasa market with 20 bags of cassava every week at $30 a bag.

"There is always a shortage of cassava, pineapple and vegetables here. More farmers are needed to grow and supply the local market demand. The Lord has given us all the resource we need to produce, all one has to do is to work hard."

Asaeli is married with two children, aged 10 and 8 years, who are attending a nearby school.

Jane finds her true calling as a businesswoman

It's rare to find a schoolteacher who would voluntarily put aside her teaching profession to become a food vendor. But that's how Jane Naulu of Lioniqa in Seaqaqa came to be a businesswoman.

By the time she had completed 11 years of teaching, Jane had become acutely concerned that her teacher's salary just wasn't enough to meet the needs of her six growing children. Determined to do something about it, she approached the Fiji Development Bank for a Micro Credit Loan. With this she has established a small food business on the main road in the heart of Seaqaqa, 27 kilometres from Labasa.

"It all started with an eight day workshop on 'start your own business' in Labasa late last year," she says.

"The National Centre for Small and Micro Enterprises Development (NCSMED) chose me to participate in its training programme. We had to prepare a business plan which was then assessed by officials of the Fiji Development Bank who were also at the workshop."

"This training was a catalyst for change in my life," Jane said with new-found business confidence. "I learnt about record keeping, how to earn money, how to spend it, and how to save."

It was during the workshop that she got the idea of starting a simple food selling business in the developing town of Seaqaqa.

Her business plan went into action when she received a $2,500 grant from the Northern Development Programme, which was further supplemented by a micro credit loan from the Bank.

"The FDB loan was of great help to me as I was able to set up a simple shop for the business."

"I do all of my cooking at home and bring it to the shop to sell. Menu items include fish and cassava, cakes and pies, fresh fruit and fresh bottled juices."

Jane and her family are already benefiting from her enterprise. "I am earning more than before, and am able to deposit $100 per week towards my savings. This is apart from repayments on my loan, and money to help my husband with household expenses."

"I now have more time for myself, for my husband and children. Also they all assist me with preparing the food packs which really helps to bring the family together," said Jane.

"Before I started the new business, I used to stay away from church activities and family functions, because I had very little extra money to contribute. Having six children growing up and in school is financially demanding but now I find I am managing better.

"I can give something towards church and communal obligations, and have been able to buy my children a computer to help with their studies."

"My husband's wages alone are not sufficient to support us all, so income from my business is a great help."

Jane realises that as her family grows, so will the pressure on her financial resources. She has therefore decided to extend her food takeaway business to enable her customers to eat on the premises.

Originally from Yaroi village in Savusavu, Jane is married to Josese George Batisaresare who is from Lavuka in Lakeba, Lau.

Fiji Development Bank

Audited Financial Report and Financial Statements

For the Year Ended 30th June 2008

DIRECTORS REPORT
YEAR ENDED 30TH JUNE 2008

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 2008, 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 at during the financial year ended 30th June 2008:

Mr Taito Waradi	(Appointed in Feb 2008)	- Chairperson
Mr Alok Mishra	(Appointed in Nov 2007)	- Deputy Chairperson
Mr Jitoko Tikolevu	(Appointed in Sept 2007)	
Mr Ilaisa Cavu	(Appointed in Sept 2007)	
Mr Ashok Kumar	(Appointed in Sept 2007)	
Mrs Sereana Qoro	(Term expired in Jan 2008)	- Chairperson
Mr Adish Naidu	(Term expired in August 2007)	
Mr Ian Hawthorn	(Term expired in July 2007)	
Mr Kalivati Bakani	(Term expired in August 2007)	
Mr Sam Foy Chung	(Term expired in July 2007)	
Mrs Taina Ravutu	(Term expired in July 2007)	

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 2008 was $3,799,436 (2007 – $4,343,901). The operating profit for the Bank for the year was $3,823,443 (2007 - $4,316,644).

DIVIDENDS

The directors recommend that no dividend be declared or paid.

DIRECTORS REPORT (cont'd).

YEAR ENDED 30TH JUNE 2008

BAD AND DOUBTFUL DEBTS

Prior to the completion of the company'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 allowance for doubtful debts. In the opinion of the directors, adequate allowance 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 allowance for doubtful debts in the company inadequate to any substantial extent.

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 other 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 this 3rd day of November 2008.

....

Director **Director**

STATEMENT BY DIRECTORS

YEAR ENDED 30TH JUNE 2008

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 2008;

(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 2008;

(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 2008;

(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 2008;

(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 3rd day of November 2008.

Director **Director**

Republic of the Fiji Islands
Office of the Auditor General
Accountability in the public sector through quality audit services

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ACHIEVEMENT IN BUSINESS EXCELLENCE THROUGH QUALITY MANAGEMENT

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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 2008, consisting of the balance sheet, income statement, statement of changes in equity, statement of cash flows and accompanying notes as set out on pages 26 to 60. 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 International 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 International Financial Reporting 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 the International Financial Reporting 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 2008 and of the results, cash flows and changes in equity of the Bank and the Group for the year ended on that date; and

(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

7th November 2008

AUDITOR-GENERAL FIJI

BALANCE SHEET
AS AT 30TH JUNE 2008

	NOTES	CONSOLIDATED		THE BANK	
		2008	Restated 2007	**2008**	Restated 2007
		$	$	$	$
Assets					
Cash		**11,606,425**	19,283,895	**11,560,222**	19,239,014
Loans and advances	**6**	**381,462,688**	405,186,870	**381,462,688**	405,186,870
Investment in subsidiary	**7**	**-**	-	**20,000**	20,000
Investments	**8**	**1,570,251**	1,570,251	**1,570,251**	1,570,251
Land held for resale	**9**	**437,773**	438,073	**437,773**	438,073
Property, plant and equipment	**10**	**14,766,872**	14,962,553	**14,766,872**	14,962,553
Amounts due from subsidiary	**11**	**-**	-	**11,931**	-
Other debtors	**12**	**4,862,109**	8,998,565	**4,859,686**	8,977,966
TOTAL ASSETS		**414,706,118**	450,440,207	**414,689,423**	450,394,727
Liabilities					
Bonds - Held-to-maturity	**13**	**188,936,162**	237,332,285	**188,936,162**	237,332,285
Short term borrowings	**14**	**111,922,151**	104,635,583	**111,922,151**	104,635,583
Employee entitlements	**15**	**1,241,568**	1,267,579	**1,241,568**	1,267,579
Deferred income		**2,358,825**	2,413,490	**2,358,825**	2,413,490
Accounts payable and accruals	**16**	**5,321,062**	5,279,735	**5,311,117**	5,265,012
Other liabilities	**17**	**5,594,182**	3,978,803	**5,594,182**	3,978,803
TOTAL LIABILITIES		**315,373,950**	354,907,475	**315,364,005**	354,892,752
Equity					
Capital	**18**	**56,050,636**	56,050,636	**56,050,636**	56,050,636
Reserves		**5,623,562**	5,623,562	**5,623,562**	5,623,562
Accumulated profits		**37,657,970**	33,858,534	**37,651,220**	33,827,777
Total capital and reserves		**99,332,168**	95,532,732	**99,325,418**	95,501,975
TOTAL LIABILITIES AND EQUITY		**414,706,118**	450,440,206	**414,689,423**	450,394,727
Commitments and contingent liabilities	**19**				

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 35 to 60.

