



your partner in progress

ANNUAL REPORT 2009





your partner in progress

OUR VISION

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

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.

COPRPORATE OBJECTIVE

To be a profitable and self-sustaining financial institution.

STRATEGIC OBJECTIVES

- To continue to be a sustainable Development Financial Institution.
- To increase market share in the focused areas:
 - Resource-based market sectors
 - Small Medium Enterprise Market
- To introduce micro-loan banking services as a product service that caters to the poorer sector of the community.
- To operate a licensed credit institution.





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Fiji
Development
Bank

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31 December 2009.

Commodore Josai Voreqe Bainimarama
Minister for Finance
Prime Minister's Office
Level 4, Government Buildings (New Wing)
Gladstone Road
SUVA.

Dear Sir,

I have much pleasure in submitting the Annual Report and accounts for the Fiji Development Bank for the financial year ended 30 June 2009.

In light of the many challenges facing Fiji's economy, the Bank recorded a profit of \$3.48million. Although this is a decline of 9.16percent over the previous year, the Bank was able to achieve the profit through stringent cost control measures.

During the year, the Bank's gross portfolio stood at \$433.26million, a drop of 2.21percent compared to \$443.10million the previous year. This decrease was mainly due to the reduction in the lending portfolio following the slowdown in lending to non-focused sectors.

The Board wishes to acknowledge the sterling effort and commitment of the executive management and staff of the Bank during another challenging year.

Yours sincerely,

John Prasad
Chairman



Turning points

After Government's directive in January 2008 to align the Bank's lending activities with development and focus on resource based activities, the Bank swiftly carried out a staff restructure, re-organized its portfolio and introduced operational strategies to address the portfolio shift sought by its owner.

By the beginning of the new financial year in July 2008, the Bank geared itself to move in the direction prescribed for it. However, this will not be a simple feat, especially when the global economic stress combined with the devaluation of the Fiji dollar has made it expensive to operate some businesses in Fiji, resulting in low investments. On the other hand, exports fetch healthier returns for the country, thus the Bank's mandate to develop and impel new business growth in the import substitution and export oriented sectors.

The Bank reclassified its portfolio into focused or priority sectors laid down in the FDB Act, and non-focused sectors. The directive is to raise the value of the focused sector portfolio to 60 percent of the total portfolio, which as at June 2009 was recorded at 31 percent. By number, the Bank has a healthy 72 percent ratio of loan portfolio in the focused sector. The

Government agreed that this shift be achieved by financial year end in 2012, the end of the Strategic Plan period.

Most encouraging lending results were accomplished during the financial year with about \$69.2 million worth of new business, of which about 62 percent were in the focused sector. To maintain this momentum the Bank will invest more in its outreach initiatives, strengthen network with stakeholders so that the Bank's services are supported with sound technical and other essential assistance.

The Bank's portfolio weakened slightly by 2.21 percent from last year to \$433.26 million, as asset consolidation continued into the year. With the thrust of new businesses in the focused sector generally associated with smaller loans, the portfolio may decline further in the short term.

A reasonable profit of \$3.48 million was recorded for the financial year, a reduction of 9.16 percent over last year. This was influenced by a shrinking portfolio. Nevertheless, a tight control on costs, including the cost of borrowing enabled a good bottom line - this is a critical measure of an organisation's sustainability because focused sector loans

are equated with a number of risk factors, which the Bank will reassess regularly in order to continue to provide these services.

Risk and Compliance

The Bank is exposed to a multitude of risks within the current economic environment that it operates in. Measuring, monitoring and reporting on such risks feature prominently in its operations. The withdrawal of Government guarantee will impact on the financial viability and sustainability of projects in the focused sector lending, thereby amplifying the value at risk. Notwithstanding the fact that the Bank's objective is to assist new development, it will have to apportion greater responsibility for success to the entrepreneur, as well as manage the risks through other means. New risk strategies are in place to do this.

Risk based audit will be part of the internal audit function to identify and monitor risk elements of each business unit ensuring that these remain within the risk parameters. Completion of sectoral boundaries once in place will allow lending risks to spread out within various industry types. This will be supported by strong research and development and hindsight review team to constantly monitor risk exposure.

Policy Directives

As a financial instrument of the Government, the Bank's lending will generally be guided by its owner's priority development initiatives. In the Bank's Strategic Plan (2010-2012), emphasis will be placed on developing the rural and resourced based sectors, export oriented and import substitution projects. The Bank hopes to match the target set by the Government by the end of the Plan period.

Since inception, FDB has been in the forefront of providing micro and small loans; close to 72 percent by number of the Bank's portfolio fits this category. Nevertheless, preparation is underway to set up a Microfinance Unit under the guidelines stipulated by the Reserve Bank of Fiji.

Our people

Staff numbers have been maintained at a reasonable level, even under these difficult times the Bank did not have to resort to retrenchment. Although like any other organisation, staff turnover does have cyclical increases, the Bank has managed such situations well. Its manpower planning ensures that critical vacuums are occupied on time.

Continuous training and refresher programme as well as upskilling new and existing staff are regularly conducted to meet the demands of operating the Bank in these risky times. This ensures that staff are equipped to serve the focused sector customers effectively in an effort to improve their quality of life.

The Bank is represented in the Fiji Employers Federation and regularly participates in the national remuneration surveys conducted by PricewaterhouseCoopers. It is an equal opportunity employer mindful always of maintaining a racial and gender balance in staff numbers.

Our Customers

Customer service is the foremost consideration for all staff, whether operational or support. Service delivery is measured within specific turnaround times which is monitored strictly. The location of the nine branches provide the outreach required for the focused sector customers that the Bank assists. Staff also make regular agency visits to key maritime centers where large

numbers of clients are concentrated. Such visits offer one-to-one interaction and an opportunity to sight the developments made on the farms and business enterprises.

Our customers have the right to quality service and support at all times. It is something the Bank takes pride in delivering. If these standards slip, the customers should tell us about it, so the Bank can address these shortcomings. A complaints procedure is in place which the customers can use to report poor service delivery or any other complaints for that matter. The procedure is available from any of the Bank's customer care center.

Conclusion

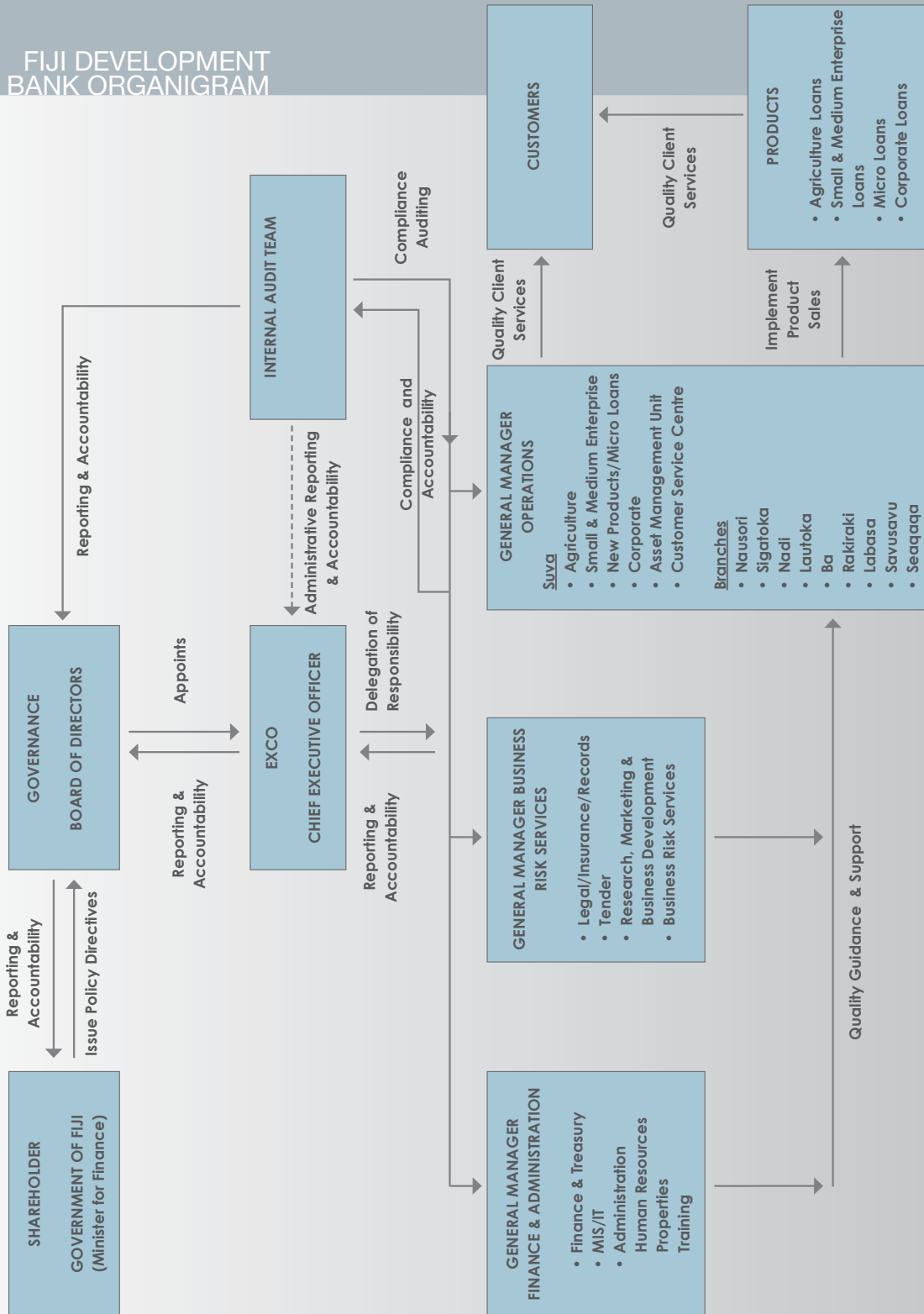
The future holds interesting times for the Bank. Given that the economy may remain sluggish in the short to medium term, with marginal private sector investment, the Bank will encourage micro and small entrepreneurship development. The Bank believes that Fiji has an abundance of natural resources and talented people who can find self employment given the opportunity and support.

The principal challenge is to create an enabling environment for micro and small businesses to flourish. Policy makers need to dialogue this topic methodically, as the Bank does not see the solution to rest with any one institution.



Ratu Deve Toganivalu
Chief Executive Officer

FIJI DEVELOPMENT BANK ORGANIGRAM



BOARD OF DIRECTORS



Mr. John Prasad - Chairman

Mr. Prasad is the Acting Permanent Secretary for the Ministry of Finance. Prior to this he was 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, New Zealand together with a Diploma in Dairy Technology. He is a member of the Institute of Directors in New Zealand. He is also the Chairman of the Fiji National Provident Fund and Home Finance Corporation Limited.



