FIJI DEVELOPMENT BANK
ANNUAL REPORT 2010

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

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

your partner in progress

ABOUT US

The Fiji Development Bank was established under the Fiji Development Bank Act (Cap 214) on 1 July, 1967. The Bank is an autonomous statutory body, the operations of which are controlled by a Board of Directors appointed by the Minister of Finance.

Under the Act, the Bank provides finance for projects that contribute to the development of the Fiji economy and improves the quality of life for the people of Fiji. Loan funds are provided for agricultural, micro, small and medium, as well as corporate enterprise projects. The Government also uses the FDB as a financial instrument in its development projects/ plans and special assistance programmes that may be necessary from time to time.

Over the years FDB has introduced a range of loan packages and services aligning it with its strategic objectives and customer demands. At the same time, the FDB has the challenging task of matching its competitiveness level with that in the banking and finance sector.

The Bank has played a significant role in developing the various economic sectors of the country and believes in a strong corporate social programme which it undertakes through Money $mart™ and Invest $mart™, a financial literacy programme in all Fiji secondary schools as well as the annual Small Business Awards.

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FIJI DEVELOPMENT BANK

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

10 January 2011.

Commodore Josaia Voreqe Bainimarama
Ministry of 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 30 June 2010.

In light of the many challenges facing Fiji's economy, the Bank recorded a profit of $2.36 million. Although this is a decline of $1.12 million over the 2008/2009 financial year, the Bank attained this positive result through prudent spending and stringent cost control measures.

During the year, the Bank's gross portfolio stood at $437.86 million, an increase of 1.05 percent compared to $433.26 million for the previous year. This increase is a reflection of an increase in lending to the focused sector.

The Board wishes to also acknowledge the effort and commitment of the executive management and staff of the Bank in what has been another challenging year.

Yours sincerely,

Robert G. Lyon
Chairman

Branches: Nausori Rakiraki Ba Lautoka Sigatoka Labasa Seaqaqa Savusavu Nadi

EXECUTIVE REPORT

Inclement weather resulting in flooding in most parts of Fiji in addition to Tropical Cyclone Tomas in the early part of 2009 badly affected agricultural production including forestry and fishing.

The Global Environment

No doubt, the financial year ending June 2010 was an extremely difficult one. As a nation, we were not spared from the global economic and financial crisis which began in mid-2007 when the US sub-prime mortgage collapsed. The impact of the crisis on employment, consumer confidence, demand and income level was overwhelming. We significantly suffered when our visitor arrivals and foreign exchange earnings fell in the last two financial years. Notably, our remittances from abroad also dropped.

Domestic Reforms

The Government's short to mid-term activities evolved around the 10 point economic plan introduced in the 2009 National Budget Address. Reform was one of the main agenda items of Government - reforms to fiscal and monetary management with special focus on revenue and tax measures, land tenure, the civil service, public enterprises and government related entities. As a development financing institution owned by Government, our Bank's corporate strategies and action plan will always reflect the need and focus of Government.

Inclement weather resulting in flooding in most parts of Fiji in addition to Tropical Cyclone Tomas in the early part of 2009 badly affected agricultural production including forestry and fishing.

The Reserve Bank of Fiji also took the bold step to devalue the Fijian dollar to ease pressure on the balance of payments. The devaluation of the Fijian dollar against other currencies made our exports and country as a tourist destination more attractive. Further cuts were made on interest rates including repurchase of bonds to boost liquidity in the banking system as well as to limit the effects of financial stress, revive investor confidence and support local demand.

In terms of economic performance, GDP growth was estimated to contract by 3% in 2009.

Our Mandate

FDB's operations are governed by the FDB Act and the 2009 – 2011 Strategic Plan. Within this framework, the activities are designed to stimulate the promotion and development of natural resources, transportation and other industries and enterprises in Fiji. We give special considerations and priority to Fiji's economic development with focus on the rural and agricultural sectors.

Government's new strategic direction includes increasing domestic production in resource-based sectors as a means of improving domestic food security and reducing Fiji's dependency on imported food products. The real dilemma in our development financing was the expectation to achieve a return on investment of at least 10% per annum (Government's corporate target) whilst lending to a high risk and susceptible area such as agriculture. Despite the Bank holding the biggest market share in terms of lending to the agricultural sector, our experience in lending to this sector is poor client serviceability and low rate of recovery.

Our Business

Notwithstanding the difficult operational environment, the Bank posed a return on equity of 2.15% in 2009/2010 compared to 3.35% in 2008/2009. The actual profit for the year was $2.36 million derived from total assets valued at close to $380MM. To reverse the declining profitability trend, it would mean securing cheaper source of funds and rebalancing the credit portfolio to attract high value corporate customers.

The Bank's interest income for the year stood at $30.36 million – a significant reduction of 23% over the 2009 financial year whilst interest expenses rose by 25% over the same period. The effect on the interest spread was significant, a reduction of almost 300 basis points on the previous margin. The growth in income namely fees and charges and the ability to control staff costs, helped in mitigating a further decline in profitability.

The growth in new business approvals for the Bank has also seen a steady decline over the last five years from $227.27MM in the 2005 financial year, to a modest $56.78MM for the 2010 financial year. The decline is due to a shift in the lending focus of the Bank as directed by the Minister for Finance.

Microfinance

Supporting entrepreneurship through small or micro credit loans has always been a focus for the Bank ever since its inception in 1967. In March 2009, the Board approved the reinstatement of the Micro Credit Scheme (MCS -formerly known as the Small Rural & Agriculture Scheme) and the implementation of an additional loan facility, the Agri-finance Scheme (AFS) under the Social Banking Facility (SBF). The SBF is designed to help alleviate poverty and uplift the living standards of the least advantaged members of the community. Under this facility, the Bank provided loans to clients who would not have had access to credit otherwise because of insufficient equity and security.

Under this provision, the Bank set aside a provision of $3.00MM, which was exhausted by December 2009 and the SBF suspended temporarily. This did not affect lending to small businesses under the various other facilities available at the Bank. At the close of the 2009/2010 financial year, the SBF accounted for a total of 1,871 clients with borrowings of $6.65MM. This number accounted for 28.6% of all Bank clients and 1.5% of the Bank's total portfolio respectively.

Financial Literacy

The Bank has also extended to 2011, its financial support for Money $mart™, a financial literacy programme initiated by the Bank and the Ministry of Education in 2007 under the Commercial Studies Curriculum for third formers in 162 secondary schools throughout Fiji. The extension also covers the inclusion of Invest $mart™ for fourth formers in 2011, further expanding the provision of financial literacy in all secondary schools.

Our Risks

One of the principles adopted for effective development financing is risk management. We have a process in place called Enterprise Risk Management (ERM). The process involves identifying, managing, communicating and controlling risks - credit risk, liquidity risk and operational risk across the Bank's entire operations. Our primary focus is to create and protect our shareholder value and to inter-mediate risks portrayed in the financial results and existing processes.

ERM is more like a balancing act – to engage in risks without compromising loan quality and profitability. Our ERM practices are still being refined and we hope to cover a wider risk spectrum similar to other financial institutions.

Existing bank policies, infrastructure and operational facilities (including the Management Information System) are being continuously reviewed to ensure its robustness and resilience in the face of a distressed economic climate and changes in the financial markets.

Our Customers

We value our customers; without them, there is no business. Our emphasis is on building lifelong, profitable customers who will continue to come back to us because of the Bank's ability to help meet their needs.

Giving great value to our customers the Bank believes, can be attained through operational efficiency, high quality products and good customer relations. By streamlining and simplifying internal processes and procedures, the Bank works at reducing waste and saving on resources. The Bank endeavours to ensure customers experience convenient and pleasant service delivered by qualified and enthusiastic personnel. Meeting customer expectations and requirements continues to be an ongoing challenge and all effort made to ensure they are met.

Our People

Improving the skills, knowledge and aptitude of Bank personnel towards work is as important, if not critical to the Bank achieving its corporate objectives. In this regard, the Bank's policy on further education continues to be applied equitably for staff interested in improving their academic and technical qualifications through locally based universities or tertiary centres.

The Bank has a cadre of professional bankers within its management team who have a combined lending experience of over 100 years. The depth of local knowledge and institutional memory is significant when mixed with staff who, bring with them a diverse range of skills and intellect that allows the Bank to effectively manage its business particular under trying economic conditions.

Our Future

The Bank is a key stakeholder and development partner for Fiji and her people. The Bank will continue to help develop and nurture entrepreneurship and businesses in the resource-based sector particularly, if such enterprises help Fiji towards self-sufficiency, create employment and reduce poverty.

The Bank values the trust placed on it by Government as the shareholder and our stakeholders to continue to deliver development financial products to all citizens of Fiji.

Deve Toganivalu
Chief Executive Officer

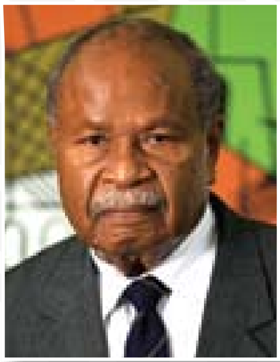
BOARD OF DIRECTORS

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 has previously served as board chair for the Fiji National Provident Fund and HFC.

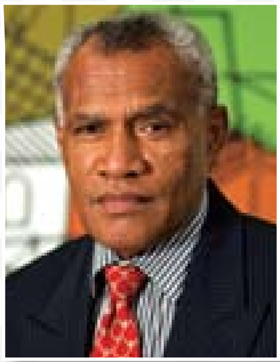
Mr. Jitoko Tikolevu
Deputy Chairman

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 is also a board director for the Fiji Islands Trade & Investment Bureau.



Mr. Joseva Serulagilagi
Director

Mr. Serulagilagi is the 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 with a career spanning over 34 years.



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

Dr. Richard Beyer
Director
(September 2008 – August 2009)

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. 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.

Mr. Mason Smith
Director

Mr. Isikeli Tikoduadua
Director

Mr. Smith is the Permanent Secretary for Agriculture. He holds a Masters of Management in Defense Studies from the University of Canberra, a post-Graduate Certificate in Diplomacy and is also a Fellow of the Asia Pacific Centre for Security Studies in Hawaii. Prior to his recent appointment, he served as Counselor/Acting Head of Mission with the Fiji Mission to the United Nations (2007-2009) and as an officer in the Fiji Military Forces (1985-2007).

Mr. Tikoduadua is the Chief Executive Officer for HFC. He holds a Masters in Business Administration from the University of the South Pacific. His professional affiliations include Honorary Fellow of the Fiji Institute of Bankers, Financial Fellow of the Financial Services of Australasia and Associate Fellow of the Australian Institute of Management. He has vast experience in the banking and financial sector having previously worked with the ANZ Bank (Fiji).

CORPORATE GOVERNANCE

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.

Corporate Governance

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

The Bank's Corporate Governance framework is designed to encourage the efficient use of resources as well as accountability for the stewardship of these resources. The framework specifies the distribution of rights, responsibilities and obligations of the different participants including the board, its sub-committees, individual directors, management, government (as the only shareholder) and other stakeholders including employees, customers of the Bank and the community at large.

The Code of Corporate Governance determines how the Bank:

- Protects the interest of depositors, 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 of FDB

Members of the board are appointed by the Minister of Finance and operate under the provisions of the Fiji Development Bank Act (Cap 214).