INCOME STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2008

	NOTES	CONSOLIDATED		THE BANK	
		2008	Restated 2007	2008	Restated 2007
		$	$	$	$
INCOME					
Interest Income	2	45,029,126	39,039,925	45,027,583	39,038,963
Interest expense		20,496,744	21,164,154	20,496,744	21,164,154
Net Interest income		24,532,382	17,875,771	24,530,839	17,874,809
Fee Income	3	7,822,482	3,653,380	7,822,482	3,653,380
Other income	4	10,771,948	5,354,527	10,771,667	5,313,774
OPERATING INCOME		43,126,812	26,883,678	43,124,988	26,841,963
OPERATING EXPENSES	5	13,053,901	12,277,649	13,028,070	12,275,459
OPERATING PROFIT BEFORE ALLOWANCES		30,072,911	14,606,029	30,096,918	14,566,504
Allowance for credit impairment	6	21,233,904	10,084,860	21,233,904	10,084,860
Diminution in investments	8	-	165,000	-	165,000
Allowance for loss - Government Guarantee	12	5,039,571	-	5,039,571	-
OPERATING PROFIT BEFORE INCOME TAX EXPENSE		3,799,436	4,356,169	3,823,443	4,316,644
Income tax expense	1(q)	-	12,268	-	-
OPERATING PROFIT AFTER INCOME TAX		3,799,436	4,343,901	3,823,443	4,316,644

The income statements are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 35 to 60.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30TH JUNE 2008

	Notes	2008 $ Inflows (Outflows)	Restated 2007 $ Inflows (Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest and subsidy received		**42,486,466**	39,294,415
Interest and other costs of borrowing paid		**(19,730,213)**	(19,345,090)
Fees received		**7,822,482**	3,653,380
Cash paid to suppliers and employees		**(11,855,576)**	(10,922,419)
Other receipts		**11,958,866**	2,930,266
Net cash provided by operating activities	**24 (ii)**	**30,682,025**	15,610,552
CASH FLOWS FROM INVESTING ACTIVITIES			
Customer loans granted		**(66,100,000)**	(112,531,000)
Customer loans repaid		**69,495,309**	54,562,523
Payments for property, plant and equipment		**(713,284)**	(672,054)
Receipts from disposal of property and equipment		**125,047**	185,747
Receipts/(Payments) for land held for resale		**300**	(99,130)
Net cash provided by/(used in) investing activities		**2,807,372**	(58,553,914)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term borrowings		**87,578,666**	88,074,917
Repayment of long-term borrowings		**(136,032,101)**	(77,850,000)
Net increase in short-term borrowing		**7,286,568**	33,518,880
Net cash (used in)/provided by financing activities		**(41,166,867)**	43,743,797
Net (decrease)/increase in cash held		**(7,677,470)**	800,435
Cash at the beginning of the financial year		**19,283,895**	18,483,460
Cash at the end of the financial year	**24 (i)**	**11,606,425**	19,283,895

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 35 to 60.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30TH JUNE 2008

CONSOLIDATED

	Notes	Capital	General reserve	Revaluation reserve	Accumulated profits	Total
		$	$	$	$	$
Balance at 30th June 2006		56,050,636	2,500,000	6,113,459	24,756,189	89,420,284
Adjustment upon first time adoption of IFRS	**25**	-	-	-	(1,355,015)	(1,355,015)
Transfer from Revaluation reserve	**25**	-	-	(6,113,459)	6,113,459	-
Revaluation of Bank Properties		-	-	3,123,562	-	3,123,562
Net profit for the year		-	-	-	4,343,901	4,343,901
Retained earnings as restated at 30th June 2007		56,050,636	2,500,000	3,123,562	33,858,534	95,532,732
Net profit for the year		-	-	-	3,799,436	3,799,436
		-	-	-	-	-
Balance at 30th June 2008		**56,050,636**	**2,500,000**	**3,123,562**	**37,657,970**	**99,332,168**

THE BANK

	Notes	Capital	General reserve	Revaluation reserve	Accumulated profits	Total
		$	$	$	$	$
Balance at 30th June 2006		56,050,636	2,500,000	6,113,459	24,752,689	89,416,784
Adjustment upon first time adoption of IFRS	**25**	-	-	-	(1,355,015)	(1,355,015)
Transfer from revaluation reserve	**25**	-	-	(6,113,459)	6,113,459	-
Revaluation of Bank Properties		-	-	3,123,562	-	3,123,562
Net profit for the year		-	-	-	4,316,644	4,316,644
Retained earnings as restated at 30th June 2007		56,050,636	2,500,000	3,123,562	33,827,777	95,501,975
Net profit for the year		-	-	-	3,823,443	3,823,443
Balance at 30th June 2008		**56,050,636**	**2,500,000**	**3,123,562**	**37,651,220**	**99,325,418**

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 35 to 60.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2008

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Fiji Development Bank is a fully owned Government of Fiji ("Government") entity domiciled in Fiji. The address of the registered office is 360 Victoria Parade, Suva, Fiji. The consolidated financial statements of the Bank for the year ended 30th June 2008 comprise the Bank and its subsidiary company. The Bank is primarily involved in the provision of finance, financial and advisory services to assist in the development of agriculture, commerce and industry in Fiji.

The financial statements were authorised for issue by the Directors on 3rd November, 2008.

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

(a) Statement of compliance

The financial statements are presented in Fiji dollars, rounded to the nearest dollar. The financial statements of the Bank have been drawn up in accordance with the International Financial Reporting Standards ("IFRS") and the requirements of the law.

(b) Change in accounting policies

The Bank has adopted IFRS with effect from 1st July 2007. An explanation of how the transition to IFRS affected the reported Statement of Changes in Equity, Balance Sheet and the Income Statement of the Bank is provided in Note 25: Explanation of transition to IFRS.