Mr. Jitoko Tikolevu – Deputy Chairman

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, Fiji and holds a Masters of Commerce in Taxation (Honors) from the University of Auckland, New Zealand. He also serves as a director on the Fiji Islands Trade & Investment Bureau.



Mr. Joseva Serulagilagi – Director

Mr. Serulagilagi is the current Chairman of the Public Service Commission. He is also the Chairman of the Tailevu Provincial Council and the Rewa Co-operative Dairy Company Limited. He holds a Bachelor of Arts in Sociology/Public Administration and a Diploma in Rural Development from the University of the South Pacific, Fiji. He also holds a Certificate in Development Planning from Bradford, United Kingdom. He is a retired civil servant having spent over 34 years working in the civil service.



Mr. 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, United Kingdom and a Diploma in Administrative Studies from the University of the South Pacific, Fiji. He also has vast experience in the civil service.



Mr. Ilaisa Cavu – Director

Mr. Cavu is the Chief Executive Officer of the Agricultural Marketing Authority. He holds a Diploma in Hotel Management from the Fiji Institute of Technology, Fiji. Prior to this he was Rooms Division Manager at the Outrigger Resort. He has 30 years work experience in the hotel and tourism industry.



Dr. Richard Beyer – Director

Dr. Beyer was the Permanent Secretary for the Ministry of Agriculture and Primary Industries. He is a graduate of Strathclyde University, Scotland where he obtained his degree in Food Science. He graduated with a Doctor of Philosophy from Otago University, New Zealand. He also holds a post-graduate Diploma in Management and Marketing. He has broad experience in agriculture and management.

Taito Waradi – Chairman

(February - September 2008)

Mr. Waradi is a businessman who has served as President of the Fiji Chamber of Commerce and Industry and as past Minister for Commerce. He holds a Bachelor of Arts from the University of the South Pacific, Fiji and a post-Graduate Diploma in Industrial Relations from Victoria University, Australia. He has vast experience working in the public and private sector.

Alok Mishra – Deputy Chairman

(November 2007 – August 2008)

Mr. Mishra owns and operates Phoenix Consultants. He holds a Bachelor in Commerce and a Masters in Commerce from Kanpur University, India. He previously held senior management position with the Bank of Baroda in India before his transfer to Fiji in 2000 where he worked with the Bank of Baroda until 2003. He has also worked as a consultant with the Ministry of Finance and UNICEF in Fiji.

Ashok Kumar – Director

(September 2007 – September 2008)

Mr. Kumar is the General Manager of Copra Millers of Fiji Limited. He holds an advanced certificate in Computer Studies as well as an advanced certificate in Business Accounting/Management. He has vast experience in the coconut oil milling business.

CORPORATE GOVERNANCE

Statement

The Board, Executive Management and Staff of the Fiji Development Bank is committed to good corporate governance because it believes that the principles of corporate governance based on fairness, transparency, integrity, disclosure and accountability adds value to the Bank and its business.

The Bank's Corporate Governance Framework is designed to encourage the efficient use of resources as well as accountability for the stewardship of those resources, which is an essential ingredient in maintaining corporate success and sustainable economic growth.

The Bank's Code of Corporate Conduct specifies the distribution of rights, responsibilities and obligations of the different participants in the organisation including Board sub-committees, individual directors, Government (as the shareholder), customers of the Bank and the community at large.

The Code of Corporate Governance determines how the Bank:

- Protects the interest of suppliers of funds and creditors;
- Sets corporate objectives;

- Runs the daily operation of the business;
- Is accountable to the Government as the shareholder; and
- Is in compliance with applicable laws and regulations.

The Board

The Board is responsible to Government as the sole shareholder for the governance of FDB. It oversees the Bank's operations and financial performance, sets the strategic direction and financial objectives, determines the appropriate risk appetite of the Bank and monitors operational performance. The Board activities are governed by the provision of the Board Charter.

The Board appoints the Chief Executive Officer (CEO) and reviews his performance. The Board on the recommendation of the CEO 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 that impact its business.

The Board met 14 times during the financial year ended 30 June 2009. The detail of the directors' attendance at each meeting is given in the chart below:

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.

NAME	POSITION	DATE OF APPOINTMENT	DATE OF COMPLETION/ RESIGNATION	MEETINGS ATTENDED
John Prasad	Chairman	September 2008	-	10/10
Jitoko Tikolevu	Deputy Chairman	September 2007	-	11/14
Ilaisa Cavu	Member	September 2007	-	13/14
Joseva Serulagilagi	Member	September 2008	-	9/10
Manasa Vaniqi	Member	September 2008	-	7/10
Richard Beyer	Member	September 2008	-	9/10
Taito Waradi	Chairman	February 2008	September 2008	4/4
Alok Mishra	Member	November 2007	August 2008	2/3
Ashok Kumar	Member	September 2007	September 2008	3/3

The membership for this committee is as follows:

John Prasad

Chairman of the Board, committee chair.

Jitoko Tikolevu,

Deputy Chairman of the Board, committee member.

The committee met only once, in March 2009 for the financial year ended 30 June 2009.

The members of the board of FDB are appointed by the Minister of Finance and serve under the provisions of the Fiji Development Bank Act 1967 Cap 214 for a period of three years. The Board meets monthly and are paid directors' fees as directed by the Ministry of Finance. Directors are also paid a sitting allowance for every sub-committee 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.

Board Sub-Committees

To facilitate focused attention on specific areas of review, the Board of FDB have established one sub-committee - the Audit Committee.

Members of the Audit Committee are appointed by the Board based on skills, knowledge and experience.

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

Executive Committee (EXCO)

The Bank's daily operation is overseen by the Executive Committee (EXCO).

Under the leadership and guidance of the Chief Executive Officer, EXCO includes the General Manager Operations, General Manager Finance and Administration and General Manager Business Risk Services. EXCO implement the strategic and operational plans as well as allocate resources within the budget approved by the Board.

The EXCO also functions as the Credit Committee and Asset & Liability Committee (ALCO) of the Bank.

Compliance Framework

Internal Audit

The Bank has established an Internal Audit Charter to guide the internal Audit operations of the Bank.

The Internal Audit Team led by Manager Audit is responsible for ensuring that the operations of the Bank are in compliance with the internal control systems and procedures of the Bank. The team reports directly to the Board's Audit Committee with dotted line reporting 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, 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 to the procedures set out in the Collective Agreement with the Fiji Bank and Finance Sector 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 Bank recognises that client data confidentiality is paramount in the banking industry and has strict guidelines to assure this is maintained.

Customer

The Bank recognises that our customer is our most valuable stakeholder. The Bank strives to maintain the highest customer service possible. A complaint procedure is in place whereby customers can lodge a written complaint directly to the Chief Executive Officer of the Bank if he or she is dissatisfied with the service. These complaints are dealt with directly by the CEO's office.

Other Stakeholders - Community at large

The Bank has a strong Corporate Social Responsibility programme because it believes that it has a responsibility to educate the wider community on the benefits of better financial planning and financial management. Through the Money Smart™ programme in all secondary schools in Fiji, the Bank has initiated an attitude change towards budgeting, saving and financial planning amongst young people.

In addition to Money Smart™, the Bank also promotes the value of small businesses to the national economy through the annual Small Business Awards.



EXECUTIVE MANAGEMENT

Mr. Deve Toganivalu – Chief Executive Officer

Mr Toganivalu is a graduate from the James Cook University of North Queensland, Australia where he obtained a Bachelor of Commerce majoring in Management and Finance. Prior to this appointment, he was the Bank's General Manager Agriculture. Mr. Toganivalu also serves as a board member of the Fiji Sugar Corporation Limited and the Coconut Industry Development Authority.

Mr. Umarji Musa – General Manager Operations

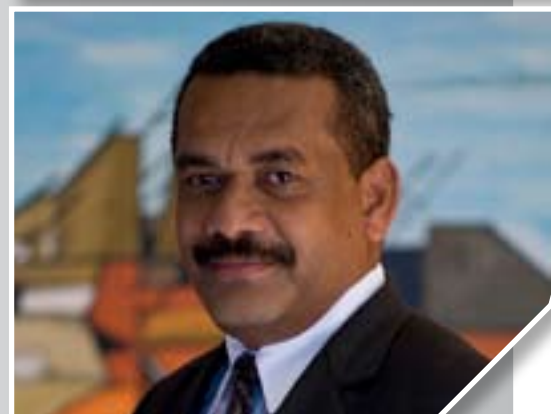
Mr. Musa is a graduate from the University of the South Pacific with a Bachelor of Arts majoring in Economics. Prior to this appointment, he was the Bank's General Manager Corporate Business Services. Mr. Musa also serves on the Board of the Fiji Water Authority and is also affiliated to a number of professional institutions.

Mr. Lasantha Thennakoon – General Manager Finance & Administration

Mr. Thennakoon is a chartered accountant by profession. He holds a Master of Business Administration Degree from the University of Colombo, Sri Lanka and a Honors Degree in Accounting & Financial Management from the University of Sir Jayewardenepura, Sri Lanka. Prior to this appointment, he was Group Financial Controller of the Niranjana Group.

Mr. Nafitalai Cakacaka - General Manager Business Risk Services

Mr. Cakacaka holds a Bachelor of Arts majoring in Business Management from the University of the South Pacific, Fiji and a Certificate in Master Level 3-year programme from the Pacific Coast Banking School, USA. Prior to this appointment, he was the Bank's Manager Risk-Corporate. Mr. Cakacaka is also a member of the Fiji Institute of Bankers.





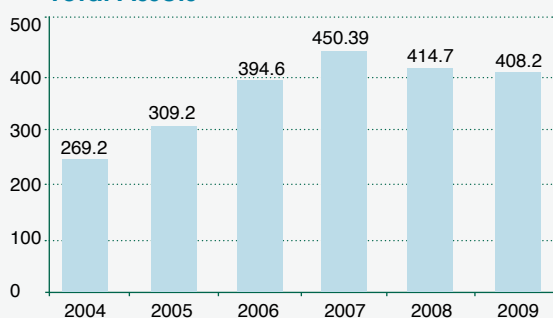
FINANCIAL YEAR IN REVIEW

Overview

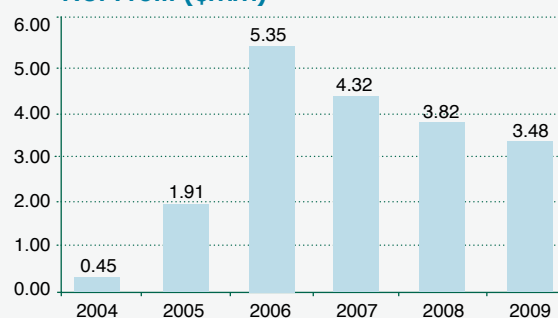
Despite the challenging economic climate, the Bank was able to generate a profit of \$3.48 million. This was, however a reduction of 9.16 percent over 2008. The Bank was able to achieve the profit through stringent cost control measures.