The board appoints the Chief Executive Officer and reviews his performance. The board also endorses the appointment of general managers of the Bank on the recommendation of the CEO.

Board directors bring with them a balance of skills, knowledge and experience appropriate to developing and enhancing the business relationship the Bank has with its diverse cross-section of customers.

The directors meet monthly and are paid Directors Fees in addition to a Sitting Allowance as directed by the Ministry of Finance 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 duty as directors of the Bank.

The details of the director's participation of such meetings are given below.

Board Sub-Committees

The board established the Audit sub-Committee to ensure oversight over specific areas of review critical to the overall operation of the Bank. Members of this sub-committee are appointed by the Board based on their skills, knowledge and experience. The members are:

Mr. John Prasad: Chairman
Mr. Jitoko Tikolevu: Member
Mr. Ilaisa Cavu: Member

The sub-committee supervises the work of the Internal Audit Team of the Bank and provides liaison between the board, auditors and the management on matters pertaining to the Bank's financial reporting policies as well as internal control and processes. It is also responsible for the integrity of the Bank's financial reports.

The sub-committee met three times during the year.

Management

Executive Committee (EXCO)

Under the leadership and guidance of the Chief Executive Officer, the Executive Committee includes the General Manager Business Risk, General Manager Operation and the General Manager Finance and Administration. EXCO are responsible for implementing the policies,

NAME	POSITION	DATE OF APPOINTMENT	DATE OF COMPLETION/ RESIGNATION	MEETINGS ATTENDED
John Prasad	Chairman	September 2008	-	9/12
Jitoko Tikolevu	Deputy Chairman	September 2007	-	11/12
Ilaisa Cavu	Member	September 2007	-	11/12
Joseva Serulagilagi	Member	September 2008	-	9/12
Manasa Vaniqi	Member	September 2008	-	7/12
Richard Beyer	Member	September 2008	August 2009	0/1
Isikeli Tikoduadua	Member	January 2010	-	7/7
Mason Smith	Member	April 2010	-	3/5

corporate objectives and strategic direction set by the board as well as the allocation of resources within the budget approved by the board.

Compliance and Regulatory Framework

Internal Audit

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

The Internal Audit Team is responsible for ensuring that the operation is in compliance with the internal control systems and procedures of the Bank. The team reports directly to the Board's Audit sub-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 (Cap 214) and the Financial Management Act (FMA) of 2004 as well as its subsequent amendment promulgation (no.21) of 2007, the financial statement of the Bank is required to be independently audited annually and in accordance with the FMA. The Auditor General is the external auditor for the 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 is dealt with in accordance to the procedures set out in the Collective Agreement with the Fiji Finance and Banking Employees Union and the General Instructions of the Bank.

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 duty as employees of the Bank.

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

Customer

The Bank recognises that our customer is our most valuable stakeholder. The Bank strives to maintain the highest level of customer service. Where a customer believes that he/she has not been treated fairly, a complaint procedure is in place whereby customers can lodge a written complaint directly to the CEO. These complaints are dealt directly by the CEO's office.

Community at large

The Bank as a responsible employer and business operator in the community currently supports financial literacy programmes in all secondary schools in Fiji as well as promotion of small and micro-entreprenuers through its annual Small Business Awards as part of its Corporate Social Responsibility programme. In addition, the Bank also maintains an annual allocation for sponsorships and donations to various charities and educational institutions.

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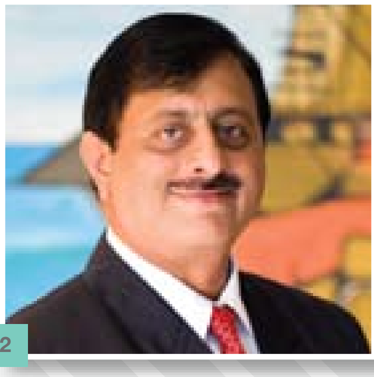
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1. Mr. Deve Toganivalu – Chief Executive Officer
Mr Toganivalu is a graduate from the James Cook University of North Queensland, Australia where he obtained a Bachelor of Commerce majoring in Management and Finance. Prior to this appointment, he was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

2. Mr. Umarji Musa – General Manager Operations (retired 12 May 2010).
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. He retired after 36 consecutive years of service with FDB.

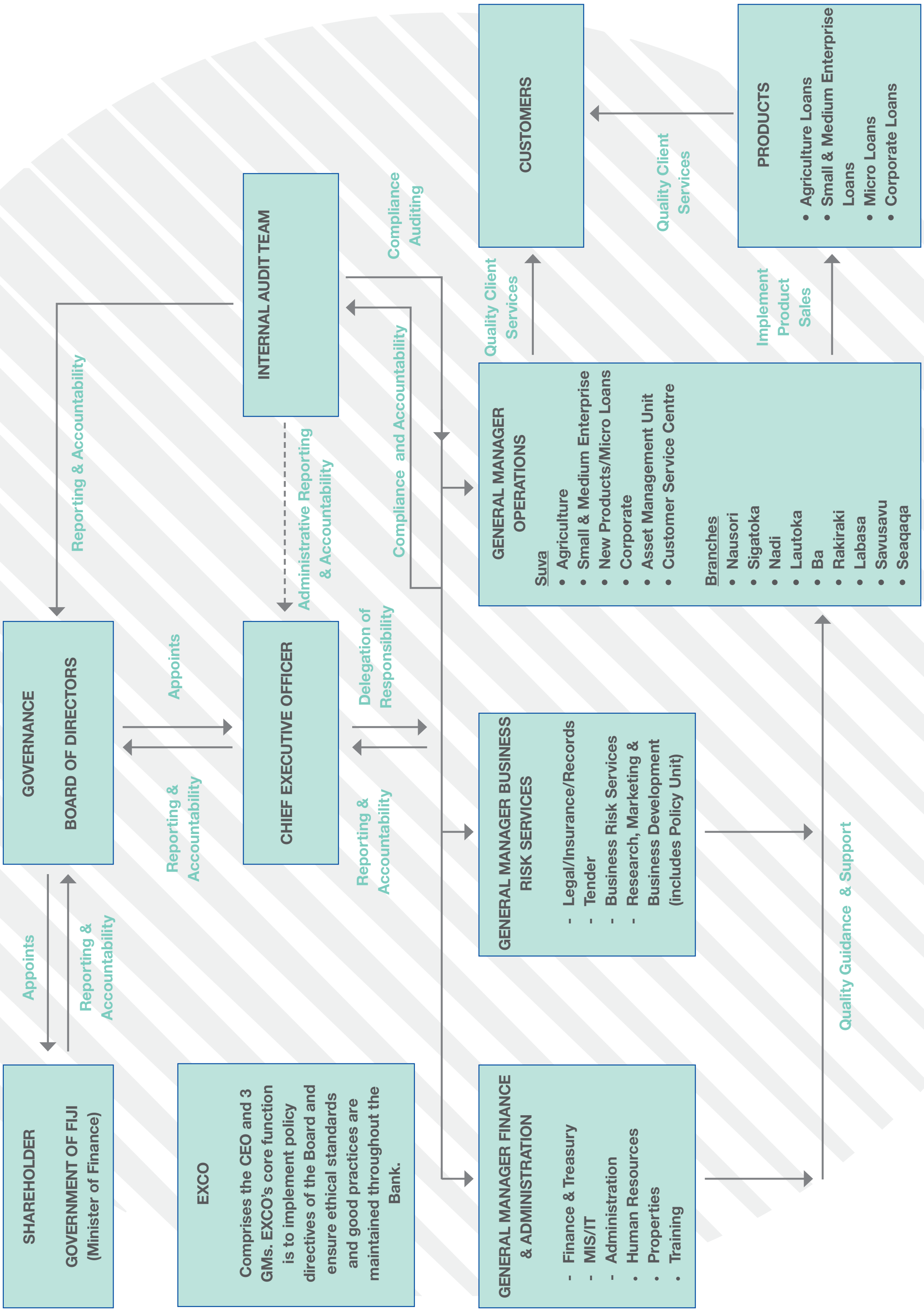
3. Mr. Tevita Madigibuli – General Manager Operations (from 7 June 2010).
Mr. Madigibuli is a graduate of the University of the South Pacific. He holds a Master of Business Administration, a Bachelor of Arts (Business Studies) and a Diploma in Tropical Agriculture (Animal Science). Prior to his appointment he held the post of Manager Asset Management Unit.

4. Mr. Lasantha Thennakoon – General Manager Finance & Administration (until 20 January 2010).
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 Niranjan Group.

5. Mr. Saiyad Hussain – General Manager Finance & Administration (from 8 February 2010).
Mr. Hussain holds a Postgraduate Diploma in Banking and Financial Management from the University of the South Pacific, a Bachelor of Arts Degree in Accounting & Financial Management and a Diploma in Economics. He is a Chartered Accountant by profession. He held the position of Manager Finance prior to his appointment.

6. Mr. Nafitalai Cakacaka
Mr. Cakacaka holds a Bachelor of Arts majoring in Business Management from the University of the South Pacific and a Certificate in Master Level 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.

FIJI DEVELOPMENT BANK ORGANIGRAM



FINANCIAL YEAR IN REVIEW

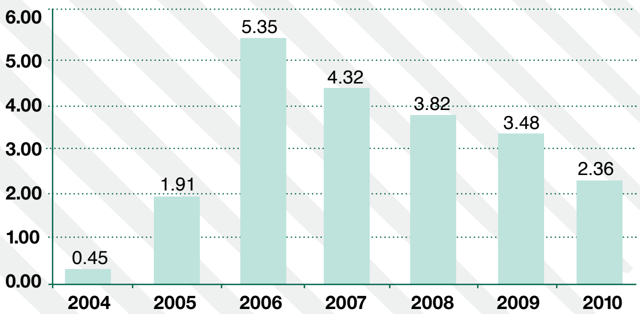
The 2009/2010 operating expenses amounted to $10.11MM, a decrease of 1.65% from 2008/2009. The Operating expenditure was kept under effective control and fell within the approved budget levels.

Overview

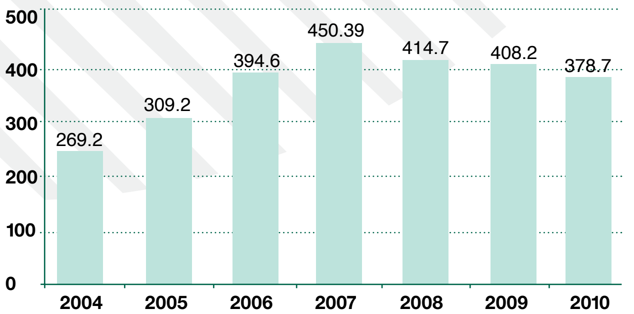
Prudent financial management and cost control measures in the face of challenging economic conditions resulted in a net profit of $2.36MM for the financial year ending 30 June 2010. This was a reduction of 32.18% in comparison to the 2009 financial year.