(c) Basis of preparation

The measurement base adopted is that of historical cost as modified by the fair value measurement of Available for Sale financial assets and Financial Instruments held at Fair Value through the income statement.

The Accounting Policies have been consistently applied by the Bank to all periods presented in these financial statements and in preparing an opening IFRS Balance Sheet at 1st July 2007 for the purpose of transition to IFRS. Further details on the basis used to prepare this comparative information and the nature of the main adjustments that would make the information comply with IFRS has been included in Note 25: Explanation on Transition to IFRS.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements including the following notes:

- Note 1(h) – Plant and equipment impairment
- Note 1(j) – Allowance for credit impairment

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(e) Principles of consolidation

Subsidiary

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. Control exists when the Company has the power,directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.
The financial statement of the subsidiary is included in the consolidated financial statements from the date that control commences until the date that controls ceases.

Transactions eliminated on consolidation

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

(f) Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefit will flow to the Bank and that the revenue can be reliably measured. The principal sources of revenue are interest income, government interest subsidies and fees and charges.

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

Lending fees

Fees and direct costs relating to loan origination, financing or restructuring and to loan commitments are deferred and amortised to Interest Income over the life of the loan using the effective yield method. Lending fees not directly related to the origination of a loan are recognised over the period of service.

Other fees and charges

When other fees and charges relate to specific transactions or events, they are recognised in the Income Statement when the service is provided to the customer. When they are charged for services provided over a period, they are taken to income on an accruals basis as the service is provided.

Fees on impaired loans are recognised as income only when received.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(g) Bonds – Held-to-maturity

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.

(h) 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 Income statement, respectively.

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

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	1-2%
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.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(i) Loans and advances

Loans and advances net of lending allowances 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. There were no new finance leases granted in the current financial year.

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 and past due assets

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

(j) Bad and doubtful loans and advances

Loan accounts are reviewed throughout the year to assess the allowance for bad and doubtful loan requirements. The Bank has individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

Individually assessed allowance is maintained to cover identified doubtful debts. All known bad debts are written off in the year in which they are identified. The individually assessed allowance requirement (representing new and increased individually assessed allowances less individually assessed releases) is taken to the Income Statement.

Individually assessed allowances are made against individually significant financial assets and those that are not individually significant, including groups of financial assets with similar credit risk characteristics. The determination of the amount of specific allowance is based on many factors including credit evaluation of the borrowers, value of security and collateral held, current economic conditions and past experience.

Recoveries, representing excess transfers to the specific allowance, are credited to the Income Statement.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(j) Bad and doubtful loans and advances (cont'd)

Unallocated individually assessed allowances

An unallocated individually assessed allowance 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. The percentage applied to the respective grades are as follows:

Substandard	20% of the loan balance
Doubtful	50% of the loan balance
Loss	100% of difference between loan balance and security realisable value

Collective allowance

All other loans and advances that do not have an individually assessed allowance are assessed collectively for impairment. Collective allowances are maintained to reduce the carrying amount of portfolios of similar loans and advances to their estimated recoverable amounts at the balance date.

The annual charge against profits for bad and doubtful debts reflects new collective allowances.

Collective allowance is maintained on all loans based on the Credit Risk Rating "(CRR)" and is allocated monthly to reflect the highest risk. The collective allowance is based on a percentage and is reviewed on a yearly basis.

Bad debts written off/recovered

Bad debts are written off against the allowance in the year in which the debt is recognised as being irrecoverable. Where not previously included in the allowance, bad debts are written off directly against the income statement. Debts previously written off and subsequently recovered are written back to the income statement in the year in which they are recovered.

Impairment

The Bank assesses at each balance date whether there is any objective evidence of impairment.

If there is objective evidence that an impairment loss on loans, advances and other receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the expected future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. Short-term balances are not discounted.

(k) 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. Borrowing costs are recognised as expenses in the period in which they are incurred.

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.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(l) 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.

(m) 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.

(n) Cash

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.

(o) Other debtors

Other receivables are stated at cost less impairment losses.

(p) Accounts payable and accruals

Accounts payable and accruals are stated at cost.

(q) 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 Bank's subsidiary adopts the principles of tax effect accounting.

(r) Employee entitlements

Annual leave

The accrual 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 accrual 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 liability for long service leave increases according to the number of years of service completed by the employee.

Gratuity

The accrual 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

The triennial leave 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 2008 was 198 (2007: 215).

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(s) Contingent Liabilities and Credit Commitments

The Bank is involved in a range of transactions that give rise to contingent and / or future liabilities. The Bank discloses a Contingent Liability when it has a possible obligation arising from past events, that will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Bank's control. A contingent liability is disclosed when a present obligation is not recognised because it is not probable that an outflow of resources will be required to settle an obligation, or the amount of the obligation cannot be measured with sufficient reliability.

The Bank issues commitments to extend credit, letters of credit, guarantees and other credit facilities. These financial instruments attract fees in line with market prices for similar arrangements. They are not sold or traded. The items generally do not involve cash payments other than in the event of default. The fee pricing is set as part of the broader customer credit process and reflects the probability of default. They are recorded as contingent liabilities at their face value.

Information on the face value and credit equivalents of Commitments and Contingent Liabilities shown in Note 19.

(t) Capital grants from Government

Capital grants received from Government are credited directly to equity.

(u) Deferred income

Deferred income represents establishment fees charged and is deferred and amortised over the life of the loan.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (cont'd)