Financial Highlights

Total Assets



Net Profit (\$MM)



FINANCIAL INCOME AND EXPENSE

	\$ in million			
	2009	2008	Change	Change rate (%)
Interest income	39.24	45.03	(5.79)	(12.86)
Interest & other borrowing expenses	(14.67)	(20.50)	5.83	(28.44)
Net interest income	24.57	24.53	0.04	0.16
Net Fees income	2.19	7.82	(5.63)	(71.99)
Other income	3.19	10.77	(7.58)	(70.38)
Operating expenses	(10.28)	(13.03)	2.75	(21.11)
Allowance for credit impairment	(14.68)	(21.23)	6.55	(30.85)
Allowance for loss - Govt. guarantee	-	(5.04)	5.04	(100.00)
Diminution in investments	(1.52)	-	(1.52)	-
Profit before income tax	3.48	3.82	(0.35)	(9.16)
Income tax expense	-	-	-	-
Net profit	3.48	3.82	(0.35)	(9.16)

Income

Interest income, the Bank's main source of revenue, recorded a decline of 12.86 percent when compared to 2008. This decrease was mainly due to the reduction in the lending portfolio following the slowdown in lending to non-focused sectors. Other sources of revenue included fees, recovery of bad debt and rental income.

Interest & Borrowing Expenses

With constant low liquidity, a credit ceiling in place and high demand

for funds, interest rates increased during the second half of the year. In spite of instability in the financial markets, the Bank managed to reduce its borrowing expenses by 28.44 percent. The Bank's average weighted cost of funds increased to 5.62 percent in 2009 compared to 5.37 percent in 2008.

Operating Expenses

Operating expenses amounted to \$10.28 million, a decrease of 21.11 percent over 2008. The decrease was mainly due to the

reduction in staff cost as a result of the organisational restructure in January 2008. Other operating expenditures were kept under effective control and within approved budget levels.

Allowance for Credit Impairment

In view of the Bank's new focus to increase its portfolio in resource based sectors and to move into social banking, the bank set aside \$14.68 million for credit impairment in 2009 to cater for future losses. This was done after assessing the relevant risk factors as per the Bank's credit risk and impairment losses policy.

FINANCIAL CONDITIONS ASSET STRUCTURE

	\$ in million			
	2009	Composition (%)	2008	Composition (%)
Cash	33.22	8.14%	11.56	2.79%
Amounts due from subsidiary	0	0.00%	0.01	-
Loans and advances	356.05	87.22%	381.46	91.99%
Other Debtors	2.85	0.70%	4.86	1.17%
Property, plant & equipment	15.58	3.82%	14.77	3.56%
Investments (incl. subsidiary)	0.07	0.02%	1.59	0.38%
Land held for resale	0.44	0.11%	0.44	0.11%
Total	<u>408.21</u>	<u>100.00%</u>	<u>414.69</u>	<u>100.00%</u>

As at 30 June, 2009, the Bank's total net assets amounted to \$408.21 million, a decrease of 1.56% from 2008. Total loans and advances, the largest asset category, dropped by 6.66 percent due to the decline in the loan portfolio.

LIABILITY STRUCTURE

	\$ in million			
	2009	Composition (%)	2008	Composition (%)
Total Borrowings	284.57	94.90%	300.86	95.40%
Employee entitlements	1.32	0.44%	1.24	0.39%
Deferred income	2.15	0.72%	2.36	0.75%
Accounts payable and accruals	6.09	2.03%	5.31	1.68%
Other liabilities	5.73	1.91%	5.59	1.77%
Total	<u>299.86</u>	<u>100.00%</u>	<u>315.36</u>	<u>100.00%</u>

In 2009, total liabilities amounted to \$299.86 million, resulting in a decrease of \$15.50 million, or 4.92 percent. The Bank's major source of funding is through issuance of bonds and promissory notes in the domestic market. As at 30 June 2009, total borrowings fell by 5.41 percent in comparison to June 2008. The decrease in borrowing is mainly due to the decrease in business activity in the domestic market.



PROFITABILITY

	2009	2008
Return on average assets (ROA)	0.79%	0.86%
Return on average equity (ROE)	3.35%	3.92%

The Bank's yield from credit assets maintained a sustainable growth this year. In view of the volatilities in the domestic financial market, the Bank proactively assessed the impact of various risks on the Bank's asset quality and made allowance for loan losses where appropriate. The Bank has been able to maintain its asset quality during the financial year. Overall, the Bank's return on average assets and return on average equity were maintained at around 2008 level.

HISTORICAL PERFORMANCE

Historical Performance	2001	2002	2003	2004	2005	2006	2007	2008	2009
Financial									
Net profit(\$M)	0.30	0.70	2.04	0.45	1.91	5.35	4.32	3.82	3.48
Total Assets (\$M)	322.30	284.70	271.40	269.20	309.20	394.60	450.39	414.69	408.21
Total Assets / Equity (%)	4.08	3.57	3.32	3.28	3.68	4.41	4.72	4.17	3.77
Average Earning assets (AEA) (\$M)	345.80	327.70	302.00	282.70	302.90	359.80	421.10	446.24	438.97
Borrowing Cost (%)	7.35	7.12	6.24	4.88	4.01	3.92	6.92	5.37	5.62
Total Cost / AEA (%)	7.59	7.50	7.10	7.06	6.44	6.00	7.94	7.51	5.68
Profit (Loss) / Average Equity (%)	0.39	0.88	2.53	0.55	2.27	5.98	4.67	3.92	3.35
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	2.35:1
Interest Spread (%)	2.01	2.51	3.97	3.73	3.79	4.11	2.39	4.76	3.34
Earning Spread (%)	2.84	3.30	4.61	6.13	5.55	5.79	4.48	8.89	4.54
Operating Efficiency									
Staff Cost / AEA (%)	1.64	1.75	2.09	2.50	2.14	1.89	1.73	1.87	1.46
Total Income / AEA (%)	10.19	10.42	10.88	11.73	10.21	10.29	6.37	9.66	6.82
Lending									
Approvals (Number)	1,751	1,019	1,007	1,105	1,903	2,104	1,709	1,502	1,840
Approvals (\$M)	50.40	24.43	67.19	76.45	227.27	188.21	115.24	84.10	76.21
Loan Portfolio (Number)	6,092	6,282	5,990	4,372	5,588	5,888	5,251	5,989	5,987
Gross Loan Portfolio (\$M)	321.70	293.30	282.50	281.18	325.01	392.69	446.27	443.07	433.26
Growth in Loan Portfolio (%)	1.41	-8.83	-3.68	-0.46	15.59	20.79	13.64	-0.72	-2.21
Arrears / Loan Portfolio (%)	7.29	6.84	6.66	7.42	4.32	1.32	1.20	2.54	6.88

FIJI DEVELOPMENT BANK'S MARKET SHARE

	FDB (\$M)	Commercial Banks (\$M)	Credit Institutions (\$M)	Fiji Total (\$M)	FDB as a % of Fiji Total
Agriculture	46.4	28.5	11.6	86.5	53.6
Sugarcane Growing	6.0	1.8	0.1	7.9	75.8
Forestry & Logging	12.9	11.2	8.2	32.3	39.9
Others	27.5	15.5	3.3	46.3	59.4
Mining & Quarrying	1.3	3.6	2.7	7.6	17.1
Manufacturing	39.0	291.4	12.8	343.2	11.4
Food, Beverages and Tobacco	17.7	108.9	0.9	127.5	13.9
Textiles, Clothing and Footwear	3.0	30.3	1.0	34.3	8.7
Metal Products and Machinery	1.8	19.9	1.6	23.3	7.8
Others	16.5	132.3	9.3	158.1	10.4
Building and Construction	55.2	199.0	29.8	284.0	19.4
Real Estate (Development)	119.9	293.6	9.8	423.3	28.3
Non-Bank Financial Institutions	-	9.9	-	9.9	-
Public Enterprises	-	98.5	0.1	98.6	-
Wholesale, Retail, Hotels and Restaurants	47.5	691.9	26.4	765.8	6.2
Hotels and Restaurants	17.2	289.0	3.3	309.5	5.6
Other Commercial Advances	30.3	402.9	23.1	456.3	6.6
Transport, Communications and Storage	26.9	123.6	49.2	199.7	13.5
Professional Business Services	10.0	108.2	25.2	143.4	7.0
Private Individuals	62.6	833.9	114.7	1,011.2	6.2
Housing	59.9	674.2	114.7	848.8	7.1
Car or Personal Individual Transport	0.8	10.2	-	11.0	7.1
Others	2.0	149.5	-	151.5	1.3
Central and Local Government	18.8	13.1	-	31.9	59.0
Other Sectors	2.5	98.0	8.7	109.2	2.3
TOTAL	430.2	2,793.2	291.0	3,514.4	12.2

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 2009. The Bank's market share is highlighted.



FIJIKI NATURAL PRODUCTS

If you asked Jagdish Prasad 10 years ago if one day he saw himself as the manufacturer of products with medicinal and toiletry applications, the answer could very well have been, "no".

"I had a 45 acre farm at Papalagi about 20 kilometres from Labasa, which I sold in 2002 because it wasn't giving me the return that I wanted and I had to think very quickly about what the alternative was for me," says the 47 year-old who has planted cane with his father for as long as he can remember. He also took over his father's farm and debt with the Fiji Development Bank in the mid 1980s. The debt has since been paid off.

In 2002, Jagdish decided to go into copra milling and coconut oil production because the \$450 a tonne price for copra then, promised a much better return on investment. These days copra fetches around \$500 per tonne.

Jagdish moved to Lajonia, a five minute drive from Labasa Town and set up his coconut business with a mill that he purchased for \$17,000.

In 2005, Jagdish decided to expand from copra milling to virgin coconut oil (VCO) production. In 2006, he applied for and was granted a

\$5,000 loan from the FDB for the purchase of machinery for this purpose, which he has almost paid off as well. His diversifying business saw Jagdish supply around 800 litres of VCO a week to a renowned local manufacturer of toiletry products.

"That was going very well until the company I was selling my VCO to started sourcing other suppliers and gradually their order from me decreased and that's when I started producing my own soap using coconut oil as a base," he said of the washing bars and bathing soap that he produces on a small scale.