FINANCIAL HIGHLIGHTS

Net Profit ($MM)



Total Assets ($MM)



FINANCIAL INCOME AND EXPENSE

$MM

	2010	2009	Change	Change rate (%)
Interest income	30.36	39.24	(8.88)	(22.63)
Interest & other borrowing expenses	(18.20)	(14.67)	(3.53)	24.06
Net interest income	12.16	24.57	(12.41)	(50.51)
Net Fees income	4.04	2.19	1.85	84.47
Other income	2.86	3.19	(0.33)	(10.34)
Operating expenses	(10.11)	(10.28)	0.17	(1.65)
Allowance for credit impairment	(6.59)	(14.68)	8.09	(55.11)
Allowance for loss - Govt. guarantee	-	-	-	-
Diminution in investments	-	(1.52)	1.52	(100.00)
Profit before income tax	2.36	3.48	(1.12)	(32.18)
Income tax expense	-	-	-	-
Net profit	2.36	3.48	(1.12)	(32.18)

Income

The Bank's main source of revenue, interest income, recorded a decline of 22.63% when compared to the previous year (2008/2009). This decrease is largely attributed to an increase in impaired assets and the suspension of interest charges on these accounts. The Bank's other sources of revenue included fees, bad debt recovery and rental income.

Interest & Borrowing Expenses

Despite adequate liquidity, interest rates did not decline substantially due to the high demand for funds. This led to an increase in the Bank's borrowing expenses by 24.06% when compared to 2009. The Bank's average weighted cost of funds increased to 6.59% in 2010 compared to 5.62% in 2009.

Operating Expenses

The 2010 operating expenses amounted to $10.11MM, a decrease of 1.65% from 2009. The Operating Expenditure was kept under effective control and fell within the approved budget levels.

Allowance for Credit Impairment

After assessing the relevant risks factors as per the Bank's Credit Risk and Impairment Loss Policy, an allowance for credit impairment of $6.59MM was set aside to cater for future credit losses. This was a decline of 55.08% over the 2008/2009 period due to slight improvements in the overall market conditions.

FINANCIAL CONDITIONS
ASSET STRUCTURE

$MM

	2010	Composition (%)	2009	Composition (%)
Cash	21.51	5.68%	33.22	8.14%
Amounts due from subsidiary	0.00	0.00%	0.00	0.00%
Loans and advances	336.87	88.95%	356.05	87.22%
Other Debtors	4.32	1.14%	2.85	0.70%
Property, plant & equipment	15.37	4.06%	15.58	3.82%
Intangibles	0.06	0.01%	0	0.00%
Investments (incl. subsidiary)	0.07	0.02%	0.07	0.02%
Land held for resale	0.51	0.14%	0.44	0.11%
Total	378.72	100.00%	408.21	100.00%

As at 30 June 2010, the Bank's total assets amounted to $378.72MM, a decrease of 7.22% from 2008/2009. Total loans and advances, the largest asset category, dropped by 5.39% due to the general slowdown in economic activity during the year.

LIABILITY STRUCTURE

$MM

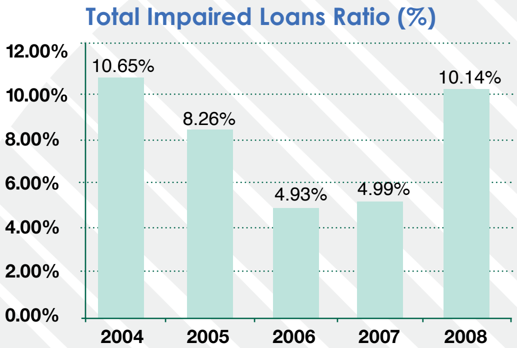
	2010	Composition (%)	2009	Composition (%)
Total Borrowings	253.94	94.75%	284.57	94.90%
Employee entitlements	1.57	0.58%	1.32	0.44%
Deferred income	2.02	0.75%	2.15	0.72%
Accounts payable and accruals	5.06	1.89%	6.09	2.03%
Other liabilities	5.41	2.02%	5.73	1.91%
Total	267.99	100.00%	299.86	100.00%

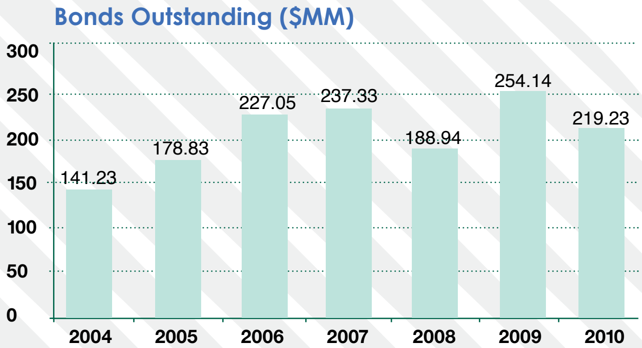
In the 2009/2010 financial year, total liabilities amounted to $267.99MM, a decrease of $31.87MM (10.63%) over the 2008/2009 financial year.

The Bank's major source of funding is through issuance of bonds and promissory notes in the domestic market. As at 30 June 2010, total borrowings fell by 10.76% in comparison to 30 June 2009. The decrease in borrowing is mainly due to low disbursement.

PROFITABILITY

	2010	2009
Return on average assets (ROA)	0.54%	0.79%
Return on average equity (ROE)	2.15%	35%





Historical Performance	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Financial										
Net profit($M)	0.30	0.70	2.04	0.45	1.91	5.35	4.32	3.82	3.48	2.36
Total Assets ($M)	322.30	284.70	271.40	269.20	309.20	394.60	450.39	414.69	408.21	378.72
Total Assets / Equity (%)	4.08	3.57	3.32	3.28	3.68	4.41	4.72	4.17	3.77	3.42
Average Earning assets (AEA) ($M)	345.80	327.70	302.00	282.70	302.90	359.80	421.10	446.24	438.97	435.61
Borrowing Cost (%)	7.35	7.12	6.24	4.88	4.01	3.92	6.92	5.37	5.62	6.59
Total Cost / AEA (%)	7.59	7.50	7.10	7.06	6.44	6.00	7.94	7.51	5.68	3.83
Profit (Loss) / Average Equity (%)	0.39	0.88	2.53	0.55	2.27	5.98	4.67	3.92	3.35	2.15
Long Term Debt : Equity	2.99:1	2.43:1	2.12:1	1.99:1	2.49:1	2.55:1	2.49:1	1.90:1	2.35:1	1.98:1
Interest Spread (%)	2.01	2.51	3.97	3.73	3.79	4.11	2.39	4.76	3.34	0.38
Earning Spread (%)	2.84	3.30	4.61	6.13	5.55	5.79	4.48	8.89	4.54	1.96
Operating Efficiency										
Staff Cost / AEA (%)	1.64	1.75	2.09	2.50	2.14	1.89	1.73	1.87	1.46	1.58
Total Income / AEA (%)	10.19	10.42	10.88	11.73	10.21	10.29	6.37	9.66	6.82	4.38
Lending										
Approvals (Number)	1,751	1,019	1,007	1,105	1,903	2,104	1,709	1,502	1,840	1,817
Approvals ($M)	50.40	24.43	67.19	76.45	227.27	188.21	115.24	84.10	76.21	56.53
Loan Portfolio (Number)	6,092	6,282	5,990	4,372	5,588	5,888	5,251	5,989	5,987	6,435
Gross Loan Portfolio ($M)	321.70	293.30	282.50	281.18	325.01	392.69	446.27	443.07	433.26	437.86
Growth in Loan Portfolio (%)	1.41	-8.83	-3.68	-0.46	15.59	20.79	13.64	-0.72	-2.21	1.06
Arrears / Loan Portfolio (%)	7.29	6.84	6.66	7.42	4.32	1.32	1.20	2.54	6.88	18.89

FIJI DEVELOPMENT BANK'S MARKET SHARE

	FDB ($M)	Commercial Banks ($M)	Credit Institutions ($M)	Fiji Total ($M)	FDB as a % of Fiji Total
Agriculture	50.8	22.2	13.4	86.4	58.8
Sugarcane Growing	6.5	1.1	0.0	7.6	85.1
Forestry & Logging	14.5	3.8	10.3	28.6	50.6
Others	29.8	17.3	3.1	50.2	59.4
Mining & Quarrying	1.3	5.1	2.4	8.8	14.7
Manufacturing	41.4	268.4	17.2	327.0	12.7
Food, Beverages and Tobacco	23.3	102.4	0.9	126.6	18.4
Textiles, Clothing and Footwear	2.6	35.0	0.8	38.4	6.7
Metal Products and Machinery	1.7	21.4	1.5	24.6	6.9
Others	13.8	109.6	14.0	137.4	10.0
Building and Construction	64.5	221.7	31.1	317.3	20.3
Real Estate (Development)	120.9	312.5	8.3	441.7	27.4
Non-Bank Financial Institutions	-	6.2	-	6.2	-
Public Enterprises	-	80.2	0.1	80.3	-
Wholesale, Retail, Hotels and Restaurants	35.6	715.8	25.1	776.5	4.6
Hotels and Restaurants	13.3	287.2	3.2	303.7	4.4
Other Commercial Advances	22.3	428.6	21.9	472.8	4.7
Transport, Communications and Storage	20.3	121.7	48.4	190.4	10.6
Professional Business Services	22.5	91.4	25.3	139.2	16.2
Private Individuals	57.1	832.6	122.1	1,011.8	5.6
Housing	55.1	665.9	72.5	793.5	6.9
Car or Personal Individual Transport	0.1	8.9	28.0	37.0	0.4
Others	1.9	157.8	21.6	181.3	1.0
Central and Local Government	15.7	20.8	0.2	36.7	42.8
Other Sectors	2.7	130.1	13.4	146.2	1.9
TOTAL	432.6	2,828.7	307.0	3,568.3	12.1

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 2010. The Bank's market share is highlighted.

BRINGING HOME THE BACON

At six months and weighing at 50kgs on average, the pigs fetch around $5.50kg or $225 each.

Naomi Bale and her husband Allan Fletcher live on a 10-acre freehold property up the Valley Road in Sigatoka where they have since 2006, owned and operated a piggery made possible with financing from the Fiji Development Bank.

Many would probably turn their nose up at this line of livestock farming but if managed properly, the financial rewards does more than make up for the olfactory discomfort that comes with it.

"We started with only five sows and a boar and through a regimented programme of breeding, we have managed to bring our stock up to 13 sows and a boar so far," Allen said.

In addition to the sows and boar are 59 piglets which the couple has already marked for breeding and for selling.

"We work it (breeding programme) so that that every two weeks we will have one of the sows giving birth so that six months down the line we should be able to supply an annual average of about 260 pigs per annum to the Fiji Meat Industry Board in Vuda," Allan said.

At six months and weighing at 50kgs on average, the pigs fetch around $5.50kg or $225 each.

The couple also plan to develop a portion of their property into an eco-tourism venture complete with back packer accommodation and a nature trail.

OPERATIONAL REVIEW

The division of the portfolio resulted in more emphasis being placed on the growth of lending to small and medium enterprises in the focused sector. Lending to the non-focused sector has been capped at $350MM of the Bank's total portfolio.

Operations covers several areas – lending (corporate, SME, micro-loans, agriculture including nine branches), asset management, tender and customer services. In the last decade, the division has undergone several structural changes to cater for the market's demand for various financial products and services. In 2008, this change resulted in centering the Bank's lending to what has been classified as Focused and non-Focused sectors.

Focused sector lending involves products and services to primarily develop resource-based sectors (agriculture, fisheries and forestry, mining and quarrying), manufacturing, professional and business services, transportation, communication and storage as well as wholesale and retail. Micro-loans is also included in this portfolio.

