Our customers remain our most valuable stakeholder. The focus in building the business-client relationship lies in ensuring that the products we offer continue to be relevant to the needs of our customers, the majority of whom are rural dwellers.

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FIJI DEVELOPMENT BANK
ANNUAL REPORT 2011

VISION

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

MISSION

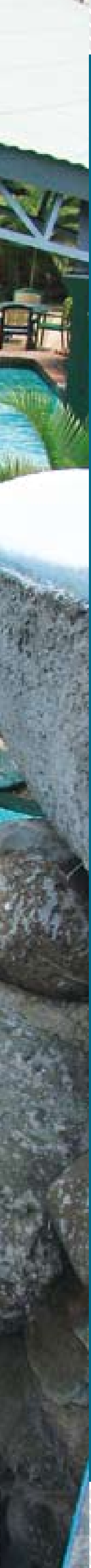
We provide finance, financial and advisory services to assist in the economic development of Fiji and in particular the development of agriculture, commerce and industry.

CORPORATE 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 sectors; and
    - Small medium enterprise sectors.
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.



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 Fiji's economy and improves the quality of life for the people of Fiji. Loan funds are provided for agricultural, 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 Smart™, a financial literacy programme in all Fiji secondary schools as well as the annual Small Business Awards.

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Contents

FIJI
DEVELOPMENT
BANK

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

9 February, 2012.

Commodore Josaia Voreqe Bainimarama
Prime Minister and Minister of Finance
Level 4, Government Buildings (New Wing)
Gladstone Road
SUVA.

Dear Sir,

RE : 2011 ANNUAL REPORT

I have much pleasure in submitting the annual report and accounts for the Fiji Development Bank for the financial year ending 30 June, 2011.

Despite the economic and financial challenges faced during the year, the bank recorded a net profit of $2.50 million. This was an increase of $0.14 million compared to the financial year 2009/2010 which was achieved by prudent portfolio management and stringent cost control measures.

The bank's gross portfolio declined by 20.08% to $349.93 million in the financial year 2011 due to early exit of few large corporate accounts and bad loan write-offs. The Bank also noted a slow growth in new business.

The Board wishes to thank the executive management and staff for their efforts and commitments throughout the financial year.

We look forward to the continued support and contribution of Government in our endeavour to provide access to affordable financing for all Fijians for the continued economic and social development of Fiji.

Yours sincerely

Robert G. Lyon
CHAIRMAN

Our Mandate

The mandate of the Fiji Development Bank is derived from the FDB Act (Cap 214) of 1967. The operations undertaken in the current period is derived from the 2010 – 2012 Revised Strategic Plan. Within this framework, lending is geared towards the development of small medium enterprises in particular those in the resource based sectors, manufacturing, transport & communication, wholesale/retail and professional services. FDB has always given special consideration and priority to Fiji's economic development in the rural and agricultural sectors.

Part of the Global Environment

In 2011 the International Monetary Fund (IMF) forecast a global economic growth of 4.2%. Real growth achieved however, was 3.8% - down from 5.2% in 2010. The global output and per capita income levels in 2011 continued to recover from the 2008-2009 global financial crises followed very closely by the Eurozone debt crisis. The debt crisis is the result of the failure of certain European countries tied to the single currency; to ensure fiscal discipline and maintain national deficits to below the 3% of GDP mark as set by the European Commission when the Euro was introduced in 1999. Two of Fiji's biggest importers of fish and timber products, Germany and France, are also caught in this particular crisis. A prolonged crisis could potentially impact these two sectors which comprised approximately 27% of all of Fiji's exports for 2010.

In 2011, Government expected the domestic economy to recover modestly with growth projected at 1.3%. The anticipated growth was broad, based on a higher output forecast for agriculture & forestry; manufacturing; hotels & restaurants; fishing; mining & quarrying; wholesale & retail trade; financial intermediation; electricity & water; real estate & business services and the other community as well as social & personal service activities sector.