"When I made kura soap for the first time my family and I used it as a test and after one week of use I saw a noticeable improvement in our skin but before that I always thought that the medicinal properties of kura was a myth."

Kura (*morinda citrifolia*) is a locally grown fruit used to produce a tonic drink for improving general health. Seeing that he needed more working capital to cater for full production, Jagdish returned to the Bank last year for an additional loan. In March 2008, with a \$25,000 grant under Government's Northern Development Programme and \$40,000 from FDB under the Agriculture and SME Loan facility,

Jagdish purchased a saponification machine and a plodder machine for processing soap noodles.

Following the \$65,000 injection, Jagdish's Fijika Natural Product line now includes Virgin Coconut Oil, washing soap, Kura soap, Ginger Massage Oil, soap noodles, crude coconut oil and coconut meal for chicken feed.

The washing soap wholesale at \$45 a carton which contains 20 bars. He sells 30 to 40 cartons a week to shops in Labasa, Savusavu and Suva. His kura soap bars sells for 80 cents each and he is looking for retail outlets before expanding this line.

"The washing soap is very popular because it washes very well in semi-hard water," Jagdish said adding, "I have a big vision for my company regarding the coconut line."

"I am looking at acquiring land to plant my raw materials like kura and coconut as well as palm for palm oil because with palm oil you can get five tonnes of oil per hectare and with coconut you get less than a quarter of that production over the same area."



OPERATIONAL REVIEW



Significant reforms have taken place in the Bank's operational direction from the beginning of 2008 after its shareholder, Government, issued a policy directive to focus on its core role. The Bank promptly reorganised itself in order to comply with the directive and aligned its operational strategies to the priority sectors provided under the FDB Act.

The priority areas are defined as focused sectors and the non-priority areas are defined as non-focused sectors. The Bank's portfolio was split into focused and non-focused sectors of lending followed by strategic initiatives to advance the growth of focused sector lending. The directive, however, permitted the Bank to maintain its non-focused sector portfolio valued at close to F\$350 million.

In the current Strategic Plan period (2010 - 2012) the Bank plans to increase its focused sector portfolio from the current 31 percent to 60 percent of the total portfolio. It also plans to reduce the non-focused sector portfolio from the current 69 percent to 40 percent. The Bank is confident that entrepreneurship combined with business opportunities will provide the much needed impetus for portfolio growth in the focused sector.



Focused sector projects are in:

- Agriculture (including Forestry and Fisheries);
- Mining & Quarrying;
- Manufacturing;
- Transport, Communications & Storage; and
- Micro loans and Small Medium Enterprise loans in:
 - Wholesale, Retail, Hotels and Restaurants; and
 - Professional & Business Service sectors.

The non-focused sector projects are in:

- Building and Construction;
- Private Individuals;
- Real Estate;
- Larger loans in:
 - Wholesale, Retail, Hotels and Restaurants; and
 - Professional & Business Service sectors.

In view of Government's directive, the Bank has set a very clear strategic direction for its products and programmes so that it supports Government initiatives which are pro-growth and pro-poor.

Lending activities during the year

Focused Sector Loans

During the financial year the Bank funded 1,728 projects valued at \$69.16 million, and is satisfied that



61.6 percent or \$42.61 million was for this sector, which it views as a catalyst to accelerate portfolio growth. In comparison to 2007/2008, while the number of loan approvals increased by 15 percent, the total value of these loans however, decreased by 17.2 percent.

It is equally encouraging to note that 48 percent of loan approvals in this sector were for manufacturing projects in food processing. While the supply of raw materials for this purpose is not as widely available, economic pundits hope that a vibrant manufacturing sector will spur the agriculture and livestock sectors into commercial production. It is through the supply of raw local materials that import substitution can be realised and a gradual transition into export of surplus is achieved. The Bank will continue to place emphasis on this area as it believes that by supporting the manufacturing sector it will translate into real economic growth.

The Agriculture sector received 43 percent of the assistance with 1,211 farmers benefitting from a loan total of \$18.3 million, averaging approximately \$15,000 per borrower. The majority of borrowers are small holder farmers.

Improving rural people's livelihood and quality of life are the basis of such loans. The Bank encourages subsistence farmers to take advantage of opportunities created by local market demand as well as

processing and export demands to increase their production to commercial levels. Other larger value loans have been to forestry and logging, bus transport and manufacturing activities.

The Bank has also assisted other resource-based activities including several logging businesses with the view to involving resource owners in viable and financially sustainable business ventures that promote the well being of their families.

Non-Focused Sector Loans

In the non-focused sector, 153 applications worth \$26.55 million were approved during the financial year 2008/2009. About 73 percent or \$19.4 million of the value was for real estate loans for land subdivision. The Bank is cautious about investing large value loans in non-development initiatives which does not contribute significantly to new economic growth and employment. The level of approvals to the real estate sector has declined by 42 percent from 2007/2008 approvals in anticipation of liquidity risks and the Bank's policy shift to focused sector lending.

One of the successful non-focused sector lending during the financial year was the joint funding arrangement of the Naisoso Island Development Project between FDB and ANZ Bank. The project is geared around a maritime paradise concept of beach front estates, water front estates, and lifestyle estates for which the Bank provided funding for

the first phase - land development. The project is expected to rake in significant foreign exchange revenue in excess of \$100 million from overseas investors.

Portfolio

The Bank's portfolio as at 30 June 2009 stood at 5,983 customers with a loan value of \$433.30 million. While the number of customers has remained at similar levels, the value of the portfolio however has decreased by 2.21 percent from \$443.10 million for the period 1 July 2007 to 30 June 2008.

In contrast, the focused sector portfolio by number of borrowers is a significant 72 percent valued at \$134.7 million. About half of the portfolio value is represented by agricultural loans, followed by manufacturing activities. The non-focused sector portfolio by borrowers is 28 percent and valued at \$295.5 million, two thirds of which are in real estate and building construction activities.

Market Share

The total market share of the Bank's portfolio in relation to total loans and lease advances outstanding by all commercial banks and other licensed credit institutions stood at 12.2 percent as at 30 June 2009. This is a respectable market share.

The Bank's market share in the agricultural sector is the largest held by any single financial entity at 53.6 percent. This is a strong reflection



that the Bank is on track towards intensifying its commitment to the development of the agricultural sector.

Looking Ahead

The challenges facing development banking is always far greater than that borne by commercial lending institution because of the inherent risks that accompany the sectors invested in. Some of these challenges include difficulties in marrying capitalist ideals of doing business with the cultural nuances that contradict these principles. Changing this mindset is the biggest challenge yet and is not something that can be addressed overnight.

The global recession had an impact albeit minimal, on the local economy and in turn clients of the Bank. The more pronounced impact was felt through limited infrastructure, land tenure issues and continued rural/urban migration from the rural areas where the majority of the Bank's clients reside.

In addition, the fluctuating cost of funds has also affected liquidity. The Bank recognises these risks and will continue to be vigilant when addressing them.

Portfolio

The Bank's portfolio is projected to grow by 16.4 percent over the next three years. New business will be predominantly in the focused sector.

In an effort to reduce imports and encourage exports, greater emphasis will be placed in encouraging large scale commercial agriculture.

Micro Loans and Agri Finance

In order to achieve the desired result for the focused sector lending, the Bank will reinforce its stakeholder linkages to provide and access holistic support to small businesses and farmers.

Micro and small scale farming and business ventures are the first to succumb to problems, thereby leading to failures and foreclosures. Notwithstanding, these same enterprises provide the first impetus for new economic growth. This is precisely the reason why such enterprises require appropriate nurturing in the early stages, so that they may grow and make worthwhile contributions to the economy.

The Bank has a strong micro and small enterprise portfolio - 80.2 percent by number of borrowers and 11.1 percent by value. There are plans to place more resources into this area through the setting up of a Micro-finance Desk in 2010 from where members of the public will have access to information on opportunities, access to finance and other support that can be utilised for their business.

Strengthening Outreach

The Bank currently maintains nine branches throughout the two main islands and conducts several regular agency visits. With the shift in attention to lending in the focused sector, there is an immediate need to strengthen the Bank's presence in the rural and maritime zones. A study is currently underway on ways to improve the level of accessibility to the Bank's facilities especially in

the rural areas where opportunities for new business development are strong. However, in order to be able to exploit these opportunities poor infrastructure, market accessibility and basic social services will first need to be improved. The Bank is willing to foster relationships with relevant service providers to create the environment necessary for new business development in these areas.

Credit Institution License

Unlike commercial banks, the cost of borrowing for the Bank is set much higher at 6 percent, which is subsidised by Government. While at this time, this helps make the Bank's interest rate competitive in relation to other commercial banks, attempts are currently being made to secure a Credit Institution License (CIL) from the Reserve Bank of Fiji. The CIL will allow the bank to take term deposits which will improve liquidity, reduce the cost of funds and allow the Bank to become self sustainable and provide loans at competitive rates.

Northern Development

In keeping with Government's Northern Development Programme (NDP), the Bank will continue to provide special attention on the Northern Division in line with the Government's plan to invigorate economic activity in the Division. The Bank will also work closely with and take advantage of the NDP through better coordination of processes that will improve the effective and efficient delivery of services, loan funds and joint monitoring of the programme.

2008/2009 FINANCIAL YEAR DATA BASED ON RBF CLASSIFICATION

Sector/RBF Major	Approvals			
	No.	Value	% by No.	% by Value
Focused Sector	1,575	42,609,477.63	91.15%	61.61%
Agriculture	1,211	18,272,138.99	76.89%	42.88%
Manufacturing	24	20,531,791.21	1.52%	48.19%
Mining & Quarrying	1	36,000.00	0.06%	0.08%
Professional & Business Services	28	275,171.40	1.78%	0.65%
Transport, Communication & Storage	62	1,166,420.46	3.94%	2.74%
Wholesale, Retail, Hotels & Restaurants	249	2,327,955.57	15.81%	5.46%
Non-Focused Sector	153	26,548,966.29	8.85%	38.39%
Building & Construction	14	2,659,380.41	9.15%	10.02%
Others	25	816,041.68	16.34%	3.07%
Private Individuals	99	972,606.66	64.71%	3.66%
Real Estate	13	19,394,568.44	8.50%	73.05%
Professional & Business Services	-	-	0.00%	0.00%
Transport, Communication & Storage	1	1,981,542.10	0.65%	7.46%
Wholesale, Retail, Hotels & Restaurants	1	724,827.00	0.65%	2.73%
Total	1,728	69,158,443.92		

Sector/RBF Major	Portfolio as at 30/06/2009			
	No.	Value	% by No.	% by Value
Focused Sector	4,323	134,668,631.39	72.25%	31.31%
Agriculture	2,675	66,258,090.78	61.88%	49.20%
Manufacturing	144	38,863,777.73	3.33%	28.86%
Mining & Quarrying	11	996,725.74	0.25%	0.74%
Professional & Business Services	174	4,028,168.64	4.02%	2.99%
Transport, Communication & Storage	466	11,001,025.38	10.78%	8.17%
Wholesale, Retail, Hotels & Restaurants	853	13,520,843.11	19.73%	10.04%
Non-Focused Sector	1,660	295,485,730.50	27.75%	68.69%
Building & Construction	92	92,905,069.99	5.54%	31.44%
Others	30	776,613.98	1.81%	0.26%
Private Individuals	1,313	62,060,296.07	79.10%	21.00%
Real Estate	196	95,468,715.34	11.81%	32.31%
Professional & Business Services	3	5,714,168.01	0.18%	1.93%
Transport, Communication & Storage	8	10,583,195.34	0.48%	3.58%
Wholesale, Retail, Hotels & Restaurants	18	27,977,671.76	1.08%	9.47%
Total	5,983	430,154,361.88		



TOP CAT SUPERMARKET SERVICE INTERIOR VILLAGES

Parmendra Sharma was working as a law clerk in Suva in 2007 when after years of appeal from his kinsman to return to Barotu, Ra to open a shop, he relented.