Non-Focused sector lending involves loans to building and construction, private individuals, real estate and loans over $500,000 to businesses involved in the professional and business services and the wholesale and retail sectors.

The division of the portfolio resulted in more emphasis being placed on the growth of lending to small and medium enterprises in the focused sector. Lending to the non-focused sector has been capped at $350MM of the Bank's total portfolio.

Lending activities during the year

Focused Sector Loans

At the end of the 2009/2010 financial year, the Bank approved a total of 1,624 projects valued at $56.78MM. Although this is a drop of 104 projects or $12.34MM when compared to the previous financial year, this sector contributed 90.5% ($51.36MM) of total approvals – a growth of 28.8% ($8.75MM) over 2008/2009.

Approvals to the agriculture sector accounted for 54.4% ($27.93MM) of total approvals in 2009/2010. This amount is an increase of 52.9% ($9.65MM) in value, for approvals in 2008/2009. This is indicative of increased activity in development of Fiji's agro-based industries during the year.

The Bank remains mindful that it has to balance its commitment to provide financing to subsistence and semi-commercial farmers but at the same time, continue to market to large scale commercial agricultural projects as these projects have the potential to create employment and reduce Fiji's reliance on imports. Every effort is made to encourage subsistence farmers to move into semi-commercial farming and semi-commercial farmers towards full scale commercial farming by seizing opportunities created by local market demands as well as processing and export demands.

The transport, communication and storage sector accounted for 37.8% ($19.40MM) of total approvals. This is indicative of an increasing demand on transportation and communication services in the market.

In addition, manufacturing accounted for 2.3% ($1.17MM) of approvals, mining and quarrying 0.2% ($0.09MM), micro, small and medium enterprises associated with wholesale, retail, hotels and restaurants 4.0% ($2.05MM) and professional & business services 1.4% ($0.71MM).

Non-Focused Sector Loans

During the 2009/2010 financial year, a total of 101 applications valued at $5.42MM were approved in the non-focused sector. Of these, 80.9% ($4.39MM) was approved for real estate loans in particular, for the rental of commercial buildings.

Compared to the 2008/2009 financial year, there was an overall drop in the approvals to this sector by $21.13MM indicative of the prevailing economic downturn experienced during the year.

Social Banking

The Social Banking Facility is designed to help alleviate poverty and uplift the living standards of the least advantaged members of the community. Under this facility, the Bank provided micro and agri-finance loans to clients who would not have had access otherwise to credit because of insufficient equity and security.

At the close of the 2009/2010 financial year, the Social Banking Facility accounted for a total of 1,871 clients with borrowings of $6.65MM. This number accounted for 28.6% of all Bank clients and 1.5% of the Bank's total portfolio respectively. The facility was suspended in December 2009 following exhaustion of the $3.00MM provision.

SOCIAL BANKING

	NUMBER	VALUE ($MM)
Agri-finance	663	$2.84
Micro loan	1,208	$3.81
Total	**1,871**	**$6.65**

Portfolio

The Bank's total portfolio as at 30 June 2010 stood at 6,532 accounts with a total loan value of $438.04MM. Compared to 30 June 2009, the total portfolio increased in number and value by 549 and $7.88MM respectively. This is a direct result of increased activity and lending to the focused sector.

Valued at $157.73MM, the focused sector portfolio accounted for 76.0% (4,964) by number. Agricultural project loans accounted for 46.6% of the total focused

portfolio value, followed by manufacturing at 22.3%.

The non-focused sector portfolio accounted for 24.0% (1,568) by number and $280.30MM in value of which, building and construction accounted for 36.5% and real estate 34.7% of the total non-focused portfolio value.

Market Share
Relative to total loans and lease advances outstanding by all commercial banks and other licensed credit institutions, the total market share of the Bank's portfolio stood at 12.1% as at 30 June 2010. A reduction of 0.1% compared to the same period last year, it is indicative of consistent performance in an otherwise bear market.

In as far as lending to the agricultural sector is concerned, the Bank has the largest overall market share held by any single financial entity at 58.8% - an increase of 5.2% when compared to the previous year. This shows a strong commitment by the Bank towards the development of the agricultural sector.

Looking Ahead to 2011

In contrast to commercial lending institutions, challenges faced by development banks are considered greater due to the intrinsic risks associated with the areas it invests in. In addition to climatic, environmental and social conditions, factors associated with cultural or traditional principles, also impact the application of appropriate business practices.

To a small degree, the global recession and the general slump in the economy, led to the unsatisfactory performance by some of the Bank's clients. Poor performance was also fueled by land tenure issues, limitations to infrastructure, increase in the cost of goods and services as well as a fall in the demand for certain goods and services.

Additionally, the increasing cost of funds has also impacted the Bank's liquidity status. The Bank recognises this risk and is currently looking at sustainable ways in addressing this.

Portfolio Expansion
The Bank is geared to grow its total portfolio by a further 16.4% over the next three years through new business primarily in the focused sector.

In an effort to decrease reliance on imports, the Bank will also direct its efforts towards increasing investment in large commercial agriculture and agro-processing projects.

The success of these growth strategies will however, depend on support from stakeholders in terms of providing necessary legislative, technical, marketing and infrastructural inducements necessary to spur investment in these projects.

Northern Development
The Northern Development Programme (NDP) was brought about by Government's intention to revitalizing economic activity in the Northern Division. To this end, the Bank will continue to place special attention in the Division, and is evident in the Bank's aim of opening two more Branches in the North.

Strengthening Outreach
The Bank currently operates nine branches Fiji-wide in addition to full lending service provided out of its head office in Suva. The Board in its meeting of February 2010 approved the addition of two new branches in Nabouwalu in Bua and Somosomo in Taveuni. It is envisioned that the addition of the new branches will not only provide much-needed access to financial services to residents in these rural outposts but also boost agriculture and other economic activities in the future.

Bua and Taveuni were previously serviced out of Seaqaqa and Savusavu branches through regular agency visits.

Credit Institution License (CIL)
The Bank continues to work towards securing a CIL with the Reserve Bank of Fiji as a measure to counter the high cost of funds it currently faces. As opposed to commercial banks, cost of borrowing for the Bank is much higher at 6%, which is currently subsidized by Government. If granted, the Bank will be able to take on term deposits, thus improving liquidity, reducing cost of funds, and allowing the Bank to become self-sustaining and provide competitive interest rates to borrowers.

2009/2010 FINANCIAL YEAR DATA BASED ON RBF CLASSIFICATION

Sector/RBF Major	Approvals			
	No.	Value	% by No.	% by Value
Focused	**1,523**	**51,358,277**	**93.78%**	**90.45%**
Agriculture	1,212	27,932,841	79.58%	54.39%
Manufacturing	20	1,170,722	1.31%	2.28%
Mining and Quarrying	1	91,000	0.07%	0.18%
Professional & Business Services	36	710,966	2.36%	1.38%
Transport, Communication & Storage	45	19,403,353	2.95%	37.78%
Wholesale, Retail, Hotels & Restaurants	209	2,049,395	13.72%	3.99%
Non-Focused	**101**	**5,420,253**	**6.22%**	**9.55%**
Building & Construction	3	629,255	2.97%	11.61%
Others	-	-	0.00%	0.00%
Private Individuals	90	404,043	89.11%	7.45%
Professional & Business Services	-	-	0.00%	0.00%
Real Estate	8	4,386,955	7.92%	80.94%
Wholesale, Retail, Hotels & Restaurants	-	-	0.00%	0.00%
TOTAL	**1,624**	**56,778,530**		

Sectors/RBF Major	Portfolio as at 30/06/2010			
	No.	Value	% by No.	% by Value
Focused	**4,964**	**157,734,995**	**76.00%**	**36.01%**
Agriculture	3,414	73,508,397	68.78%	46.60%
Manufacturing	132	35,088,900	2.66%	22.25%
Mining and Quarrying	10	995,078	0.20%	0.63%
Professional & Business Services	168	3,494,330	3.38%	2.22%
Transport, Communication & Storage	380	30,249,472	7.66%	19.18%
Wholesale, Retail, Hotels & Restaurants	860	14,398,817	17.32%	9.13%
Non-Focused	**1,568**	**280,300,521**	**24.00%**	**63.99%**
Building & Construction	76	102,353,228	4.85%	36.52%
Others	26	658,091	1.66%	0.23%
Private Individuals	1,268	57,097,164	80.87%	20.37%
Professional & Business Services	3	4,616,155	0.19%	1.65%
Real Estate	183	97,308,717	11.67%	34.72%
Wholesale, Retail, Hotels & Restaurants	12	18,267,165	0.77%	6.52%
TOTAL	**6,532**	**438,035,516**		

SO, SO OUT OF THIS WORLD

"We believe that Fiji is wide open for all kinds of development and there are many untapped opportunities."

The Naisoso Island Development Project is a landmark tourism project development in Fiji. Undertaken by Relcorp Property Development of Australia, they have done well to achieve their vision of creating "the best master planned tourism development in Fiji."

Bringing together two of the country's major financiers, the Fiji Development Bank and the ANZ Bank in a joint funding arrangement of which FDB covered the first phase, the project is a prime example of how environmental concerns can be addressed in terms of tourism development which can only be described as environmental engineering for commercial profit.

Naisoso Island lies over a gated entry at the end of, well, Nasoso Road in Nadi.

"Over 800,000 cubic metres of fill was dredged and excavated from around the island. The fill was excellent in that it was full of coral which is perfect for a stable building platform. This was done using world's best practice (on) Coastal Protection works," said Bob Lowres, Managing Director of Relcorp, the developers of Naisoso.

After previewing a few locations, Naisoso was the hands down winner when it came to selecting the perfect location for this $35MM land development venture.

"Without question it (Naisoso) was the prime site for us. Obviously the success of Denarau was a factor and many of the elements such as proximity to the airport, shopping, restaurants, gateway to the islands, etc., we saw as fundamental to undertaking a development the size of Naisoso," Mr. Lowres said.
"Naisoso will feature white beaches, a swimming lagoon, luxury housing for holiday letting, the Hotels will provide water sports. The retail marina complex will feature restaurants, bars, coffee shop, delicatessen, an art gallery and other assorted shops."

The developers have so far sold 40 lots with another 50 expected to be settled by the end of December 2010. Twenty nine lots are still up for sale to anyone interested in spending anywhere between $1.9 and $2.2MM for beach front lots or $975,745 for river front lots or $557,568 for lifestyle lots.

Once operational, the private island will be accessible to visitors, local and international, provided they respect the standards and cleanliness of Naisoso, Mr. Lowres said.

Naisoso is a step toward other similar developments envisaged by Relcorp for Fiji. "Apart from delivering on the Naisoso promise we intend to start new business ventures primarily in development which is our expertise. We will look to engage via profit share/joint venture arrangements with local land owners to utilize their landholdings in a long term manner that will reap benefits in years to come. Low cost housing including finance packages, aged care retirement villages etc are also on the agenda," he said.

"We believe that Fiji is wide open for all kinds of development and there are many untapped opportunities."

RISK MANAGEMENT

Fiji's economy contracted at 3.0% of GDP at the end of 2009 compared to the revised figured of 0.2% in 2008 and -0.9% in 2007. The forecasted estimate for 2010 is 0.1% with further recovery of 1.3% for 2011, 0.8% in 2012 and 1.2% in 2013.