FOR THE YEAR ENDED 30TH JUNE 2008

	CONSOLIDATED		THE BANK	
	2008	Restated 2007	**2008**	Restated 2007
	$	$	$	$
2 INTEREST INCOME				
Included in interest income are interest subsidies received / receivable from the Government for:				
-Agricultural loans	**419,801**	359,726	**419,801**	359,726
-Commercial Loans to Fijians scheme	**2,519,008**	2,546,434	**2,519,008**	2,546,434
-Economic Rehabilitation Package Scheme	**234,818**	278,564	**234,818**	278,564
-Small Business Scheme	**317,936**	277,369	**317,936**	277,369
-Northern Rehabilitation Package	**322,126**	297,318	**322,126**	297,318
	3,813,689	3,759,411	**3,813,689**	3,759,411
3 FEE INCOME				
Application Fees	**131,190**	152,526	**131,190**	152,526
Establishment Fees	**487,804**	619,481	**487,804**	619,481
Commitment Fees	**191,377**	313,384	**191,377**	313,384
Bank Service Fees	**1,491,495**	1,495,556	**1,491,495**	1,495,556
Arrears Fees	**4,624,943**	303,053	**4,624,943**	303,053
Legal Fees	**894,093**	767,427	**894,093**	767,427
Other fee income	**1,580**	1,953	**1,580**	1,953
	7,822,482	3,653,380	**7,822,482**	3,653,380
4 OTHER INCOME				
The following items are included in other income:				
Gain on sale of property, plant and equipment	**87,657**	53,292	**87,657**	53,292
Bad Debt Recovered	**8,379,905**	2,530,562	**8,379,905**	2,530,562
Insurance commission	**240,962**	268,252	**240,962**	268,252
Rental income	**525,922**	455,650	**525,922**	455,650
5 OPERATING EXPENSES				
Items included in administrative expenses:				
Amortisation of bond discounts	**629**	129	**629**	129
Auditors' remuneration	**36,874**	43,163	**35,374**	41,663
Directors' fees	**144,756**	170,452	**144,756**	170,452
Depreciation	**864,368**	863,889	**864,368**	863,889
Loss on property, plant and equipment	**7,206**	199	**7,206**	199
Employee costs	**7,474,643**	7,305,016	**7,474,643**	7,305,016
Voluntary Redundancy	**889,079**	-	**889,079**	-

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2008

6 LOANS AND ADVANCES

	CONSOLIDATED		THE BANK	
	2008	Restated 2007	**2008**	Restated 2007
	$	$	$	$
Loans and advances	**443,068,034**	446,277,772	**443,068,034**	446,277,772
Less: Interest and fees suspended	**7,313,291**	3,086,343	**7,313,291**	3,086,343
	435,754,743	443,191,429	**435,754,743**	443,191,429
Allowance for credit impairment	**54,292,055**	38,004,559	**54,292,055**	38,004,559
Total loans and advances	**381,462,688**	405,186,870	**381,462,688**	405,186,870

Loans and advances include finance lease provided to customers as well. There were no new finance leases granted in the current financial year.

Allowance for credit impairment is represented as follows:

	CONSOLIDATED 2008 $	CONSOLIDATED Restated 2007 $	THE BANK 2008 $	THE BANK Restated 2007 $
Individually assessed allowance				
Balance at the beginning of the year	**5,239,985**	3,924,384	**5,239,985**	3,924,384
Charge to the income statement	**21,886,879**	5,158,960	**21,886,879**	5,158,960
	27,126,864	9,083,344	**27,126,864**	9,083,344
Written off as bad debts against allowance for credit impairment	**(4,946,408)**	(3,843,359)	**(4,946,408)**	(3,843,359)
Balance at the end of the year	**22,180,456**	5,239,985	**22,180,456**	5,239,985
Unallocated Individually assessed allowance				
Balance at beginning of year	**11,813,218**	7,632,396	**11,813,218**	7,632,396
Charge/(credit) to the income statement	**12,106,920**	4,180,822	**2,106,920**	4,180,822
Balance at the end of the year	**23,920,138**	11,813,218	**23,920,138**	11,813,218
Collectively assessed allowance				
Balance at beginning of year	**20,951,356**	20,206,278	**20,951,356**	20,206,278
Charge/(credit) to the income statement	**(12,759,895)**	745,078	**(12,759,895)**	745,078
Balance at the end of the year	**8,191,461**	20,951,356	**8,191,461**	20,951,356
Total allowance for credit impairment	**54,292,055**	38,004,559	**54,292,055**	38,004,559

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (cont'd).

FOR THE YEAR ENDED 30TH JUNE 2008

	CONSOLIDATED		THE BANK	
	2008	Restated 2007	**2008**	Restated 2007
	$	$	$	$
7 INVESTMENT IN SUBSIDIARY				
FDB Nominees Ltd	**-**	-	**20,000**	20,000

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

8 INVESTMENTS

	CONSOLIDATED 2008 $	Restated 2007 $	THE BANK 2008 $	Restated 2007 $
Shares in companies - at cost	**6,634,541**	6,634,541	**6,634,541**	6,634,541
Less: Allowance for diminution in value	**(5,064,290)**	(5,064,290)	**(5,064,290)**	(5,064,290)
	1,570,251	1,570,251	**1,570,251**	1,570,251

Allowance for dimiunition in investments is represented as follows:

	CONSOLIDATED 2008 $	Restated 2007 $	THE BANK 2008 $	Restated 2007 $
Balance at the beginning of the year	**5,064,290**	4,899,290	**5,064,290**	4,899,290
Charge to the income statement	**-**	165,000	**-**	165,000
Balance at the end of the year	**5,064,290**	5,064,290	**5,064,290**	5,064,290

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.

9 LAND HELD FOR RESALE

	CONSOLIDATED 2008 $	Restated 2007 $	THE BANK 2008 $	Restated 2007 $
Nasarawaqa Estate				
Cost	**99,426**	99,426	**99,426**	99,426
Less: Allowance for diminution in value	**(51,950)**	(51,950)	**(51,950)**	(51,950)
	47,476	47,476	**47,476**	47,476
Contributions to project	**(4,795)**	(4,495)	**(4,795)**	(4,495)
	42,681	42,981	**42,681**	42,981
Cane Estate				
Cost	**1,000,000**	1,000,000	**1,000,000**	1,000,000
Other expenses capitalised	**295,092**	295,092	**295,092**	295,092
	1,295,092	1,295,092	**1,295,092**	1,295,092
Less: Allowance for dimiunition in value	**900,000**	900,000	**900,000**	900,000
	395,092	395,092	**395,092**	395,092
Balance at the end of the year	**437,773**	438,073	**437,773**	438,073

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (cont'd).

FOR THE YEAR ENDED 30TH JUNE 2008

10 PROPERTY, PLANT AND EQUIPMENT

	Note	CONSOLIDATED		THE BANK	
		Land and buildings	**Plant and equipment**	**Fixtures and fittings**	**Total**
		$	$	$	$
Deemed Cost (IFRS)					
Balance at beginning of the year		13,181,030	2,094,063	551,349	15,826,442
Acquisitions during the year		-	702,272	11,012	713,284
Disposals		-	(352,561)	-	(352,561)
Balance at end of the year		13,181,030	2,443,774	562,361	16,187,165
Accumulated Depreciation					
Balance at beginning of the year		222,768	592,531	48,590	863,889
Depreciation charge for the year		192,287	622,687	49,394	864,368
Disposals		-	(307,964)	-	(307,964)
Balance at end of the year		415,055	907,254	97,984	1,420,293
Carrying amount					
Balance at beginning of the year		12,958,262	1,501,532	502,759	14,962,553
Balance at end of the year		**12,765,975**	**1,536,520**	**464,377**	**14,766,872**

The Directors have adopted a policy of obtaining regular independent valuations for the Bank's 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.