"I was born and raised in Barotu and I'm a kai Ra," he says in perfect Fijian. "Every time I came back here for a visit to my sheep farm which I started five years ago, the villagers and chiefs around here kept asking me to open up a supermarket to help them out because the nearest place they could go for shopping was all the way to Vaileka which is 35 kilometres away."

To help get him started, the Barotu landowners leased him land to set up his supermarket. Top Cat Supermarket is ideally situated at the corner of Barotu Circular Road and Kings Road which also serves as the express stop for the long haul bus services that traverse the Kings Road from Korovou in the east and Suva from the south.

Located further up Barotu Circular Road are more than 12 villages with a population of approximately 2,500 people with the furthest village, Rokovuaka, located 16 kilometres inland.

"After I secured a lease for 37 acres, I went to the Fiji Development Bank and they agreed to give me financing for \$67,000 to build my supermarket and residence," Ramendra said.

Top Cat was financed through the FDB's Small Medium Enterprise loan facility, which is available to businesses that require less than \$500,000 for the purposes of working capital, establishing a business, farmhouse construction and eco-tourism ventures amongst others.

With the loan, Top Cat Supermarket opened its doors in July 2009 and two months into his operation, Ramendra says that he now holds about \$27,000 worth of stock generating around \$5,000 in sales each week.

"It's not an easy life – I open the supermarket at 6.30am and close at 10pm each day, seven days a week," Ramendra said.

Aside from the Supermarket, Ramendra also has 286 head of sheep and plants sugar cane, root crops and assorted cash crops as well. Sheep farming pays well he says of his recent sale of a live ewe for \$420.

In the next few months, Ramendra hopes to build a service station adjacent to his supermarket. "There is a desperate need for a gas station here because the nearest one is located about 40 kilometres away and as you can see carrier and van operators use this junction as their main base to service the interior villages and having a service station here would help them with refueling," he said.



RISK MANAGEMENT

The Bank acknowledges that while risk is integral to its business it can be minimised. A fundamental consideration for the Bank is to sustain its operations while managing the significant risk element associated with its development role.

The economic condition in the country continued to face an uphill challenge due to the global financial crisis and the internal effort for economic recuperation. The flood in January 2009 devastated hopes and posed a drawback on the road map for economic recovery. The devaluation of the dollar in April 2009 had a varying impact on the economy and the liquidity fluctuation led to intricate forecasting decisions. Businesses also adopted varying strategies to counter the negative impacts of natural and market forces.

Enterprise Risk Management, facilitating risk identification and risk avoidance throughout the organisation became a priority to ensuring that the Bank maintained a stable position that could withstand the various degrees of risk. Weighing the risk and the uncertainties against our mandate in such situations posed the greatest challenges to the Bank's development banking purpose and as a risk taker. The Bank also supported Government in its

plan to boost agriculture and rural development in an effort to move the economy forward. To control lending based on stringent risk standards and measurements would have slowed economic recovery and extended the economic lull. The Bank's long term sustainability remained the prime objective in our three year strategic plan and treading on a thin margin due to increasing costs was also a challenge.

In managing the balance, the entire risk reduction process was expanded to include strategic operational functions, reporting and compliance. The Bank has incorporated policies for identifying problem loans, recognition of income, loan restructure as part of its risk management and credit policies to minimise risk. Annual reviews of the accounts was mandatory to ascertain the quality of assets based on the financial health of the business, collateral value of the security and ability to meet future repayments.

Regulatory Control

The Bank is required to comply with the terms and conditions of the Banking Supervision Policy of the Reserve Bank of Fiji (RBF), although it is not a licensed financial institution. The supervision guideline exposes

the Bank to international standards as well as aligns the Bank with the other financiers on monetary and financial initiatives for regulatory control. The Bank had to also align its plans on various regulatory directives such as weighted average lending rates, micro-financing initiatives, export credit and flood rehabilitation facilities during the financial year.

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

The Bank's operation is also subject to certain requirements under various regulations including the Consumer Act, Banking Act and the Fiji Development Bank Act.

Policy Directives

The Bank is accountable to the Minister of Finance and 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. The Bank had to support various government initiatives driven through other agencies that require funding from the Bank. The Government's emphasis was on resource based industries, export

oriented projects and facilitating access to finance and financial literacy to the less affluent members of society. In this regard, the Bank introduced its Social Banking facility to address such needs.

Competition

The Bank continues to face a competitive environment within the financial market. This includes commercial banks, private institutions, growers' funds, insurance companies, credit unions, and a local mutual fund company which offer new investment and lending facilities. The Bank was obligated to match as far as possible, the flexible loan pricing of the commercial banks. The Bank brought in attractive pricing strategies to sustain some balance in its corporate book and to allow some flexibility to improve on interest margins.

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

Insurance

Loan insurance arrangements are central to the Bank's operations. This means an 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 Bank 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 2008/2009 led to the finance sector facing high cost of borrowings and conversion of long-term investments into short-term high interest bearing

deposits. The Government withdrew all its guarantees on the various loan schemes that provided the Bank with collateral comfort.

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

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 RBF. Interest rates fluctuated a lot during the year and government intervention in withdrawing offshore investments cushioned the variation which began to level off towards the end of the financial year.

Political Risk and Other Factors

A few large projects involving the Bank have been affected as a direct result of the political environment. Fiji's international reputation, investor confidence and ratings by the Standard and Poor Credit Agency have also been affected however, there are positive indicators of growth and recovery in the future.

Sectors such as construction, real estate and tourism have been affected as a result of lack of investor confidence and low tourist numbers. The negotiations for the sugar industry have not progressed well with international communities and sugar remittances remaining unimproved.

Allowance for Loan Losses

The Bank adheres to the RBF guidelines for account grading which determines provisions for loan losses. Individually Assessed Allowance is

estimated on Trouble and Impaired Assets (TIA) to ensure doubtful accounts are provided for. The RBF requires that at least 70% of the value of all loans and advances are assessed annually.

The new International Finance Reports Standards accounting system had some implications on the provisioning practices. The changes have been incorporated into the Bank's accounting system. As a non taxable institution and high risk lender, the new system does not augur well for sustainability in the long term.





ONE MAN GANG



These days Gani is ranked one of the best farmers in his area. Through three loans totaling \$47,000 under the Agriculture and Small Medium Enterprise Scheme of the Fiji Development Bank between 2007 and 2008, Gani managed to purchase a D4 bulldozer and a seven tonne truck as well as set aside working capital for the development of additional acreage for cane planting.



Gani's relationship with the Bank started after he was turned down for a loan, twice, from the grower's fund for the purchase of his bulldozer. "I tried for two years with the Fund to get a loan and they kept refusing me so I went to the FDB and after they did their assessment, they approved the loan and now look at my farm," Gani said.

Today, Gani has 32 acres under cane, another 28 acres reserved for cane and 103 acres on which he grazes 20 heads of cattle, 20 goats and 350 sheep. The remaining 20 acres, he has started to work on in preparation for ginger farming. Gani is one of those rare farmers who has actually utilized almost every square inch of his farm despite terrain difficulties – most of it is quite hilly. "For cane we plant three different varieties – Naidiri on 20 acres and Ragana and Marley on six acres

each," says Gani's son Mohammed Aiyub, 39.

"We plant three varieties because from that we have three harvests every cycle from which we get around 1,500 tonnes of cane and because we harvest more than a 1,000 tonnes my father is registered with the Fiji Sugar Corporation as a One Man Gang.

Working alongside his father ever since he could walk, Aiyub said that while the family waits for the cane harvest to come in, they look after their livestock with sheep being particularly productive for them.

"There is very good money in sheep farming," Aiyub says adding, "one ram weighs around 80 to 100 kilogrammes and live weight per kilo is around \$4 so you get a good return on sheep farming."

Gani also has 6,000 mounds of yams planted with another 10,000 dalo to be planted with dalo suckers ordered from Taveuni.

Given that Labasa is usually dry, the farm, located in a basin seems to have just the right measure of rain and sunshine, ideal to the point that family has also started experimenting with honey bee farming as well.

Thirty seven years ago when Mohammed Gani moved to his 183 acre farm at Waiqe, 17 kilometres outside of Labasa, he was determined to develop at least one acre a year in addition to cultivating that which he had already filled.

CORPORATE SOCIAL RESPONSIBILITY



For the FDB, the identification and implementation of two strategic initiatives, Money Smart™ and the Small Business Awards, is a reminder that the Bank operates within a community and has a social role to fulfill by sharing a part of its resources for the well being of the people in that community.

The Bank also firmly believes that the Small Business Award and the Money Smart™ programmes are suitably aligned to its core role of improving the quality of life of the people in Fiji. The Money Smart™ programme seeks to inculcate good savings habit amongst children for the future and the Small Business Award recognises and rewards micro and small business entrepreneurs for their hard work.

Money Smart™

Through the mainstream education system, under the Commercial Studies curriculum taught at the Form 3 level in all secondary schools throughout Fiji, this financial literacy subject is learnt as part of an internal assessment programme with practical outcomes. Marks gained by the students are put towards their two-year assessment for the Fiji Junior Certificate Exam (FJCE) which they sit at the Form 4 level. As part of the assessment, students learn to set a financial goal, plan, budget

and save for that goal. Taught over two school terms, the students are exposed to not only the theoretical aspects of saving but also the practical in which they open up a savings account and put money towards their financial goal.