For any development bank, its high risk business focus means implementing prudent risk management strategies if it is to remain sustainable and relevant. Globally, development banks have gradually incorporated commercial banking practises including commercial sector business to off-set risk so that operations remain viable and lending to the high risk development sector can continue.

Such reforms directed by the sovereignty rating of a nation, reflecting the level of public investments, foreign debts and government finance, also takes into consideration the population demograph, standard of living and technological advancement.

The Fiji Development Bank employs this as well as the enterprise risk management concept when assessing risk throughout the organisation.

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As a result of the declining growth, inflation peaked at 7.6% in January 2009 before closing at 3.7% at the end of 2009. Major floods and damage caused by Cyclone Mick in 2009 and Cyclone Tomas in 2010, severely impacted infrastructure, utilities and the agriculture sector.

In view of the slow economic recovery, businesses had to adapt varying strategies to counter the negative impact of natural and market forces. This also posed a challenge for the Bank in terms of risk assessment due to uncertainties. The Bank continued its support of Government and its plans to boost agriculture, develop rural economies and increase exports in an effort to move the economy forward. To do this, certain loan conditions for the sugar industry in particular, were relaxed to allow greater access for sugar cane farmers, which in turn propelled the bank towards the higher spectrum of risk.

The Bank has also incorporated policies for identifying problem loans, continued recovery of arrears even after the account has been written off and loan restructure as part of its risk management and credit policies to minimise risk.

The annual review of accounts is now mandatory to ensure that the business continues to be financially sound, and that the value of collaterals is able to meet future repayments.

Regulatory Control
Under the Fiji Development Bank Act (1967) the Bank is accountable to the Minister of Finance but is required to comply with the terms and conditions of the Banking Supervision Policy of the Reserve Bank of Fiji (RBF). The supervision guidelines provided by RBF aligns the Bank to international best practices for financial and regulatory controls, which are also followed by reputable financial institutions globally.

Policy Directives
Owned solely by the Government of Fiji, the Bank is also subject to Government policy directives. Since 2008, the Bank reorganised its priority lending areas to reflect the policy direction instructed by Government. All development loans are now focused on agriculture, mining and quarrying, transport, storage and communication, manufacturing and small medium enterprise loans to wholesale, retail, hotels and restaurants as well as professional and business services. For 2010, Government also emphasised financing for the development of all resource-based industries, export oriented projects, financial literacy in schools as well as making microfinance accessible to the less affluent members of society.

To facilitate Government's development initiatives, the Bank adopted changes to the Agriculture Loan Policy, combined the Import Substitution and Export Finance Facility policies into a single product and introduced the Sustainable Energy Policy and the Flood Rehabilitation Facility. The combined Import Substitution and Export Finance Facility is a Reserve Bank of Fiji Facility aimed at providing cheaper funds to farmers, service providers and producers to enhance production capability and export.

Competition
Like any other financial institution, the Bank faces a competitive environment within the financial market, which includes commercial banks, private financing firms, growers' funds,

insurance companies, credit unions and other credit institutions. The Bank was compelled to match, as far as possible, the flexible loan pricing of the commercial banks in order to remain competitive. The Bank also reviewed its pricing strategies to sustain its operations and allowed 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 market share.

Insurance

Loan insurance arrangements are an integral part of the Bank's operations. This means an adequate and appropriate cover has to be in place, premiums paid and policies maintained. This also includes attendance to claims throughout the duration of a loan. To enhance service to customers, the Bank provides insurance through the concept of a one-stop shop. However, under the Consumer Credit Act, customers are still free to select their own insurer if they prefer.

Liquidity Risk

Compared to 2008/2009 the liquidity situation in 2009/2010 was much improved as a result of regulatory controls by the RBF on setting interest margins and removing the ceiling on loan amounts. This liquidity however, did not translate into reduced cost of funds as the price of bonds steadily increased during the financial year.

Timely management of investments, maturities, short term borrowings, Government backed bonds and promissory notes enabled the Bank to maintain liquidity at a satisfactory level.

Interest Rate Risk

Cost of funds paid on the Bank's interest-bearing liabilities is determined by the market, the general economic condition, political stability, policies of Government and the RBF, factors that are beyond the Bank's control. To mitigate rate risks, the Bank continued to pursue the acquisition of the Credit Institution License from the RBF as a long term solution to reducing the cost of funds.

Political Risk and Other Factors

Fiji's current political climate has prompted Government to seek a new line of investments which they have vigorously pursued with friendly countries in Asia. As the country stabalises politically, the confidence in safety and security is reflected through increasing visitor arrivals which reached 542,186 at the end of 2009. By country, 45.85% were from Australia, 16.77% from New Zealand, 9.52% from the United States and the remaining 27.86% were from Continental Europe, Asia, United Kingdom and Canada. The return of visitors from traditional source markets is a good omen for the tourism sector which continues to experience strong growth along with the retail and mining sectors.

One of the resulting fall-out of the events of December 2006, was a travel ban imposed by certain foreign governments on any local accepting senior appointments within the public service and onto boards of Government owned enterprises. This restriction has limited the selection of suitable people willing to take up these appointments.

As calculated measures to speed up economic recovery, the Government continues to institute reforms throughout the public service and selected state-owned enterprises, created the tax free zone in the Northern Division, streamlined the application process at the Fiji Trade and Investment Bureau, introduced dual citizenship and permanent residency to encourage former Fiji residents to return and invest; and continued investment in the improvement of infrastructure and utilities necessary to generate investment.

Allowance for Loan Losses

The Bank adheres to the Central Bank 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 provisioned for. The RBF requires that at least 70% of the value of all loans and advances are assessed annually. The Bank's allowance for loan losses is in compliance with the International Finance Reports Standards (IFRS).

BLENDING THE SPIRIT OF MULTICULTURALISM WITH BUSINESS

"The Club was founded initially as a place where women of different races could come together in a social setting and learn things about each other's traditions and culture," says Nirmala Sharma, 37, vice-president of the club.

The Vunicuicui Women's Club at Vunicuicui, 15 kilometres from Labasa, runs on an interesting concept. It is a place where culture, ideas, culinary delights and traditional dress are exchanged as easily as two dollar notes over the counter for a packet of milk.

"The Club was founded initially as a place where women of different races could come together in a social setting and learn things about each other's traditions and culture," says Nirmala Sharma, 37, vice-president of the club.

"We have eight Fijian and four Indian women who are active members and from time to time we have others in the neighbourhood dropping by to see what we're up to."

When the women get together they swap food recipes as well as teach other to crochet, screen print and make floral arrangements. This, Nirmala said, keeps them active and help build strong inter-racial relations within the community where the economic mainstay of many of the families that reside there are cane farming, dalo, banana and bee farming.

"About a year ago, the women were talking about how there was no shop at Nasoni, which is where we are because nearby we have Waikisi Village, the ***koro makawa*** (old village site)," Nirmala said.

"Waikisi has a population of about 150 people and to buy anything we had to walk all the way to Korowiri which is about four kilometers away or wait until we go into town so we, the women's club decided to open a small shop more as a service than a business."

With the help of an NGO, the women approached the Northern Development Programme in January (2010) with their proposal and to their delight, were given the green light provided they attended an eight-day business course for all intending new business operators. Nirmala proudly recalls that of the 25 participants, 10 were women from the Vunicuicui Women's Club.

In March (2010) with an NDP grant of $4,700 and an additional financing of close to $5,000, from the Fiji Development Bank under the Microcredit component of the Social Banking facility, the women opened the door to their dream store which now generates between $200 to $500 in weekly sales. To be able to achieve this kind of sales within three months of operation reflects stringent management and a cash only purchase policy.

"We have no electricity in the area yet so we only sell basic food items that are dry goods," Nirmala said, adding "when the Prime Minister visited us earlier this year (2010) we asked him about bringing electricity to the area and he assured us that he would look into the possibility."

When electricity does come to Vunicuicui, the women have plans to convert their meeting room, adjacent to the store; into an internet café. An internet café in Vunicuicui? Really? The idea while seemingly a little out there is not as far-fetched when you hear Nirmala's reasons.

"We have a lot of students here who go to school in Labasa and they need access to the internet and to computers and we would like to provide that service also to our children," she said.

The women believe that by providing this additional service, they can help collectively to progress and enhance the quality of life for the members of their community.

CORPORATE SOCIAL RESPONSIBILITY

The FDB through Money \$mart™ is in compliance with the Reserve Bank of Fiji's goal to engage financial institutions under its Financial Inclusion Programme which is managed through the Financial Systems and Compliance Office.

The Bank continued with its commitment to the community through its Money $mart™ programme in 162 secondary schools in Fiji and the Small Business Awards as well as donations and sponsorship to selected individuals and organizations during the year.

The FDB through Money $mart™ is in compliance with the Reserve Bank of Fiji's goal to engage financial institutions under its Financial Inclusion Programme which is managed through the Financial Systems and Compliance Office formed in April 2010. Under this initiative, the Bank is also a member of the respective working groups that will take financial inclusion and financial literacy forward for the country.

Money $mart™

In its third year, this financial literacy programme is taught as part of the Commercial Studies subject in third forms in all schools throughout Fiji. Funded by the Bank, this programme has also been adopted into the curriculum by a secondary school in Tuvalu.

In September and October 2009, the 2008 awards for Money $mart™ were presented to three schools in the following categories:

Central/Eastern
- Bhawani Dayal Arya College

Western
- Drasa Secondary School

Northern
- Holy Family Secondary

Maritime
- Not awarded

The winning schools each received an HP computer for their school. No award was presented for the Maritime zone as none qualified under the criterion set.

For the 2010 awards, the criteria set previously to decide category winners was amended to reflect a fairer awards system for all schools submitting their results for the competition. The process of assessing moderated results remains, only the classification of schools has changed from geographical location – Northern, Western, Central/Eastern and Maritime divisions to the Ministry of Education's classification of Urban, Rural, Remote and Very Remote, which now allows the schools to compete on an even footing. Previously geographical divisions unnecessarily disadvantaged schools i.e. in one division the locations of schools vary from urban to very remote which meant each would have varying access to resources. The new criteria now allow all urban based schools, irrespective of their geographical location to compete evenly.

In May and June 2010, the awards for 2009 were presented to four schools around the country as follows:

Urban Category
- Nadi Sangam (SKM) College (Nadi)

Rural Category
- Korovuto College (Nadi)

Remote Category
- Lekutu Secondary School (Bua)

Very Remote Category
- Koro High School (Koro Island)

The winning schools each received a cash prize of $500 each.

Additionally, as part of ongoing support to Money Smart™ the Bank handed over close to $52,000 worth of resource materials that included money boxes, resource and work books, a computer and key tags to the Ministry of Education in early May.

"We view Money $mart™ as an investment in the future because we know that a financially literate generation who are innovative, enterprising and better at managing personal finances is the way forward out of poverty and improved livelihoods for all our citizens," said FDB's chief executive officer Deve Toganivalu as he handed the items over.

The sponsorship through resource materials, operational costs for teacher training and awards for winning schools amongst other things, has been provided by the Bank at a value of close to $180,000 since 2007.

Small Business Awards

Start Small, Think Big was the theme for the 2009 awards, held at the Forum Secretariat Fale in January 2010. The Award was the sixth since its inception in 2004. Winners were given $1,500 as their main prize, with the overall winner walking away with an additional $3,000.