	Note	**2008**	Restated 2007	**2008**	Restated 2007
		$	$	**$**	$
11 AMOUNTS DUE FROM SUBSIDIARY					
FDB Nominees Ltd	**20**	**-**	-	**11,931**	-
12 OTHER DEBTORS					
Government guarantees		**5,039,571**	4,458,189	**5,039,571**	4,458,189
Less allowance for loss - Government Guarantee		**(5,039,571)**	-	**(5,039,571)**	-
		-	4,458,189	**-**	4,458,189
Government interest subsidies		**4,205,581**	3,264,280	**4,205,581**	3,264,280
Others		**656,528**	1,276,096	**654,105**	1,255,497
		4,862,109	8,998,565	**4,859,686**	8,977,966

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (cont'd).
FOR THE YEAR ENDED 30TH JUNE 2008

	CONSOLIDATED		THE BANK	
	2008	Restated 2007	**2008**	Restated 2007
	$	$	$	$
13 BONDS - HELD-TO-MATURITY				
FDB Registered bonds - face value	**188,878,850**	237,272,951	**188,878,850**	237,272,951
Unamortised discount	**57,312**	59,334	**57,312**	59,334
	188,936,162	237,332,285	**188,936,162**	237,332,285

The above registered bonds have a repayment term varying between 1 to 7 years and have been guaranteed by Government of Fiji

	CONSOLIDATED		THE BANK	
14 BORROWINGS				
Short term borrowings	**111,922,151**	104,635,583	**111,922,151**	104,635,583

The above borrowings have a repayment term of less than 1year and have been guaranteed by Government of Fiji.

	CONSOLIDATED		THE BANK	
15 EMPLOYEE ENTITLEMENTS				
Balance as at June 2007	**1,267,579**	1,185,349	**1,267,579**	1,185,349
Amount untilised	**(152,034)**	(879)	**(152,034)**	(879)
Accrued during the year	**126,023**	83,109	**126,023**	83,109
Balance as at June 2008	**1,241,568**	**1,267,579**	**1,241,568**	**1,267,579**
16 ACCOUNTS PAYABLE AND ACCRUALS				
Interest accruals	**3,568,522**	4,619,032	**3,568,522**	4,619,032
Others	**1,752,540**	660,703	**1,742,595**	645,980
	5,321,062	5,279,735	**5,311,117**	5,265,012
17 OTHER LIABILITIES				
Seed Capital Fund	**2,704,103**	2,528,422	**2,704,103**	2,528,422
Staff Savings account	**1,140,765**	1,201,047	**1,140,765**	1,201,047
Export Facility	**1,499,980**	-	**1,499,980**	-
Farmers Assistance Scheme	**249,334**	249,334	**249,334**	249,334
	5,594,182	3,978,803	**5,594,182**	3,978,803

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.

Staff savings are stated at cost and are repayable on demand at an average interest rate of 4% per annum.

	CONSOLIDATED		THE BANK	
	2008	Restated 2007	2008	Restated 2007
	$	$	$	$
18 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

The Bank was formed by the Act of Parliament and the contributed capital of $56,050,636 consists of equity contribution from the Government of Fiji.

19 COMMITMENTS AND CONTINGENT LIABILITIES

	2008	Restated 2007
(a) Commitments		
(i) Capital commitments	**-**	-
(ii) Loans approved but not disbursed	**22,635,028**	43,036,329
	22,635,028	43,036,329
(b) Contingent liabilities		
(i) Guarantees	**1,582,473**	2,945,330

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.

20 RELATED PARTY TRANSACTIONS

Directors

The following were directors of the Bank duirng the financial year ended 30th June 2008:

Current Directors

Mr Taito Waradi - Chairperson
Mr Alok Mishra - Deputy Chairperson
Mr Jitoko Tikolevu
Mr Ilaisa Cavu
Mr Ashok Kumar

20 RELATED PARTY TRANSACTIONS (cont'd)

Mrs Sereana Qoro
Mr Adish Naidu
Mr Ian Hawthorn
Mr Kalivati Bakani
Mr Sam Foy Chung
Mrs Taina Ravutu

	CONSOLIDATED		THE BANK	
	2008	2007	**2008**	2007
	$	$	$	$
Directors' fees	**144,756**	170,452	**144,756**	170,452

Loans amounting to $181,976 (2007: $584,598) to certain companies with former directors interest are included in "Loans Advances" (refer Note 6) . The loans were provided under normal terms and conditions.

Other related party transactions

During the year ended 30th June 2008, the total receivable by the Bank from its subsidiary, FDB Nominees Limited in respect of services provided to the company, amounted to $11,931 (2007: nil).
All transactions with the related party are on normal commercial terms and conditions.

Key Management Personnel

Details of compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

During the year the following persons were the executives identified as key management personnel, with the greatest authority and responsibility for the planning, directing and controlling the activities of the Bank.

Name	Current title
Tukana Bavoro	Former Chief Executive Officer
Deve Toganivalu	General Manager Agriculture & Development Finance (Acting CEO)
Umarji Musa	General Manager Corporate Business Services
Lasantha Thennakoon	General Manager Financial Operations
Nesbitt Hazelman	General Manager Divisional Support Services

The aggregate compensation of the key management personnel comprises only short-term benefits and is set out below:

	CONSOLIDATED		THE BANK	
	2008	2007	**2008**	2007
	$	$	$	$
Short-term benefits	**654,274**	597,710	**654,274**	597,710

Loans amounting to $318,719 (2007: $308,530) to executives are included in "Loans Advances" (refer Note 6).
The loans were provided under normal terms and conditions.

21 RISK MANAGEMENT POLICY

CREDIT RISK

Credit Risk is the risk of probable loss brought about by counterparties' inability to meet contractual obligation. The Credit Risk Framework is in place across the organization with the end-objective of ensuring a structured and disciplined approach in pursuing the targets mutually set by the Board and Management. The framework focuses on corporate mission, policies, procedures, people, skills, values, controls and portfolio balance exposures. It is supported by regular portfolio analysis and detailed underwriting evaluation that identifies risk areas / concentrations, with recommended risk remedies and monitoring procedures in order to avert any probable negative impact of the account and of the portfolio.