The knowledge gained and evidence of savings is a source of tremendous pride for the Bank because it shows a programme that balances theory with the practical. The course work and savings form 30 percent of the student's assessment towards the FJCE.

In 2008 the actual savings reported by 47 out of the total 162 secondary schools participating in Money Smart™ totaled \$187,017.14, which estimates to approximately \$0.5million for the 162 schools. For 2008, the average savings amongst students increased by 28 percent to \$33.73 from \$26.31 per student in 2007.

Since its inception in 2007, the Bank rewards the top school in the four divisions each year provided they meet the following criterion:

- That a minimum of 90% of students enrolled in the class open up a savings account. In areas where access to banks is limited, students are encouraged to save in money boxes with the





view to opening bank accounts at a later date.

- That the students complete all the exercises in the workbook provided and that the teachers' marks for these exercises are consistent with the marking scheme. Moderated marks for the samples are sent to the CDU for district moderation and the Bank gives preference to the school with the highest rating.

Schools awarded for 2008 were:

- Drasa Secondary School (Western Division)
- Bhawani Dayal Arya College (Central/Eastern Division); and
- Holy Family Secondary School (Northern Division)

Each of the winning schools was awarded a Compaq computer. No schools in the Maritime Division were awarded because none met the qualifying criteria.

The programme has made such an impact that students voluntarily continue with their savings plan beyond the subject year. The support from parents and teachers for this programme is valued as the Bank undertakes to continue with this strategic sponsorship for the next financial year. The Bank is optimistic that after a generation, young people participating in this financial literacy programme will display greater astuteness when it comes to financial decision making in the future.

Small Business Award

The Small Business Awards is an annual event which commenced in 2004 to promote the development of Small and Micro Enterprise (SME) through the recognition of successful and innovative entrepreneurs who are making a livelihood through such initiatives. Such entrepreneurs are not only self-employed but they also provide direct and indirect employment to others as well be it through the provision of the service/ goods or the supply of local resource materials needed.

The Bank supports the global ideal that small businesses are the cornerstone of new economic growth and as a development bank it has a lead role to play in nurturing new business development. The aim of the Awards is to not only recognise and reward small businesses and their contribution to the economy but also encourage these businesses to grow to the next level as medium enterprises where it can make a more substantial impact on the economy.

The 2008 Awards were presented to the following:

- Agriculture Category – Sanjay Vinod Prasad, mixed crop farmer of Saru, Lautoka.
- Tourism Category - Meli and Marica Tualau, dance group of Malawai Housing Vatualevu, Nadi.
- Wholesale/Retail Category -

Varasiko Salatubalevu, buyer of dalo and yaqona, Nabouwalu, Bua.

- Professional / Services Category - Sulufaiga Tapaeko, hair salon operator, Labasa.
- Others Category - Siliva Nasaqa, pot plants and fresh cut flowers, Suva.
- Overall Winner - Varasiko Salatubalevu

Sharing our vision in this endeavour were Telecom Fiji, The Reserve Bank of Fiji, Fiji Live and the Fiji Sun through sponsorship support for the various categories.

Donations and Sponsorship

Through donations and sponsorship the Bank supports learning institutions and not-for-profit organisations with strong community based programmes that benefit the vulnerable members of society.

During the financial year, the Bank gave \$4,600 in sponsorship and donation to the Fiji Red Cross Society, Fiji Association of the Deaf, Fiji Cancer Society, St. Christopher's Home, The United Blind Persons of Fiji, Bua Provincial Council (Prize for Agricultural Showcase) and the Fiji College of Agriculture (Dux Prize).

Staff of the Bank also collected close to \$1,200 in cash along with clothes and other household items for victims of the January 2009 floods as well as \$230.17 for Fiji's Biggest Morning Tea (Fiji Cancer Society).



REAPING WHAT HE SOWS

Becoming a farmer was not what 32 year-old Sanjay Vinod had in mind growing up but as fate would have it that is what he eventually became.

The only child of Vinod Chand and Ram Devi, Sanjay grew up on his family's 17 acre farm in Saru, Lautoka. As his father's health declined in mid-2000, Sanjay had to give up work in the city and return home to the farm.

"I was working as a stock controller for Mahogany Industries in Lautoka when my father got sick," he said.

"My Dad was sick for a while and eventually he passed away in 2008. It was then that I realized that there is so much more potential in farming than I previously thought."

Armed with common sense, hard work and a genius for tapping into agricultural support programmes offered by the Ministry of Youth as well as the National Centre for Small and Medium Enterprise Development (NCSMED), Sanjay worked hard and poured his energy into his farm. Soon, he was reaping the fruits of his labour – hard work which saw him win the Fiji Development Bank 2008 Small Business Award for the Agriculture Category.

"I felt really happy because I was helped a lot by the Ministry of Agriculture and NCSMED in terms of the advice and assistance they gave me when I started out and also the Fiji Development Bank for financing me \$5,000 in November 2008, which I used to buy an irrigation pump, hose and bullocks for tilling," he said of the Agri-Finance Scheme that helped him also clear more land for additional cash crops.

The Agri-Finance loan facility at FDB is available to clients in the agricultural sector who would like to borrow up to \$10,000 for farm development such as working capital, farm land development, purchase of farm equipment seed stock and farm house.

These days, as the only worker on the farm with the occasional labourer or three employed to help out when needed, Sanjay plants an array of short and long term crops such as Chinese and English cabbage, tomatoes, peanuts, corn, grog and coriander on five of the 17 acres. He also raises meat birds which help with the weekly family income while he waits for his crops to mature in the field.

"The meat birds can earn between \$1,000 and \$1,400 a month and depending on the weather, my cash crops can earn me about \$200 a week," he said adding that his wife takes care of the market sales while he stays and works on the farm.

"I have just planted 20,000 bundles of Chinese cabbage for December (2009) and I have just prepared another eight acres for peanuts because the price is quite good right now and rolling crops such as English cabbage which I want to plant on a large scale."

With weather being a fickle as it has been, Sanjay says that while prolonged dry spells are not favourable to his crops, heavy rain is just as worse.

"With the irrigation pump and hoses that I have recently purchased and the well that I have prepared, it is now easier and faster for me to at least control and manage watering the crops especially during the long dry weather," he said.





FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY FINANCIAL REPORT AS AT 30 JUNE 2009

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FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2009

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 30 June 2009, 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 any time during the financial year and up to the date of this report:

Current Directors

Mr John Prasad - Chairperson

Mr Jitoko Tikolevu

Mr Ilaisa Cavu

Mr Josefa Serulagilagi

Mr Manasa Vaniqi

Dr Richard Beyer

Former Directors

Mr Taito Waradi - Chairperson

Mr Alok Mishra

Mr Ashok Kumar

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 30 June 2009 was \$3,492,887 (2008 – \$3,799,436).

The operating profit for the Bank for the year was \$3,475,840 (2008 - \$3,823,443).

DIVIDENDS

The directors recommend that no dividend be declared or paid.

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.

FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2009

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

10th day of November 2009



Director



Director

FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
STATEMENT BY DIRECTORS FOR THE YEAR ENDED 30 JUNE 2009

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 30 June 2009;
- (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 30 June 2009;
- (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 30 June 2009;
- (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 30 June 2009;
- (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

10th day of November 2009



Director



Director



8th Floor, Ratu Sukuna House,
MacArthur Street,
P.O.Box 2214
Government Building,
Suva, Fiji Islands

Republic of the Fiji Islands
Office of the Auditor General

Accountability in the public sector through quality audit services



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 30 June 2009, consisting of the balance sheet, income statement, statement of changes in equity, statement of cash flows and accompanying notes as set out on pages 37 to 62. 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 International Financial Reporting Standards:
 - (i) are in agreement with the books of account; and
 - (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 30 June 2009 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.

Tevita Bolanavanua
ACTING AUDITOR GENERAL



FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
BALANCE SHEET AS AT 30 JUNE 2009

	Notes	CONSOLIDATED		THE BANK	
		2009	2008	2009	2008
		\$	\$	\$	\$
Assets					
Cash		33,267,104	11,606,425	33,219,645	11,560,222
Loans and advances	6	356,051,842	381,462,688	356,051,842	381,462,688
Investments	7	50,251	1,570,251	50,251	1,570,251
Land held for resale	8	441,341	437,773	441,341	437,773
Investment in subsidiary	9	-	-	20,000	20,000
Property, plant and equipment	10	15,583,638	14,766,872	15,583,638	14,766,872
Amounts due from subsidiary	11	-	-	-	11,931
Other debtors	12	2,851,694	4,862,109	2,848,098	4,859,686
TOTAL ASSETS		408,245,870	414,706,118	408,214,815	414,689,423
Liabilities					
Bonds - Held-to-maturity	13	254,141,199	188,936,162	254,141,199	188,936,162
Short term borrowings	14	30,423,853	111,922,151	30,423,853	111,922,151
Employee entitlements	15	1,321,828	1,241,568	1,321,828	1,241,568
Deferred income		2,149,824	2,358,825	2,149,824	2,358,825
Accounts payable and accruals	16	6,092,467	5,321,062	6,085,209	5,311,117
Other liabilities	17	5,727,644	5,594,182	5,727,644	5,594,182
TOTAL LIABILITIES		299,856,815	315,373,950	299,849,557	315,364,005
Equity					
Capital	19	56,050,636	56,050,636	56,050,636	56,050,636
Reserves		11,187,562	5,623,562	11,187,562	5,623,562
Accumulated profits		41,150,857	37,657,970	41,127,060	37,651,220
Total capital and reserves		108,389,055	99,332,168	108,365,258	99,325,418
TOTAL LIABILITIES AND EQUITY		408,245,870	414,706,118	408,214,815	414,689,423

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 40 to 58.

FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2009

	Notes	CONSOLIDATED		THE BANK	
		2009	2008	2009	2008
		\$	\$	\$	\$
INCOME					
Interest Income	2	39,240,723	45,029,126	39,239,174	45,027,583
Interest expense		14,668,517	20,496,744	14,668,517	20,496,744
Net Interest income		24,572,206	24,532,382	24,570,657	24,530,839
Fee Income	3	2,188,065	7,822,482	2,188,065	7,822,482
Other income	4	3,209,839	10,771,948	3,190,989	10,771,667
OPERATING INCOME		29,970,110	43,126,812	29,949,711	43,124,988
OPERATING EXPENSES	5	10,280,965	13,053,901	10,277,613	13,028,070
OPERATING PROFIT BEFORE ALLOWANCES		19,689,145	30,072,911	19,672,098	30,096,918
Allowance for credit impairment	6	14,676,258	21,233,904	14,676,258	21,233,904
Diminution in investments	7	1,520,000	-	1,520,000	-
Allowance for loss - Government Guarantee	12	-	5,039,571	-	5,039,571
OPERATING PROFIT BEFORE INCOME TAX EXPENSE		3,492,887	3,799,436	3,475,840	3,823,443
Income tax expense	1(q)	-	-	-	-
OPERATING PROFIT AFTER INCOME TAX		3,492,887	3,799,436	3,475,840	3,823,443

The income statements are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 40 to 58.

FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30 JUNE 2009

		2009 \$ Inflows (Outflows)	2008 \$ Inflows (Outflows)
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest and subsidy received		41,645,850	42,486,466
Interest and other costs of borrowing paid		(15,390,705)	(19,730,213)
Dividends received		-	-
Fees received		2,188,065	7,822,482
Cash paid to suppliers and employees		(7,782,049)	(11,855,576)
Other receipts		2,648,732	11,958,866
Net cash provided by operating activities	24 (ii)	23,309,893	30,682,025
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from the sale of investments		-	-
Payments for investments		-	-
Customer loans granted		(47,790,788)	(66,100,000)
Customer loans repaid		64,020,568	69,495,309
Payments for property, plant and equipment		(1,651,946)	(713,284)
Receipts from disposal of property and equipment		122,130	125,047
(Payments)/Receipts for land held for resale		(3,568)	300
Net cash (used in)/provided by investing activities		14,696,396	2,807,372
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in other deposit accounts		-	-
Proceeds from long-term borrowings		72,652,688	87,578,666
Repayment of long-term borrowings		(7,500,000)	(136,032,101)
Net increase/(decrease) in short-term borrowing		(81,498,298)	7,286,568
Net cash provided by/(used in) financing activities		(16,345,610)	(41,166,867)
Net increase in cash held		21,660,679	(7,677,470)
Cash at the beginning of the financial year		11,606,425	19,283,895
Cash at the end of the financial year	24 (i)	33,267,104	11,606,425

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 40 to 58.

FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2009

	CONSOLIDATED				Total
	Capital	General reserve	Revaluation reserve	Accumulated profits	
	\$	\$	\$	\$	
Balance at 30 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
Opening retained earnings as restated at 30 June 2008	56,050,636	2,500,000	3,123,562	37,657,970	99,332,168
General Reserve for Credit Losses	-	5,564,000	-	-	5,564,000
Net profit for the year	-	-	-	3,492,887	3,492,887
Balance at 30 June 2009	56,050,636	8,064,000	3,123,562	41,150,857	108,389,055

	THE BANK				Total
	Capital	General reserve	Revaluation reserve	Accumulated profits	
	\$	\$	\$	\$	
Balance at 30 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
Opening retained earnings as restated at 30 June 2008	56,050,636	2,500,000	3,123,562	37,651,220	99,325,418
General Reserve for Credit Losses	-	5,564,000	-	-	5,564,000
Net profit for the year	-	-	-	3,475,840	3,475,840
Balance at 30 June 2009	56,050,636	8,064,000	3,123,562	41,127,060	108,365,258

The statements of changes in equity are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 40 to 58.

FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2009

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 30 June 2009 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 27 August 2009.

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) 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.

(c) 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 and
- Note 1(j) – Allowance for credit impairment

(d) 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 7. 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.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(e) 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.

(f) Bonds – Held-to-maturity

FDB registered bonds are recorded at face value. The discount on these bonds is amortized on a straight-line basis over the term of the bond to which it relates.

(g) 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.

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

(g) Property, plant and equipment (cont'd)

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.

(h) 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 collectability 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:

(i) 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.

(ii) 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.

(iii) 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.

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

(i) 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.

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 percentages 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 realizable 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.

General reserve for credit loss

A general reserve for credit loss is maintained for all accounts for possible losses inherent in the loan portfolio. This policy is in accordance with the Reserve Bank of Fiji minimum provisioning guidelines.

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.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) Other debtors

Other receivables are stated at cost less impairment losses.

(o) Accounts payable and accruals

Accounts payable and accruals are stated at cost.

(p) 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.

(q) 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.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(r) Employee entitlements (cont'd)

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 30 June 2009 was 197 (2008: 198).

(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.

FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
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 FOR THE YEAR ENDED 30 JUNE 2009

	CONSOLIDATED		THE BANK	
	2009	2008	2009	2008
	\$	\$	\$	\$
2 INTEREST INCOME				
Included in interest income are interest subsidies received / receivable from the Government for:				
- Agricultural loans	591,021	419,801	591,021	419,801
- Commercial Loans to Fijians scheme	2,101,808	2,519,008	2,101,808	2,519,008
- Economic Rehabilitation Package Scheme	199,330	234,818	199,330	234,818
- Small Business Scheme	302,188	317,936	302,188	317,936
- Northern Rehabilitation Package	274,405	322,126	274,405	322,126
	<u>3,468,752</u>	<u>3,813,689</u>	<u>3,468,752</u>	<u>3,813,689</u>
3 FEE INCOME				
Application fees	58,702	131,190	58,702	131,190
Establishment fees	766,966	487,804	766,966	487,804
Commitment fees	88,566	191,377	88,566	191,377
Bank Service fees	1,318,801	1,491,495	1,318,801	1,491,495
Arrears fees	(609,792)	4,624,943	(609,792)	4,624,943
Legal fees	563,355	894,093	563,355	894,093
Other fee income	1,467	1,580	1,467	1,580
	<u>2,188,065</u>	<u>7,822,482</u>	<u>2,188,065</u>	<u>7,822,482</u>
4 OTHER INCOME				
The following items are included in other income:				
Gain on sale of property, plant and equipment	64,151	87,657	64,151	87,657
Bad debt recovered	960,653	8,379,905	960,653	8,379,905
Insurance commission	218,693	240,962	218,693	240,962
Rental income	500,667	525,922	500,667	525,922
5 OPERATING EXPENSES				
Items included in administrative expenses:				
Amortisation of bond discounts	920	629	920	629
Auditors' remuneration	43,142	36,874	40,031	35,374
Directors' fees	114,502	144,756	114,502	144,756
Depreciation	765,198	864,368	765,198	864,368
Loss on property, plant and equipment	12,004	7,206	12,004	7,206
Employee costs	6,387,920	7,474,643	6,387,920	7,474,643
Voluntary redundancy	-	889,079	-	889,079

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	CONSOLIDATED		THE BANK	
	2009	2008	2009	2008
	\$	\$	\$	\$
6 LOANS AND ADVANCES				
Loans and advances	433,258,018	443,068,034	433,258,018	443,068,034
Less: Interest and fees suspended	14,872,810	7,313,291	14,872,810	7,313,291
Less: Allowance for credit impairment	418,385,208	435,754,743	418,385,208	435,754,743
	62,333,366	54,292,055	62,333,366	54,292,055
Total loans and advances	356,051,842	381,462,688	356,051,842	381,462,688
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:				
Individually assessed allowance				
Balance at the beginning of the year	22,180,456	5,239,985	22,180,456	5,239,985
Charge to the income statement	9,205,644	21,886,879	9,205,644	21,886,879
	31,386,100	27,126,864	31,386,100	27,126,864
Written off as bad debts against allowance for credit impairment	(367,218)	(4,946,408)	(367,218)	(4,946,408)
Balance at the end of the year	31,018,882	22,180,456	31,018,882	22,180,456
Unallocated Individually assessed allowance				
Balance at beginning of year	23,920,138	11,813,218	23,920,138	11,813,218
Charge/(credit) to the income statement	2,954,131	12,106,920	2,954,131	12,106,920
Transfer to individually assessed allowance	(703,729)	-	(703,729)	-
Transfer to general loan reserve	(5,564,000)	-	(5,564,000)	-
Balance at the end of the year	20,606,540	23,920,138	20,606,540	23,920,138
Collectively assessed allowance				
Balance at beginning of year	8,191,461	20,951,356	8,191,461	20,951,356
Charge/(credit) to the income statement	2,516,483	(12,759,895)	2,516,483	(12,759,895)
Balance at the end of the year	10,707,944	8,191,461	10,707,944	8,191,461
Total allowance for credit impairment	62,333,366	54,292,055	62,333,366	54,292,055

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	CONSOLIDATED		THE BANK	
	2009	2008	2009	2008
	\$	\$	\$	\$
7 INVESTMENTS				
Shares in companies - at cost	6,634,541	6,634,541	6,634,541	6,634,541
Less: Allowance for diminution in value	(6,584,290)	(5,064,290)	(6,584,290)	(5,064,290)
	<u>50,251</u>	<u>1,570,251</u>	<u>50,251</u>	<u>1,570,251</u>
Allowance for diminution in investments is represented as follows:				
Balance at the beginning of the year	5,064,290	5,064,290	5,064,290	5,064,290
Charge to the income statement	1,520,000	-	1,520,000	-
Balance at the end of the year	<u>6,584,290</u>	<u>5,064,290</u>	<u>6,584,290</u>	<u>5,064,290</u>

The Bank does not have a significant control in investment other than 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 aquired and held exclusively with a view to its disposal in the near future, thus is not consolidated.

8 LAND HELD FOR RESALE

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)

	<u>47,476</u>	<u>47,476</u>	<u>47,476</u>	<u>47,476</u>
Contributions to project	(4,895)	(4,795)	(4,895)	(4,795)

	<u>42,581</u>	<u>42,681</u>	<u>42,581</u>	<u>42,681</u>
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Cane Estate

Cost	1,000,000	1,000,000	1,000,000	1,000,000
Other expenses capitalised	298,759	295,092	298,759	295,092

	<u>1,298,759</u>	<u>1,295,092</u>	<u>1,298,759</u>	<u>1,295,092</u>
Less: Allowance for diminution in value	900,000	900,000	900,000	900,000
	<u>398,759</u>	<u>395,092</u>	<u>398,759</u>	<u>395,092</u>

Balance at the end of the year	<u>441,340</u>	<u>437,773</u>	<u>441,340</u>	<u>437,773</u>
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	CONSOLIDATED		THE BANK	
	2009	2008	2009	2008
	\$	\$	\$	\$
9 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.