Chief guest Dr. Nur Bano Ali, President of the Suva Chamber of Commerce said that whilst all businesses have the potential, not all of them will become large corporations.

"The focus instead should be on the ability of small businesses to economically empower the individuals operating them, the economy and ancillary service providers through the provision of employment and services," she said.

The emphasis and focus on small businesses she added is a global phenomenon and very well justified because the collective strength and power of small businesses to multiply and grow the economy is phenomenal.

CEO Ratu Deve Toganivalu said that while small businesses cannot compete with larger businesses in terms of turnover, they can be just as competitive, just as creative and in their own way, just as successful as large businesses in Fiji.

The following are recipients of the 2009 Small Business Awards:

1. Professional Services Category sponsored by Connect
Priyesh Hair Cutz (Nausori)

2. Agriculture Category sponsored by Crest Chicken
Karan's Farm Fresh (Nausori)

3. Wholesale/Retail Category sponsored by FINTEL
Ryna Business Management (Suva)

4. Tourism Category sponsored by The Fiji Sun
Cara's Tours (Suva)

5. Open Category sponsored by The Reserve Bank of Fiji
Kelera Kau'ata (Sigatoka)

6. Manufacturing Category sponsored by New India Assurance and Overall Category sponsored by the Fiji Development Bank
Sagaitu Craft Centre (Vatukoula)

Donations and Sponsorships

Staff of FDB are always ready to get behind a good cause. During the year, staff fundraised and made donations of cash and kind to the public appeals by the Fiji Cancer Society, Cyclone Tomas Appeal by Fiji Red Cross, Baby Ashaz and a seven year-old survivor of sexual assault. The Bank matched dollar-for-dollar, all money raised by staff for the Fiji Cancer Society's Biggest Morning Tea and the Cyclone Thomas appeals.

The Bank also participated in the 2009 Hibiscus Festival by entering a Miss Hibiscus contestant as well as a Teen Hibiscus contestant, the latter winning first runner-up place in the pageant. Effort on the part of staff saw well over $6,000 raised for charity. Additionally, the Bank also made financial contributions through donations and sponsorship to educational institutions and not-for-profit organizations who do charity work in the community.

During the year, the Bank supported the following:

- University of the South Pacific (Gold medalist for Business and Economics)
- Fiji College of Agriculture (Dux)
- Nukuloa College (rebuilding appeal following a fire)
- United Blind Persons of Fiji (annual appeal)
- Votualevu Public School (rebuilding appeal following a fire)
- Ministry of Agriculture (Sheep Farmer of the Year)
- Samoa Tsunami Appeal
- Home of Compassion (annual appeal)
- Bua Showcase (Business Award and Farmer of the Year Award)
- Fiji Paralympic Committee (annual appeal)
- St John's Ambulance (annual appeal)

MAKING OUR CHILDREN SMART ABOUT MONEY

"You will agree that it is very difficult to change a mind set or habits that have been developed over several decades so why not try and develop instead, a generation of entrepreneurs who are taught how to plan, budget and save from a very early age – hence Money $mart™."

Sharing her experience as a student of Money $mart™ in 2009, Form Four student of Koro High School, Miriam Waqawai, said that with Money $mart™ she and her peers learnt to budget, use and save money.

"In the 12 weeks that we were given to do this particular task I saved up to $30 as did many of my friends," she said.

"Last year I sold green coconuts in school, toffee at home and I even took a job like washing our car. All the money I collected, I put in my money box as savings. Some of my friends brought fruits, *lakri* and *barfi* (Indian sweets) to school."

General Manager Business Risk Services, Nafitalai Cakacaka says Money $mart™ is the long term option to client advisory services set up by the Bank over the years to help small business clients particularly, manage their finances.

"It was an expensive lesson that taught us several valuable lessons not the least of which was that it is very difficult to re-train and teach older clients to change spending habits formed over a good number of years," he said.

"You will agree that it is very difficult to change a mind set or habits that have been developed over several decades so why not try and develop instead, a generation of entrepreneurs who are taught how to plan, budget and save from a very early age – hence Money $mart™."

Mr. Cakacaka said that the Bank recognizes that young people are consumers as well and while their spending habits are still forming, "we felt it necessary to begin the educative process before bad spending habits take hold."

He said that the Bank has spent considerable resources to create Money $mart™. As a responsible corporate citizen it could no longer ignore the limited abilities people in Fiji had for managing money.

"It is pleasing to see that already, young people are employing their entrepreneurial skills by creating a savings plan based not only from pocket money given by their parents and guardians but through small business like selling guavas, mangoes and other items that they have accessed from their back yard gardens," he said

"When I hear of such ingenuity, I am encouraged and heartened to see that the theory can be applied practically and that children are learning as intended, the value of money and of savings."

Koro High School


Korovuto College


Lekutu Secondary School


Nadi Sangam SKM

FINANCIAL REPORT

In accordance with the resolution of the Board of Directors, the directors herewith submit the statement of financial position of the Fiji Development Bank and its subsidiary as at 30 June 2010, the related Statement of Comprehensive Income, 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 - Deputy Chairperson
Mr. Ilaisa Cavu
Mr. Josefa Serulagilagi
Mr. Isikeli Tikoduadua
Mr. Manasa Vaniqi
Mr. Mason Smith

Former Director

Dr. Richard Beyer

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 2010 was $2,351,897 (2009 – $3,492,887).

The operating profit for the Bank for the year was $2,357,608 (2009 - $3,475,840).

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 the 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.

SIGNIFICANT EVENT

The Bank lent $23.2 million to Vuksich & Borich Fiji Ltd ("V&B") for the development of the Momi Bay Road and pipeline at Momi Bay on the back of a Government guarantee as part of V&B's public private partnership with Government. At 30 June 2010, the amount outstanding on this account including interest was $31.9 million.

On 18 June 2010, the Government enacted the Momi Bay Development Decree 2010. Under this decree, the Bank is unable to enforce the terms and conditions of the loan to V&B until such time as the Momi Bay Integrated Resort Development are completed, including in particular, the completion of the hotel at Momi Bay. As a result, the Bank has made provisions for possible credit loss on this account in light of the uncertainty surrounding the completion of the development.

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; and
(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 21st day of December 2010.

Director

Director

Fiji Development Bank And Its Subsidiary
Statement By Directors
Year Ended 30 June 2010

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 statement of comprehensive income 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 2010;

(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 2010;

(iii) the accompanying statement of financial position 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 2010;

(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 2010;

(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 21st day of December 2010.

Director

Director

Independent Audit Report

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

ACHIEVEMENT IN
BUSINESS EXCELLENC
THROUGH QUALITY
MANAGEMENT

Scope

I have audited the financial statements of the Fiji Development Bank for the financial year ended 30 June 2010, consisting of the statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows and a summary of significant accounting policies and other explanatory notes. 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 2010 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
AUDITOR GENERAL

Fiji Development Bank and its Subsidiary Company
Statement of Financial Position
As at 30 June 2010

	Notes	CONSOLIDATED		THE BANK	
		2010	2009	2010	2009
		$	$	$	$
Assets					
Cash and cash equivalents		21,556,022	33,267,104	21,512,938	33,219,645
Loans and advances	6	336,868,068	356,051,842	336,868,068	356,051,842
Investment in subsidiary	7	-	-	20,000	20,000
Investments	8	50,251	50,251	50,251	50,251
Land held for resale	9	513,149	441,341	513,149	441,341
Property, plant and equipment	10	15,372,324	15,583,638	15,372,324	15,583,638
Intangibles	11	56,763	-	56,763	-
Other debtors	12	4,326,700	2,851,694	4,324,052	2,848,098
TOTAL ASSETS		378,743,277	408,245,870	378,717,545	408,214,815
Liabilities					
Bonds - Held-to-maturity	13	219,230,487	254,141,199	219,230,487	254,141,199
Short term borrowings	14	34,706,928	30,423,853	34,706,928	30,423,853
Employee entitlements	15	1,566,906	1,321,828	1,566,906	1,321,828
Defered income		2,023,282	2,149,824	2,023,282	2,149,824
Accounts payable and accruals	16	5,067,202	6,092,467	5,059,555	6,085,209
Other liabilities	17	5,407,521	5,727,644	5,407,521	5,727,644
TOTAL LIABILITIES		268,002,326	299,856,815	267,994,679	299,849,557
Equity					
Capital	18	56,050,636	56,050,636	56,050,636	56,050,636
Reserves		11,187,562	11,187,562	11,187,562	11,187,562
Accumulated profits		43,502,753	41,150,857	43,484,668	41,127,060
Total capital and reserves		110,740,951	108,389,055	110,722,866	108,365,258
TOTAL LIABILITIES AND EQUITY		378,743,277	408,245,870	378,717,545	408,214,815

On behalf of the Board — Director — Director

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 44 to 64.

Fiji Development Bank and its Subsidiary Company
Statements of Comprehensive Income
For the Year Ended 30 June 2010

	Notes	CONSOLIDATED		THE BANK	
		2010	2009	2010	2009
		$	$	$	$
INCOME					
Interest Income	2	30,364,508	39,240,723	30,363,558	39,239,174
Interest expense		18,197,122	14,668,517	18,197,122	14,668,517
Net Interest income		12,167,386	24,572,206	12,166,436	24,570,657
Fee Income	3	4,041,258	2,188,065	4,041,258	2,188,065
Other income	4	2,855,221	3,209,839	2,855,221	3,190,989
OPERATING INCOME		19,063,865	29,970,110	19,062,915	29,949,711
OPERATING EXPENSES	5	10,119,528	10,280,965	10,112,867	10,277,613
OPERATING PROFIT BEFORE ALLOWANCES		8,944,337	19,689,145	8,950,048	19,672,098
Allowance for credit impairment	6	6,592,440	14,676,258	6,592,440	14,676,258
Diminution in investments	8	-	1,520,000	-	1,520,000
OPERATING PROFIT BEFORE INCOME TAX EXPENSE		2,351,897	3,492,887	2,357,608	3,475,840
Income tax expense	1(p)	-	-	-	-
OPERATING PROFIT AFTER INCOME TAX		2,351,897	3,492,887	2,357,608	3,475,840

The statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 44 to 64.

Fiji Development Bank and its Subsidiary Company
Consolidated Statement of Cash Flow
For the Year Ended 30 June 2010

	Notes	2010 $ Inflows (Outflows)	2009 $ Inflows (Outflows
OPERATING ACTIVITIES			
Interest and subsidy received		24,005,128	41,645,850
Interest and other costs of borrowing paid		(17,760,565)	(15,390,705)
Dividends received		18,689	-
Fees received		4,041,258	2,188,065
Cash paid to suppliers and employees		(11,228,611)	(7,782,049)
Other receipts		2,977,819	2,648,732
Net cash from by operating activities	24 (ii)	2,053,718	23,309,893
INVESTING ACTIVITIES			
Customer loans granted		(53,536,529)	(47,790,788)
Customer loans repaid		71,164,356	64,020,568
Payments for property, plant and equipment		(688,756)	(1,651,946)
Receipts from disposal of property and equipment		38,500	122,130
Payments for land held for resale		(71,809)	(3,568)
Net cash from investing activities		16,905,762	14,696,397
FINANCING ACTIVITIES			
Proceeds from long-term borrowings		48,904,363	72,652,688
Repayment of long-term borrowings		(83,858,000)	(7,500,000)
Net increase/(decrease) in short-term borrowing		4,283,075	(81,498,298)
Net cash used in financing activities		(30,670,562)	(16,345,610)
Net (decrease)/increase in cash and cash equivalent		(11,711,082)	21,660,679
Cash at the beginning of the financial year		33,267,104	11,606,425
Cash at the end of the financial year	24 (i)	21,556,022	33,267,104

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 44 to 64.