The authority to make credit decision is layered. The Board retains the authority to approve loan amounts above a threshold that is set for the Executive Committee (EXCO). On the other hand, the EXCO has delegated defined approving limits to Risk Officers under certain conditions. The delegated credit decision authority, particularly below the EXCO level is reviewed and evaluated annually base on the client's performance as it establishes the quality of credit decision made by the authorized officer.

The primary support of the credit risk management is the Credit Risk Grading System, which was developed internally and integrates the different qualitative and quantitative variables of a borrower. The grading method takes into focus the history of the borrower, its financial performance, regulatory mandates (e.g. RBF regulations, Basel 2), industry/sectoral outlook, customer's liquidity to meet his contractual obligation and the probable loss in the event of default, a factor of the security value taken to support the facility. The credit risk grading system is robust and consistently applied on all borrowing customers. Any exceptions or variations on the risk grading for specific borrower is brought to EXCO or Board for final approval.

On a monthly basis, the geographical and sectoral portfolios are analyzed based on the credit performance of each account within the sector and within the geographical locations. The individual portfolios are integrated by evaluating the inter-relationship of each sector and each location to the overall performance of the bank's asset-portfolio.

Forecasts are made using different statistical methodologies and pricing models in order to determine the relative volatility of the portfolios against market conditions. This includes forms of analysis such as but not limited to Value-at-Risk; durated term of loan assets; interest rate elasticity and gaps, with the end-objective of maintaining a balance structure between the bank's assets and liabilities; and a balance between developmental and commercial activities.

As part of credit risk management process, portfolios are subjected to systematic stress tests in order to determine the probable loss of values due to changes in interest rates (financial market condition), default ratios and durated term structure. The stress testing also covers asymmetric risk-radicals that are unexpectedly sprouted on the portfolio thereby changing the estimated risk pattern previously established.

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:

Industry	2008	2007
	$	$
Agriculture	**62,058,013**	63,122,674
Building and construction	**62,555,862**	74,053,276
Manufacturing	**25,892,328**	19,880,405
Mining and quarrying	**1,208,035**	1,343,584
Private individuals	**65,721,493**	63,124,552
Professional and business services	**9,364,245**	9,307,737
Real estate	**121,939,317**	125,991,051
Transport, communication and storage	**28,684,534**	29,974,922
Wholesale, retail, hotels and restaurants	**63,479,356**	57,537,041
Others	**2,164,851**	1,942,530
Total	**443,068,034**	446,277,772

21 RISK MANAGEMENT POLICY (cont'd)

LIQUIDITY RISK MANAGEMENT

Liquidity risk pertains to the risk of the bank's inability to meet maturing obligations as they fall due.

FDB generates its funding through issuance of bonds, with one to seven years maturities and Promissory Notes of maturities less than a year

FDB's Asset-Liability Management Committee (ALCO) includes three (3) Members of the Board, and this committee manages the bank's liquidity and cost of funds. "FDB performs a daily cash forecast for the next three months (one quarter) to identify any probable liquidity stress points. Corollary, twice in a month, the bank performs a stress-test on its cost of funds to measure any probable deviation from its forecasted forward rates and cost benchmarks.

Since the bank does not have trading activities nor hedge facilities to cushion unexpected liquidity gaps, it retains a policy of maintaining 3% of its total liability position in liquid assets at all times

Fully aware of maturity mismatched between its assets and liabilities, the bank places a heavy emphasizes on collection efficiency of its lending units.

MARKET RISK

Market Risk is defined as the risk or losses in on and off-balance sheet positions arising from movements in market prices or interest rates.

The impacts of market risks to FDB are on three dimensions, namely:

- Interest rate movement as it impacts the overall weighted cost of funds;
- As it impacts the interest rate margin;
- As it changes the value of the earning assets; or putting it in another perspective, as it changes the Value-at-Risk of earning assets.

Market risk analysis is focused on the contemplated term of borrowing, which is then expressed by the rate offers of the Bond or Promissory Note buyers. Corollary to the term structure of interest rate defined by the financial market (investors or lenders), the bank further consider the impact of such rates to its over all cost of funds (there are no hedge instruments available in Fiji market to hedge against the increase of interest rates). To achieve this, the bank determines a benchmark on its weighted average cost of funds and stress this benchmark by simulating different rate levels which the market may tender, when the bank makes its offering.

Anent to overall cost of borrowings, the bank re-calibrates its interest rate margin, which is the difference between the average interest yield of earning assets and the projected weighted average cost of funds. To cure the probable risk on margins, the bank uses the reference curve approach where the durated term of groups of earning assets is matched with the durated term of group of fund sources. By matching the durated term and yield of earning assets with specific durated term and cost of borrowings, the target margin is often achieved under normal conditions. While the bank's assets are of longer term maturities, they are repriced after a certain period thereby enabling the bank to change its pricing structure and protecting its target interest margins.

The volatility of market interest rates impacts the value of the bank's earning assets (also known as Value-at-Risk). While loan assets carry a repricing provision, they are committed for a fixed and long term, thereby making the asset structure immobile for probable contraction when warranted.

Given these conditionalities, the bank forecasts the probable market interest rates and measures its value-at-risk on its assets under the forecasted conditions. Historical V-a-R is used to determine the relative depletion of asset value at existing conditions. Forecasted V-a-R is then computed base on simulated conditions, integrating thereto the other risk variables that would impact the value at risk.

21 RISK MANAGEMENT POLICY (CONT'D)

The value-at-risk is analyzed base on "likelihood to happen" (very low, low, medium, high and very high) and the respective consequences of each likelihood which is then measured in terms of probable losses (dollar values – quantitative; and reputational impact - qualitative).

OPERATIONAL RISK

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputational risk.

The Business & Risk Services Division, through its Portfolio Management Process & Procedure Unit develops the policies governing the operations of the bank. The Internal Audit Department oversees the implementation of these policies and procedures across the organization. A more recent development is the application of Risk Base Audit in contrast with the traditional audit approach where compliance is the focus.

The Divisional Managers are responsible to identify the risks that threaten the achievement of the division's objectives.

Most operational risks are best managed within the departments in which they arise. However, overall planning, coordination, and monitoring should be provided by a centralized operational risk management department. This should closely coordinate with market risk and credit risk management departments within an overall enterprise risk management framework.

22 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.