	CONSOLIDATED AND THE BANK			
	Land and buildings	Plant and equipment	Fixtures and fittings	Total
	\$	\$	\$	\$
10 PROPERTY, PLANT AND EQUIPMENT				
Balance at beginning of the year	13,181,030	2,443,774	562,361	16,187,165
Acquisitions during the year	-	1,646,696	5,250	1,651,946
Disposals	-	(419,470)	-	(419,470)
	-	-	-	-
Balance at end of the year	13,181,030	3,671,000	567,611	17,419,641
Accumulated Depreciation				
Balance at beginning of the year	415,055	599,730	405,508	1,420,293
Depreciation charge for the year	192,385	523,787	49,026	765,198
Disposals	-	(349,487)	-	(349,487)
	-	-	-	-
Balance at end of the year	607,440	774,030	454,534	1,836,004
Carrying amount				
Balance at beginning of year	12,765,975	1,844,044	156,853	14,766,872
Balance at end of the year	12,573,590	2,896,970	113,077	15,583,638

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	CONSOLIDATED		THE BANK	
		2009	2008	2009	2008
		\$	\$	\$	\$
11 AMOUNTS DUE FROM SUBSIDIARY					
FDB Nominees Ltd	20	-	-	-	11,931

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	CONSOLIDATED		THE BANK	
	2009	2008	2009	2008
	\$	\$	\$	\$
12 OTHER DEBTORS				
Government guarantees	5,039,571	5,039,571	5,039,571	5,039,571
Less allowance for loss - Government Guarantee	(5,039,571)	(5,039,571)	(5,039,571)	(5,039,571)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Government interest subsidies	1,757,610	4,205,581	1,757,610	4,205,581
Others	1,094,084	656,528	1,090,488	654,105
	<u>2,851,694</u>	<u>4,862,109</u>	<u>2,848,098</u>	<u>4,859,686</u>
13 BONDS - HELD-TO-MATURITY				
Non-current				
FDB Registered bonds - face value	254,088,850	188,878,850	254,088,850	188,878,850
Unamortised discount	52,349	57,312	52,349	57,312
	<u>254,141,199</u>	<u>188,936,162</u>	<u>254,141,199</u>	<u>188,936,162</u>
The above registered bonds have a repayment term varying between 1 to 11 years and have been guaranteed by Government of Fiji				
14 BORROWINGS				
Short term borrowings	30,423,853	111,922,151	30,423,853	111,922,151
The above borrowings have a repayment term of less than 1 year and have been guaranteed by Government of Fiji. The interest rate for the short term borrowing ranges from 0.90% to 9.50%.				
15 EMPLOYEE ENTITLEMENTS				
Balance as at June 2008	1,241,568	1,267,579	1,241,568	1,267,579
Amount utilised	(17,325)	(152,034)	(17,325)	(152,034)
Expense for the year	97,585	126,023	97,585	126,023
	<u>1,321,828</u>	<u>1,241,568</u>	<u>1,321,828</u>	<u>1,241,568</u>
16 ACCOUNTS PAYABLE AND ACCRUALS				
Interest accruals	2,841,152	3,568,522	2,841,152	3,568,522
Others	3,251,316	1,752,540	3,244,058	1,742,595
	<u>6,092,467</u>	<u>5,321,062</u>	<u>6,085,209</u>	<u>5,311,117</u>

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	CONSOLIDATED		THE BANK	
	2009	2008	2009	2008
	\$	\$	\$	\$
17 OTHER LIABILITIES				
Seed Capital Fund	2,719,205	2,704,103	2,719,205	2,704,103
Staff Savings account	1,238,112	1,140,765	1,238,112	1,140,765
Export Facility	1,477,157	1,499,980	1,477,157	1,499,980
Farmers Assistance Scheme	293,170	249,334	293,170	249,334
	<u>5,727,644</u>	<u>5,594,182</u>	<u>5,727,644</u>	<u>5,594,182</u>

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.

18 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Commitments				
(i) Capital commitments			-	-
(ii) Loans approved but not disbursed			35,521,671	22,635,028
			<u>35,521,671</u>	<u>22,635,028</u>
(b) Contingent liabilities				
(i) Guarantees			750,000	1,582,473
(ii) Litigation				

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

19 CAPITAL

Authorised capital	<u>100,000,000</u>	<u>100,000,000</u>	<u>100,000,000</u>	<u>100,000,000</u>
Contributed capital	<u>56,050,636</u>	<u>56,050,636</u>	<u>56,050,636</u>	<u>56,050,636</u>

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

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20 RELATED PARTY TRANSACTIONS

Directors

The following were directors of the Bank during the financial year ended 30 June 2009:

Current Directors

Mr John Prasad - Chairperson
 Dr Richard Beyer
 Mr Jitoko Tikolevu
 Mr Ilaisa Cavu
 Mr Josefa Serulagilagi
 Mr Manasa Vaniqi

Former Directors

Mr. Taito Waradi - Chairperson
 Mr. Alok Mishra
 Mr. Ashok Kumar

	CONSOLIDATED		THE BANK	
	2009	2008	2009	2008
	\$	\$	\$	\$
Directors' fees	114,502	144,756	114,502	144,756

Loans amounting to \$0.00 (2008: \$181,975.63) 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 30 June 2009, the total receivable by the Bank from its subsidiary, FDB Nominees Limited in respect of services provided to the company, amounted to \$0.00 (2008: \$11,931).

All transactions with the related party are on normal commercial terms and conditions.

Key Management Personnel

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
Deve Toganivalu	Chief Executive Officer
Umarji Musa	General Manager Operations
Lasantha Thennakoon	General Manager Finance and Administration
Nafitalai Cakacaka	General Manager Business Risk Services

Details of compensation

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

	CONSOLIDATED		THE BANK	
	2009	2008	2009	2008
	\$	\$	\$	\$
Short-term benefits	578,035	654,274	578,035	654,274

The Key Management Personnel are contracted employees and are only entitled to short term benefits only. There is no long term benefits payable.

Loans amounting to \$241,636.61 (2008: \$318,718.86) 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.

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	2009	2008
	\$	\$
Agriculture	65,164,676	62,058,013
Building and construction	60,519,096	62,555,862
Manufacturing	39,034,544	25,892,328
Mining and quarrying	1,296,483	1,208,035
Private individuals	62,612,224	65,721,493
Professional and business services	10,002,163	9,364,245
Real estate	117,718,839	121,939,317
Transport, communication and storage	26,932,837	28,684,534
Wholesale, retail, hotels and restaurants	47,491,277	63,479,356
Others	2,485,879	2,164,851
Total	433,258,018	443,068,034

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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. Corollarily, 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.

SENSITIVITY ANALYSIS

Liquidity Risk

Liquidity risk sensitivity due to $\pm 2.50\%$ fluctuation in weighted average cost of borrowings

	As at June 2009	Increase in Cost of funds (+2.50%)	Decrease in Cost of funds (-2.50%)
Weighted Average Borrowing Cost (%)	5.62	8.12	3.12
Cost of Borrowing (\$)	14,668,517	21,193,658	8,143,376
Profit/(loss) (\$)	3,475,840	(3,049,301)	10,000,981

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; and
- 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 overall cost of funds. To achieve this, the banks 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.

21 RISK MANAGEMENT POLICY (cont'd)

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.

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).

SENSITIVITY ANALYSIS

Market Risk

Market risk sensitivity due to $\pm 2.50\%$ fluctuation in weighted average lending rate

	As at June 2009	Increase in Lending Rate (+2.50%)	Decrease in Lending Rate (-2.50%)
Weighted Average Lending Rate (%)	8.84	11.34	6.34
Interest Income (\$)	39,239,174	50,336,225	28,142,122
Profit/(loss) (\$)	3,475,840	14,572,891	(7,621,212)

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.

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.

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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.

2009	CONSOLIDATED (\$'000)						Specific provision	Total
	At call	1 day to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years			
Assets	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Cash	33,267	-	-	-	-	-	33,267	
Loans	26,464	37,540	75,617	146,484	147,153	(31,019)	402,239	
Total	59,731	37,540	75,617	146,484	147,153	(31,019)	435,506	
Liabilities								
Borrowings	-	35,652	77,682	148,133	23,098	-	284,565	
Total	-	35,652	77,682	148,133	23,098	-	284,565	
2008								
Assets								
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	

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	THE BANK	
	2009	2008
	\$	\$
23 IMPAIRED AND PAST-DUE ASSETS		
Non-accrual loans without individual assessed allowance		
Gross	11,485,187	37,886,484
Less: suspended debt	(1,309,223)	(1,866,646)
Net non-accrual loans without individual assessed allowance	<u>10,175,964</u>	<u>36,019,838</u>
Non-accrual loans with individual assessed allowance		
Gross	51,005,253	28,334,123
Less: suspended debt	(10,952,899)	(3,824,737)
Less: individual assessed allowance	40,052,354	24,509,386
Net non-accrual loans with individual assessed allowance	(24,772,981)	(16,159,182)
	<u>15,279,373</u>	<u>8,350,204</u>
Restructured loans without individual assessed allowance		
Gross	288,646	647,434
Less: suspended debt	(34,905)	(63,999)
Net restructured loans without individual assessed allowance	<u>253,741</u>	<u>583,435</u>
Restructured loans with individual assessed allowance		
Gross	5,401,106	5,075,592
Less: suspended debt	(1,428,301)	(994,965)
Less: individual assessed allowance	3,972,805	4,080,627
Net restructured loans with individual assessed allowance	(2,201,664)	(2,406,990)
	<u>1,771,141</u>	<u>1,673,637</u>
Other impaired loans		
Gross	7,212,006	35,934,793
Less: suspended debt	(31,176)	(18,084)
Net other classified loans	<u>7,180,830</u>	<u>35,916,709</u>
Total impaired and past-due loans	<u>34,661,049</u>	<u>82,543,823</u>
Past-due loans		
Gross	21,136,941	30,353,420
Less: suspended debt	(550,275)	(133,498)
Total past-due loans	<u>20,586,665</u>	<u>30,219,922</u>

FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2009

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	
	2009	2008
	\$	\$
Cash	33,267,104	11,606,425

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

Operating profit after income tax	3,492,887	3,799,436
Add / (less) non-cash items:		
Amortisation of bond discounts	52,349	57,312
Depreciation	765,198	864,368
Gain on disposal of fixed assets	(52,147)	(80,452)
Accrual for annual and long-service leave	80,260	(26,011)
Provision for voluntary redundancy	-	-
Allowance for credit impairment	14,676,258	26,273,476
Provision for diminution in investment	1,520,000	-
Provision for diminution in value of land	-	-
Provision for tax	-	-
Translation of foreign currency loans	-	-
	20,534,805	30,888,129
Change in assets and liabilities:		
Increase in interest receivable	(42,845)	(1,601,359)
Increase in accounts receivable	(496,956)	1,274,576
Decrease/(increase) in grants and subsidies receivable	2,447,971	(941,301)
Decrease/(Increase) in interest payable	(774,537)	709,219
Increase in other accruals	1,641,455	352,761
Net cash provided by operating activities	23,309,893	30,682,025

25 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.

26 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.

27 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.



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