Fiji Development Bank and its Subsidiary Company
Statement of Changes in Equity
For the Year Ended 30 June 2010

	Notes	Capital	General reserve	Revaluation reserve	Accumulated profits	Total
CONSOLIDATED						
		$	$	$	$	$
Balance at 30 June 2008	18	56,050,636	2,500,000	3,123,562	37,657,970	99,332,168
Net profit for the year		-	-	-	3,492,887	3,492,887
Opening retained earnings as restated at 30 June 2009		56,050,636	2,500,000	3,123,562	41,150,857	102,825,055
General Reserve for Credit Losses at 30 June 2009		-	5,564,000	-	-	5,564,000
Net profit for the year		-	-	-	2,351,897	2,351,897
Balance at 30 June 2010		**56,050,636**	**8,064,000**	**3,123,562**	**43,502,753**	**110,740,951**

	Notes	Capital	General reserve	Revaluation reserve	Accumulated profits	Total
THE BANK						
		$	$	$	$	$
Balance at 30 June 2008	18	56,050,636	2,500,000	3,123,562	37,651,220	99,332,168
Net profit for the year		-	-	-	3,475,840	3,475,840
Opening retained earnings as restated at 30 June 2009		56,050,636	2,500,000	3,123,562	41,127,060	102,801,258
General Reserve for Credit Losses at 30 June 2009		-	5,564,000	-	-	5,564,000
Net profit for the year		-	-	-	2,357,608	2,357,608
Balance at 30 June 2010		**56,050,636**	**8,064,000**	**3,123,562**	**43,484,668**	**110,722,866**

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 44 to 64.

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 2010 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 2 September 2010.

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 statement of comprehensive income.

(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(g) – Plant and equipment impairment; and
- Note 1(i) – 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.

(e) Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits 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.

(e) Revenue recognition (con't)

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 statement of comprehensive income 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 statement of comprehensive income, respectively.

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

Depreciation

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

Buildings and improvements	1-2%
Plant, equipment, furniture and fittings	10%
Motor vehicles	20%
Computer hardware	20%
Computer software	20%
Leasehold land	Term of the lease

(g) Property, plant and equipment (con't)

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 statement of comprehensive income.

(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 statement of comprehensive income 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.

(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 statement of comprehensive income.

(i) Bad and doubtful loans and advances (con't)

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 statement of comprehensive income.

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 statement of comprehensive income. Debts previously written off and subsequently recovered are written back to the statement of comprehensive income 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.

(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.

(j) Investments (con't)

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 statement of comprehensive income.

(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.

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 2010 was 198 (2009: 197).

(r) 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.

(s) Capital grants from Government

Capital grants received from Government are credited directly to equity.

(t) Deferred income

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

	CONSOLIDATED		THE BANK	
	2010	2009	2010	2009
	$	$	$	$
2 INTEREST INCOME				
Included in interest income are interest subsidies received / receivable from the Government for:				
- Agricultural loans	858,259	591,021	858,259	591,021
- Commercial Loans to Fijians scheme	1,838,499	2,101,808	1,838,499	2,101,808
- Economic Rehabilitation Package Scheme	169,722	199,330	169,722	199,330
- Small Business Scheme	298,581	302,188	298,581	302,188
- Northern Rehabilitation Package	230,720	274,405	230,720	274,405
	3,395,781	3,468,752	3,395,781	3,468,752
3 FEE INCOME				
Application fees	76,262	58,702	76,262	58,702
Establishment fees	547,849	766,966	547,849	766,966
Commitment fees	169,333	88,566	169,333	88,566
Bank Service fees	1,775,058	1,318,801	1,775,058	1,318,801
Arrears fees	1,028,048	(609,792)	1,028,048	(609,792)
Legal fees	443,314	563,355	443,314	563,355
Other fee income	1,394	1,467	1,394	1,467
	4,041,258	2,188,065	4,041,258	2,188,065
4 OTHER INCOME				
The following items are included in other income:				
Gain on sale of property, plant and equipment	27,200	64,151	27,200	64,151
Bad debt recovered	808,346	960,653	808,346	960,653
Insurance commission	156,906	218,693	156,906	218,693
Rental income	528,192	500,667	528,192	500,667
5 OPERATING EXPENSES				
Items included in administrative expenses:				
Amortisation of bond discounts	708	920	708	920
Auditors' remuneration	39,996	43,142	39,996	40,031
Directors' fees	99,552	114,502	99,552	114,502
Depreciation	829,491	765,198	829,491	765,198
Loss on property, plant and equipment	2,516	12,004	2,516	12,004
Employee costs	6,886,168	6,387,920	6,886,168	6,387,920

	CONSOLIDATED		THE BANK	
	2010	2009	2010	2009
	$	$	$	$
6 LOANS AND ADVANCES				
Loans and advances	437,863,359	433,258,018	437,863,359	433,258,018
Less: Interest and fees suspended	33,816,344	14,872,810	33,816,344	14,872,810
	404,047,015	418,385,208	404,047,015	418,385,208
Less: Allowance for credit impairment	67,178,947	62,333,366	67,178,947	62,333,366
Total loans and advances	336,868,068	356,051,842	336,868,068	356,051,842

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	31,018,882	22,180,456	31,018,882	22,180,456
Charge/(credit) to the statement of comprehensive income	9,377,901	9,205,644	9,377,901	9,205,644
	40,396,783	31,386,100	40,396,783	31,386,100
Written off as bad debts against allowance for credit impairment	(1,746,859)	(367,218)	(1,746,859)	(367,218)
Balance at the end of the year	38,649,924	31,018,882	38,649,924	31,018,882
Unallocated Individually assessed allowance				
Balance at beginning of year	20,606,540	23,920,138	20,606,540	23,920,138
Charge/(credit) to the statement of comprehensive income	(1,000,000)	2,954,131	(1,000,000)	2,954,131
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	19,606,540	20,606,540	19,606,540	20,606,540
Collectively assessed allowance				
Balance at beginning of year	10,707,944	8,191,461	10,707,944	8,191,461
Charge/(credit) to the statement of comprehensive income	(1,785,461)	2,516,483	(1,785,461)	2,516,483
Balance at the end of the year	8,922,483	10,707,944	8,922,483	10,707,944
Total allowance for credit impairment	67,178,947	62,333,366	67,178,947	62,333,366

	CONSOLIDATED		THE BANK	
	2010	2009	2010	2009
	$	$	$	$
7 INVESTMENT IN SUBSIDIARY				
FDB Nominees Ltd	-	-	20,000	20,000

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

	CONSOLIDATED 2010 $	CONSOLIDATED 2009 $	THE BANK 2010 $	THE BANK 2009 $
8 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)	(6,584,290)	(6,584,290)	(6,584,290)
	50,251	50,251	50,251	50,251
Allowance for dimunition in investments is represented as follows:				
Balance at the beginning of the year	6,584,290	5,064,290	6,584,290	5,064,290
Charge to the statement of comprehensive income	-	1,520,000	-	1,520,000
Balance at the end of the year	6,584,290	6,584,290	6,584,290	6,584,290

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

	CONSOLIDATED 2010 $	CONSOLIDATED 2009 $	THE BANK 2010 $	THE BANK 2009 $
9 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)
	47,476	47,476	47,476	47,476
Contributions to project	(4,895)	(4,895)	(4,895)	(4,895)
	42,581	42,581	42,581	42,581
Cane Estate				
Cost	1,000,000	1,000,000	1,000,000	1,000,000
Other expenses capitalised	370,568	298,759	370,568	298,759
	1,370,568	1,298,759	1,370,568	1,298,759
Less: Allowance for dimunition in value	900,000	900,000	900,000	900,000
	470,568	398,759	470,568	398,759
Balance at the end of the year	513,149	441,341	513,149	441,341

	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	3,671,000	567,611	17,419,641
Acquisitions during the year	76,095	548,799	1,085	625,979
Disposals	-	(136,047)	(1,350)	(137,397)
Balance at end of the year	13,257,125	4,083,752	567,346	17,908,223
Accumulated Depreciation				
Balance at beginning of the year	607,440	774,030	454,534	1,836,004
Depreciation charge for the year	192,385	583,187	47,904	823,476
Disposals	-	(122,771)	(810)	(123,581)
Balance at end of the year	799,825	1,234,446	501,628	2,535,899
Carrying amount				
Balance at beginning of year	12,573,590	2,896,970	113,077	15,583,637
Balance at end of the year	**12,457,300**	**2,849,306**	**65,718**	**15,372,324**

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.

11 COMPUTER SOFTWARE - INTANGIBLES

	Total
Balance at beginning of the year	-
In-house development cost	49,679
Acqusitions during the year	13,098
Balance at end of the year	62,777
Accumulated Depreciation	
Balance at beginning of the year	-
Depreciation charge for the year	6,014
Balance at end of the year	6,014
Carrying amount	
Balance at beginning of year	-
Balance at end of the year	56,763

The Bank had developed the Bank Management System which was launched in December 2009. Prior to this the Bank was using the Loan Management System. The acqusition represent purchase of an additional module for upgrading of the Sun System.

	CONSOLIDATED		THE BANK	
	2010	2009	2010	2009
	$	$	$	$
12 OTHER DEBTORS				
Government guarantees	5,039,571	5,039,571	5,039,571	5,039,571
Less allowance for loss -	(5,039,571)	(5,039,571)	(5,039,571)	(5,039,571)
Government Guarantee	-	-	-	-
Government interest subsidies	2,994,074	1,757,610	2,994,074	1,757,610
Others	1,332,626	1,094,084	1,329,978	1,090,488
	4,326,700	2,851,694	4,324,052	2,848,098
13 BONDS - HELD-TO-MATURITY				
Non-current				
FDB Registered bonds - face value	219,182,850	254,088,850	219,182,850	254,088,850
Unamortised discount	47,637	52,349	47,637	52,349
	219,230,487	254,141,199	219,230,487	254,141,199

The above registered bonds have a repayment term varying between 1 to 10 years and have been guaranteed by Government of Fiji

14 BORROWINGS				
Short term borrowings	34,706,928	30,423,853	34,706,928	30,423,853

The above borrowings have a repayment term of less than 1year and have been guaranteed by Government of Fiji. The interest rate for the short term borrowing ranges from 3.50% to 9.15%.