2008 — **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	11,606	-	-	-	-	-	11,606
Loans	43,285	21,583	54,716	160,132	163,352	(21,887)	421,181
Total	**54,891**	**21,583**	**54,716**	**160,132**	**163,352**	**(21,887)**	**432,787**
Liabilities							
Borrowings	-	42,123	70,299	155,113	33,323	-	300,858
Total	**-**	**42,123**	**70,299**	**155,113**	**33,323**	**-**	**300,858**

2007

	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							
Cash	19,284	-	-	-	-	-	19,284
Loans	5,355	51,776	64,943	157,092	167,112	(5,159)	441,119
Total	**24,639**	**51,776**	**64,943**	**157,092**	**167,112**	**(5,159)**	**460,403**
Liabilities							
Borrowings	-	38,786	66,909	186,745	49,528	-	341,968
Total	**-**	**38,786**	**66,909**	**186,745**	**49,528**	**-**	**341,968**

23 IMPAIRED AND PAST-DUE ASSETS

	THE BANK	
	2008	Restated 2007
	$	$
Non-accrual loans without individual assessed allowance		
Gross	**37,886,484**	13,469,037
Less: suspended debt	**1,866,646**	1,067,784
Net non-accrual loans without individual assessed allowance	**36,019,838**	12,401,253
Non-accrual loans with individual assessed allowance		
Gross	**28,334,123**	9,964,119
Less: suspended debt	**3,824,737**	1,150,574
	24,509,386	8,813,545
Less: individual assessed allowance	**16,159,182**	3,395,783
Net non-accrual loans with individual assessed allowance	**8,350,204**	5,417,762
Restructured loans without individual assessed allowance		
Gross	**647,434**	1,156,103
Less: suspended debt	**63,999**	91,805
Net restructured loans without individual assessed allowance	**583,435**	1,064,298
Restructured loans with individual assessed allowance		
Gross	**5,075,592**	4,310,228
Less: suspended debt	**994,965**	488,419
	4,080,627	3,821,809
Less: individual assessed allowance	**2,406,990**	1,409,432
Net restructured loans with individual assessed allowance	**1,673,637**	2,412,377
Other impaired loans		
Gross	**35,934,793**	4,548,917
Less: suspended debt	**18,084**	1,650
Net other classified loans	**35,916,709**	4,547,267
Net impaired loans	**82,543,823**	25,842,957
Past-due loans		
Gross	**30,353,420**	14,626,610
Less: suspended debt	**133,498**	24,334
Total past-due loans	**30,219,922**	14,602,276

24 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	
	2008	Restated 2007
	$	$
Cash	**11,606,425**	19,283,895

(ii) Reconciliation of operating profit after income tax to net cash provided by operating activities

	CONSOLIDATED	
	2008	Restated 2007
	$	$
Operating profit after income tax	**3,799,436**	4,343,901
Add / (less) non-cash items:		
Amortisation of bond discounts	**57,312**	59,334
Depreciation	**864,368**	863,889
Gain on disposal of fixed assets	**(80,452)**	(80,443)
Accrual for annual and long-service leave	**(26,011)**	82,230
Allowance for credit impairment	**26,273,476**	10,085,127
Provision for dimunition in investment	**-**	165,000
Provision for tax	**-**	12,268
	30,888,129	15,531,306
Change in assets and liabilities:		
(Increase)/decrease in interest receivable	**(1,601,359)**	2,719,660
Decrease/(increase) in accounts receivable	**1,274,576**	(2,343,889)
Increase in grants and subsidies receivable	**(941,301)**	(2,465,170)
Increase in interest payabl	**709,219**	1,759,730
Increase in other accruals	**352,761**	408,915
Net cash provided by operating activities	**30,682,025**	15,610,552

25. Explanation of transition to IFRS

This is the first period that the Bank has presented its financial statements in accordance with International Financial Reporting Standards ("IFRS"). The accounting Policies set out in Note 1 have been applied in preparing the financial statements for the year ended 30th June 2008, the comparative information presented in these financial statements for the period ended 30th June 2007 and in preparation of an opening Balance Sheet as at 1st July 2007.

In preparing its opening IFRS Balance Sheet, the Bank has adjusted amounts reported previously in financial statements prepared in accordance with Fiji Accounting Standards. The adjustments involve two types of changes: those concerning presentation and disclosure of items in the financial statements; and those concerning recognition and measurement of items in the financial statements.

An explanation of how the transition from Fiji Accounting Standards to IFRS has affected the Banking Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

(a) Comparative Information

Comparative data for the year ended 30th June 2007 has been presented under IFRS, except that the Bank has taken advantage of the exemptions available under IFRS 1 to continue to apply previous Fiji Accounting Standards ("FAS") to financial instruments within the scope of FAS 32 and FAS 39.

The main adjustments needed to make the comparative information conform to FAS 32 and FAS 39 are listed below. Similar adjustments were made as 1st July 2007 to restate the opening financial position to a position consistent with the Accounting Policies specified in Note 1.

(i) Under IFRS, fee income and direct costs relating to loan origination, previously included in Other Income and Expenses, are deferred and amortised to Interest Income on Advances over the life of loans, using the effective yield method. This would have affected the carrying value of Advances and Net Profit.

(ii) Under Fiji Accounting Standards, the Bank held a General Provision to cover unidentified possible losses and latent risk inherent to the overall portfolio of advances and other lending transactions, assessed on an undiscounted basis, having regard to the level of risk weighted credit exposure of on and off balance sheet assets and a range of other criteria. Under IFRS, the Bank would have assessed at each reporting date whether any objective evidence of impairment existed individually for financial assets that are individually significant and individually or collectively for financial assets that are not significant. The recoverable amount of loans would have been estimated based on discounted cash flow analysis of future expected cash flows. In some cases the Bank may also have used its experienced judgement to estimate the amount of any impairment loss.

25. Explanation of transition to IFRS (continued)

(b) Reconciliation of Equity as at 30th June 2007 – THE BANK

	Note	As Reported Under FAS	Effect of Transition	Restated IFRS
		$	$	$
Assets				
Cash		19,239,014	-	19,239,014
Loans and advances	**(ii)**	404,381,775	805,095	405,186,870
Investment in subsidiary		20,000	-	20,000
Investments		1,570,251	-	1,570,251
Land held for resale		438,073	-	438,073
Property, plant and equipment		14,962,553	-	14,962,553
Other debtors		8,977,966	-	8,977,966
Total assets		**449,589,632**	**805,095**	**450,394,727**
Liabilities				
Borrowings		343,168,915	(1,201,047)	341,967,868
Employee entitlements		1,267,579	-	1,267,579
Deferred income	**(i)**	-	2,413,490	2,413,490
Accounts payable and accruals		5,265,012	-	5,265,012
Other liabilities		2,777,756	1,201,047	3,978,803
Total liabilities		**352,479,262**	**2,413,490**	**354,892,752**
Net assets		**97,110,370**	**(1,608,395)**	**95,501,975**
Capital and reserves				
Capital		56,050,636	-	56,050,636
Reserves	**(iii)**	11,709,672	(6,086,110)	5,623,562
Accumulated profits	**(iv)**	29,350,062	4,477,715	33,827,777
Total capital and reserves		**97,110,370**	**(1,608,395)**	**95,501,975**

25 Explanation of transition to IFRS (continued)

Notes to the restatement of comparatives as at 30th June 2007

Measurement Changes:

(i) Fee income and direct costs relating to loan origination, previously included in Other Income, are deferred and amortised to Interest Income on Advances over the life of loan, using effective yield method.

(ii) Allowances for credit impairment are based on objective evidence of impairment. Bad debts recovered previously charged against allowance for credit impairment has been reversed to other income.

(iii) Relates to write back of opening asset revaluation reserve as at 1/07/06 and reversal of sale of revalued asset of $27,350 to gain on sale of property, plant and equipment.

(iv) Net effect of IFRS transition adjustments have been taken to retained earnings as per Note 25(d).

(b) Reconciliation of Equity as at 30th June 2007 – CONSOLIDATED

	Note	As Reported Under FAS $	Effect of Transition $	Restated IFRS $
Assets				
Cash		19,283,895	-	19,283,895
Loans and advances	**(ii)**	404,381,775	805,095	405,186,870
Investments		1,570,251	-	1,570,251
Land held for resale		438,073	-	438,073
Property, plant and equipment		14,962,553	-	14,962,553
Other debtors		8,998,565	-	8,998,565
Total assets		**449,635,112**	**805,095**	**450,440,207**
Liabilities				
Borrowings		343,168,915	(1,201,047)	341,967,868
Employee entitlements		1,267,579	-	1,267,579
Deferred income	**(i)**	-	2,413,490	2,413,490
Accounts payable and accruals		5,279,735	-	5,279,735
Other liabilities		2,777,756	1,201,047	3,978,803
Total liabilities		**352,493,985**	**2,413,490**	**354,907,475**
Net assets		**97,141,127**	**(1,608,395)**	**95,532,732**
Capital and reserves				
Capital		56,050,636	-	56,050,636
Reserves	**(iii)**	11,709,672	(6,086,110)	5,623,562
Accumulated profits	**(iv)**	29,380,819	4,477,715	33,858,534
Total capital and reserves		**97,141,127**	**(1,608,395)**	**95,532,732**

25 Explanation of transition to IFRS (continued)

Notes to the restatement of comparatives as at 30th June 2007

Measurement Changes:

(i) Fee income and direct costs relating to loan origination, previously included in Other Income, are deferred and amortised to Interest Income on Advances over the life of loan, using effective yield method.

(ii) Allowances for credit impairment are based on objective evidence of impairment. Bad debts recovered previously charged against allowance for credit impairment has been reversed to Other income.

(iii) Relates to write back of opening asset revaluation reserve as at 1/07/06 and reversal of sale of revalued asset of $27,350 to gain on sale of property, plant and equipment.

(iv) Net effect of IFRS transition adjustments have been taken to retained earnings as per Note 24(d).

(c) Non-financial assets and liabilities

No impairment losses were recognised on transition to IFRS.

(d) Reconciliation of Retained Earnings 30th June 2007 – THE BANK

Retained Earnings	**$**
Opening Balance as reported under FAS	**29,350,062**
Adjustments on Transition to IFRS:	
Allowances for credit impairment	805,095
Deferred income	(2,413,490)
Asset revaluation reserve	6,086,110
Total IFRS Adjustments	**4,477,714**
Closing Balance under IFRS	**33,827,777**

Reconciliation of Retained Earnings 30th June 2007 – CONSOLIDATED

Retained Earnings	**$**
Opening Balance as reported under FAS	**29,380,819**
Adjustments on Transition to IFRS:	
Allowances for credit impairment	805,095
Deferred income	(2,413,490)
Asset revaluation reserve	6,086,110
Total IFRS Adjustments	4,477,715
Closing Balance under IFRS	**33,858,534**

25 Explanation of transition to IFRS (continued)

(e) Reconciliation of Income Statement as at 30th June 2007 – The Bank

	As Reported Under FAS	Effect of Transition	Restated IFRS
	$	$	$
Income			
Interest income	39,038,963	-	39,038,963
Interest expense	(21,164,154)	-	(21,164,154)
Net interest income	**17,874,809**	**-**	**17,874,809**
Fees	3,916,195	(262,815)	3,653,380
Other income	2,542,314	2,771,460	5,313,774
Operating income	**24,333,318**	**2,508,645**	**26,841,963**
Expenses			
Operating expenses	12,275,459	-	12,275,459
Total expenses	**12,275,459**	**-**	**12,275,459**
Operating profit before allowances	**12,057,859**	**2,508,645**	**14,566,504**
Allowance for credit impairment	7,322,836	2,762,024	10,084,860
Diminution in investments	165,000	-	165,000
Operating profit before income tax expense	**4,570,023**	**(253,379)**	**4,316,644**
Income tax expense	**-**	**-**	**-**
Operating profit after income tax	**4,570,023**	**(253,379)**	**4,316,644**

25 Explanation of transition to IFRS (continued)

(e) Reconciliation of Income Statement as at 30th June 2007 – CONSOLIDATED

	As Reported Under FAS $	Effect of Transition $	Restated IFRS $
Income			
Interest income	39,039,925	-	39,039,925
Interest expense	(21,164,154)	-	(21,164,154)
Net interest income	**17,875,771**	**-**	**17,875,771**
Fees	3,916,195	(262,815)	3,653,380
Other income	2,583,067	2,771,460	5,354,527
Operating income	**24,375,033**	**2,508,645**	**26,883,678**
Expenses			
Operating expenses	12,277,649	-	12,277,649
Total expenses	**12,277,649**	**-**	**12,277,649**
Operating profit before allowances	**12,097,384**	**2,508,645**	**14,606,029**
Allowance for credit impairment	7,322,836	2,762,024	10,084,860
Diminution in investments	165,000	-	165,000
Operating profit before income tax expense	**4,609,548**	**(253,379)**	**4,356,169**
Income tax expense	**12,268**	**-**	**12,268**
Operating profit after income tax	**4,597,280**	**(253,379)**	**4,343,901**

26 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.

27 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.

28 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
P.O. Box 104,
Suva
P :(679) 3314 866
F :(679) 3314 886

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

Western Region

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

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

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

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

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

Northern Region

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

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

Seaqaqa
Seaqaqa Town
P :(679) 886 0166
F :(679) 886 0168

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