15 EMPLOYEE ENTITLEMENTS				
Balance as at June 2009	1,321,828	1,241,568	1,321,828	1,241,568
Amount utilised	(38,488)	(17,325)	(38,488)	(17,325)
Expense for the year	283,566	97,585	283,566	97,585
Balance as at June 2010	**1,566,9066**	**1,321,828**	**1,566,906**	**1,321,828**
16 ACCOUNTS PAYABLE AND ACCRUALS				
Interest accruals	3,182,905	2,841,152	3,182,905	2,841,152
Others	1,884,297	3,251,316	1,876,650	3,244,058
	5,067,202	6,092,467	5,059,555	6,085,209

	CONSOLIDATED		THE BANK	
	2010	2009	2010	2009
	$	$	$	$
17 OTHER LIABILITIES				
Seed Capital Fund	2,774,670	2,719,205	2,774,670	2,719,205
Staff Savings account	1,282,944	1,238,112	1,282,944	1,238,112
Export Facility	1,194,100	1,477,157	1,194,100	1,477,157
Farmers Assistance Scheme	155,808	293,170	155,808	293,170
	5,407,521	5,727,644	5,407,521	5,727,644

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

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

	CONSOLIDATED		THE BANK	
18 CAPITAL				
Authorised capital	100,000,000	100,000,000	100,000,000	100,000,000
Contributed capital	56,050,636	56,050,636	56,050,636	56,050,636

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

19 COMMITMENTS AND CONTINGENT LIABILITIES

	THE BANK 2010	THE BANK 2009
(a) Commitments		
(i) Loans approved but not disbursed	20,772,964	35,521,671
	20,772,964	35,521,671
(b) Contingent liabilities		
(i) Guarantees	1,450,000	750,000

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

20 RELATED PARTY TRANSACTIONS

Directors

The following were directors of the Bank duirng the financial year ended 30 June 2010:

Current Directors

Mr John Prasad	- Chairperson
Mr Jitoko Tikolevu	
Mr Ilaisa Cavu	
Mr Josefa Serulagilagi	
Mr Manasa Vaniqi	
Mr Isikeli Tikoduadua	- Appointed on 20/01/2010
Mr Mason Smith	- Appointed on 30/11/2009

Former Directors

Mr Richard Beyer

	CONSOLIDATED		THE BANK	
	2010	2009	2010	2009
	$	$	$	$
Directors' fees	99,552	114,502	99,552	114,502

Key Management Personnel

Details of compensation

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

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

Name	**Current title**
Deve Toganivalu	Chief Executive Officer
Umarji Musa	General Manager Operations
Tevita Madigibuli	General Manager Operations (effective from 07/06/2010)
Lasantha Thennakoon	General Manager Finance and Administration
Saiyad Hussain	General Manager Finance and Administration (effective from 08/02/2010)
Nafitalai Cakacaka	General Manager Business Risk Services

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

20 RELATED PARTY TRANSACTIONS (con't)

	CONSOLIDATED		THE BANK	
	2010	2009	2010	2009
	$	$	$	$
Short-term benefits	540,921	578,035	540,921	578,035

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 $284,338.88 (2009: $241,636.61) 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 subcommittee known as Board Credit Committee retains the authority to approve loan amounts above a threshold that is set by the Board. On the other hand, the Management (EXCO) has authority and discretion to delegated defined approving limits to Risk Officers under certain conditions. The delegated credit decision authority, particularly below the threshold level is reviewed from time to time on the Officer's performance, exercise of delegated authority and changes to Bank's policy guidelines.

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.

21 RISK MANAGEMENT POLICY (con't)

Default Risk

Default risk is a risk that some loans may not be repaid; implications of asset mix on risk based capital and asset quality on ability to leverage the bank's capital.

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	**2010 $**	**2009 $**
Agriculture	66,284,670	65,164,676
Building and construction	64,792,711	60,519,096
Manufacturing	41,062,706	39,034,544
Mining and quarrying	1,298,874	1,296,483
Private individuals	57,300,389	62,612,224
Professional and business services	22,457,776	10,002,163
Real estate	120,906,371	117,718,839
Transport, communication and storage	21,516,109	26,932,837
Wholesale, retail, hotels and restaurants	39,522,220	47,491,277
Others	2,721,535	2,485,879
Total	437,863,359	433,258,018

LIQUIDITY RISK MANAGEMENT

Liquidity risk pertains to the risk of the bank's inability to meet maturing obligations as they fall due without incurring unacceptable losses. FDB generates its funding through issuance of bonds, with one to seven years maturities, term deposits and Promissory Notes of maturities less than a year.

The Bank's executive committee manages the bank's liquidity and cost of funds. FDB performs 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 by:

- quantifying liquidity outflows in all scenarios for each risk driver;
- identifying cash flows to mitigate liquidity shortfalls identified;
- determine net liquidity position under each scenario.

Since the bank does not have trading activities nor hedge facilities to cushion unexpected liquidity gaps, it retains a policy of maintaining 10% 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.

21 RISK MANAGEMENT POLICY (con't)

The determination of the adequacy of FDB's liquidity position depends upon an analysis of the bank's position relative to the following factors:

- historical funding requirements
- current liquidity position
- anticipated future funding needs
- present and anticipated asset quality
- present and future earning capacity
- sources of funds.

SENSITIVITY ANALYSIS

Liquidity Risk

Liquidity risk sensitivity due to ± 2.50% fluctuation in weighted average cost of borrowings

	As at June 2010	Increase in Cost of funds (+2.50%)	Decrease in Cost of funds (-2.50%)
Weighted Average Borrowing Cost (%)	6.59	9.09	4.09
Cost of Borrowing ($)	18,197,122	25,100,431	11,293,813
Profit/(loss) ($)	2,357,608	(4,545,701)	9,260,917

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.

FDB manages its Interest rate risk through investing its surplus funds in other banks and financial institutions, loan pricing, and deposit pricing.

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.

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.

21 RISK MANAGEMENT POLICY (con't)

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 ± 2.50% fluctuation in weighted average lending rate

	As at June 2010	Increase in Lending Rate (+2.50%)	Decrease in Lending Rate (-2.50%)
Weighted Average Lending Rate (%)	8.88	11.38	6.38
Interest Income ($)	30,363,558	38,911,857	21,815,259
Profit/(loss) ($)	2,357,608	10,905,907	(6,190,691)

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.

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.

2010 **CONSOLIDATED ('000)**

	At call	1 day to 3 months	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	Specific provision	Total
Assets	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash	21,518	-	-	-	-	-	21,518
Loans	66,476	30,575	48,007	148,058	144,430	(38,650)	398,896
Total	**87,994**	**30,575**	**48,007**	**148,058**	**144,430**	**(38,650)**	**420,414**
Liabilities							
Borrowings	-	32,190	72,649	137,048	12,050	-	253,937
Total	**-**	**32,190**	**72,649**	**137,048**	**12,050**	**-**	**253,937**
2009							
Assets							
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**

23 IMPAIRED AND PAST-DUE ASSETS

	THE BANK 2010	2009
Non-accrual loans without individual assessed allowance		
Gross	12,407,687	11,485,187
Less: suspended debt	(2,166,303)	(1,309,223)
Net non-accrual loans without individual assessed allowance	10,241,384	10,175,964
Non-accrual loans with individual assessed allowance		
Gross	94,979,068	51,005,253
Less: suspended debt	(27,929,370)	(10,952,899)
	67,049,698	40,052,354
Less: individual assessed allowance	(30,929,356)	(24,772,981)
Net non-accrual loans with individual assessed allowance	36,120,342	15,279,373
Restructured loans without individual assessed allowance		
Gross	134,639	288,646
Less: suspended debt	(23,082)	(34,905)
Net restructured loans without individual assessed allowance	111,557	253,741
Restructured loans with individual assessed allowance		
Gross	5,785,881	5,401,106
Less: suspended debt	(1,801,965)	(1,428,301)
	3,983,916	3,972,805
Less: individual assessed allowance	(2,871,041)	(2,201,664)
Net restructured loans with individual assessed allowance	1,112,875	1,771,141
Other impaired loans		
Gross	3,967,822	7,212,006
Less: suspended debt	(186,382)	(31,176)
Net other classified loans	3,781,440	7,180,830
Total impaired and past-due loans	51,367,598	34,661,049
Past-due loans		
Gross	23,829,621	21,136,941
Less: suspended debt	(213,280)	(550,275)
Total past-due loans	23,616,341	20,586,665

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	
	2010	2009
	$	$
Cash	21,556,022	33,267,104

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

	2010 $	2009 $
Operating profit after income tax	2,351,897	3,492,887
Add / (less) non-cash items:		
Amortisation of bond discounts	47,637	52,349
Depreciation	829,491	765,198
Gain on disposal of fixed assets	(24,684)	(52,147)
Accrual for annual and long-service leave	245,078	80,260
Allowance for credit impairment	6,592,440	14,676,258
Provision for dimunition in investment	-	1,520,000
	10,041,859	20,534,805
Change in assets and liabilities:		
(Increase) in interest receivable	(5,122,916)	(42,845)
Decrease/(Increase) in accounts receivable	168,487	(496,956)
Increase/(Decrease) in grants and subsidies receivable	(1,236,464)	2,447,971
Increase/(decrease) in interest payable	388,920	(774,537)
Decrease/(Increase) in other accruals	(2,186,168)	1,641,455
Net cash from operating activities	2,053,718	23,309,893

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. Tha Bank also has nine branches located throughout Fiji.

BA BRANCH
Varoka, Ba, FIJI.
P.O Box 110, Ba, FIJI.
Ph: (679) 667 4211
Fax: (679) 667 4031

LABASA BRANCH
Nasekula Road, Labasa, FIJI.
P.O Box 41, Labasa, FIJI.
Ph: (679) 881 1944
Fax: (679) 881 4009

LAUTOKA BRANCH
38 Vitogo Parade, Lautoka, FIJI.
P.O Box 716, Lautoka, FIJI.
Ph: (679) 666 0639
Fax: (679) 666 5950

*** NABOUWALU BRANCH**
Government Station Road,
Nabouwalu, FIJI.
P.O. Box 51, Nabouwalu, Bua, FIJI.
Ph: (679) 828 0400
Fax: (679) 828 0401

NADI BRANCH
Main Street, Nadi, FIJI.
P.O Box 1718, Nadi, FIJI.
Ph: (679) 670 1900
Fax: (679) 670 3552

NAUSORI BRANCH
60 Main Street, Nausori, FIJI.
P.O.Box 317, Nausori, FIJI.
Ph: (679) 347 7277
Fax: (679) 340 0484

SAVUSAVU BRANCH
Hugh Street, Savusavu, FIJI.
P.O Box 42, Savusavu, FIJI.
Ph: (679) 885 0055
Fax: (679) 885 0629

SEAQAQA BRANCH
Seaqaqa, FIJI.
P.O Box 62, Seaqaqa, FIJI.
Ph: (679) 886 0166
Fax: (679) 886 0168

SIGATOKA BRANCH
Vunasalu Road, Sigatoka, FIJI.
P.O Box 81, Sigatoka, FIJI.
Ph: (679) 650 0122
Fax: (679) 652 0399

RAKIRAKI BRANCH
Vaileka Parade, Rakiraki, FIJI.
P.O Box 82, Rakiraki, FIJI.
Ph: (679) 669 4088
Fax: (679) 669 4784

*** TAVEUNI BRANCH**
MH Complex, Somosomo, Taveuni, FIJI.
P.O. Box 215, Taveuni, FIJI.
Ph: (679) 888 0084
Fax: (679) 888 0057

* Opened in Octorber 2010.

your partner in progress

Head Office
Development Bank Centre
360 Victoria Parade, Suva, FIJI.
P.O. Box 104, Suva, FIJI.
PH: (679) 3314 866
FX: (679) 3314 886
Email: *info@fdb.com.fj*
Website: *www.fdb.com.fj*

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