Local Economic Indicators

Domestically, sector performances showed mixed results. While tourism arrivals remained on an upward trend, gold production and electricity demand declined. The consumption of electricity as an indicator of economic activity declined by 2.7% in the first five months of 2011 due possibly, to increased tariffs with consumers adjusting usage as a result.

In the banking sector, the commercial bank weighted average outstanding lending and time deposits fell respectively from 7.54% in May 2010 to 7.36% in May 2011; and 5.63% in May 2010 to 4.03% in May 2011. The total savings deposit rate however, rose from 1.06% to 1.21% for the same period which is a good indicator of liquidity and possible investment as savings equal investment.

Total commercial bank lending rose by 5.1% to $2.94 billion in May 2011 compared to a marginal growth of 0.3% for the same period in 2010. The annual growth was largely on account of higher credit extended to the wholesale, retail, hotels & restaurants, transport & storage, real estate and agriculture sectors. Liquidity is measured by the commercial banks' demand deposits at the Reserve Bank of Fiji, which stood at $520MM in May 2011 compared to $301MM in May 2010.

Our Business

The bank recorded a net profit of $2.50MM for the financial year ending 30 June, 2011. This was an increase of 6.23% when compared to the 2010 financial year. This represented a Return on Average Assets (ROA) of 0.66% - up from 0.54% in 2010 and a Return on Average Equity (ROE) of 2.23% for this financial year – a marginal increase from 2.15% in 2010.

Interest Income increased by 14.37% when compared to the 2010 financial year. This increase is largely attributed to an improvement in the impaired assets ratio. The bank's additional revenue source which includes Fees and Other Charges also recorded an increase of $5.14MM when compared to the 2010 financial year.

The bank took advantage of the high liquidity in the system by redeeming high cost bonds with low rate bonds much earlier. The bank was also able to reduce weighted average cost of funds by 0.51% to 6.08% in 2011. Overall, the bank was able to also decrease its borrowing expenses by $1.30MM (7.14%) when compared to 2010.

The bank set aside $16.86MM in 2011 to provide for future credit impairments. The amount is based on a risk assessment as per the bank's credit impairment guidelines. It also took into consideration overall market conditions. The credit impairment was an increase of 155.73% when compared to 2010. The increase was necessary to cater for risk associated with a few larger corporate accounts.

Our Risks

Risk is an integral part of the bank's lending and as such it takes due care to ensure that any risk is minimised particularly as:

1. The bank raises its funds in the market within the confines of limited deposits.
2. The bank accepts low or no equity for certain lending products; and
3. The bank charges above market interest rates for loans exceeding $0.50MM.

To ensure that business remains sustainable, the bank continues to employ the methods and processes to manage risks from the enterprise-wide perspective whilst assessing the opportunities that contribute directly to the achievement of the bank's strategic objectives.

In comparison to commercial institutions, challenges faced by development banks are always greater because of the inherent risks that accompany the sectors invested in. In addition, the environmental, climatic and social condition factors associated with cultural or traditional principles also impact the application of appropriate business practices.

Our Customers

Our customers remain our most valuable stakeholder. The focus in building the business-client relationship lies in ensuring that the products we offer continue to be relevant to the needs of our customers, the majority of whom are rural dwellers. As a result, customers return with repeat business because they find that their financial needs are met by FDB.

Our People

The up skilling and development of our human resources are important to the fulfillment of the bank's development objectives. The bank policy on further education at local universities and other professional institutions remains in place with the bank reimbursing tuition to successful staff upon completion of their individual units or courses.

Aside from the routine training provided annually to staff, they were also given the opportunity to attend externally funded courses both locally and internationally. These courses included Good Governance & the Crimes Decree, HIV & AIDS, Fundamentals of Fund Management, International Commercial Banking, SME Banking Training, International Programme in Banking Financial Management and Work Risk Management amongst others.

Our Future

In September 2010, the 2010 Managers Conference yielded some interesting insights into ways in which we can go about managing costs and generating new business for the bank. In the past, discussions at this conference centred mainly on past achievements. This time around, discussions focused more on the way ahead and what was needs to be done to get there.

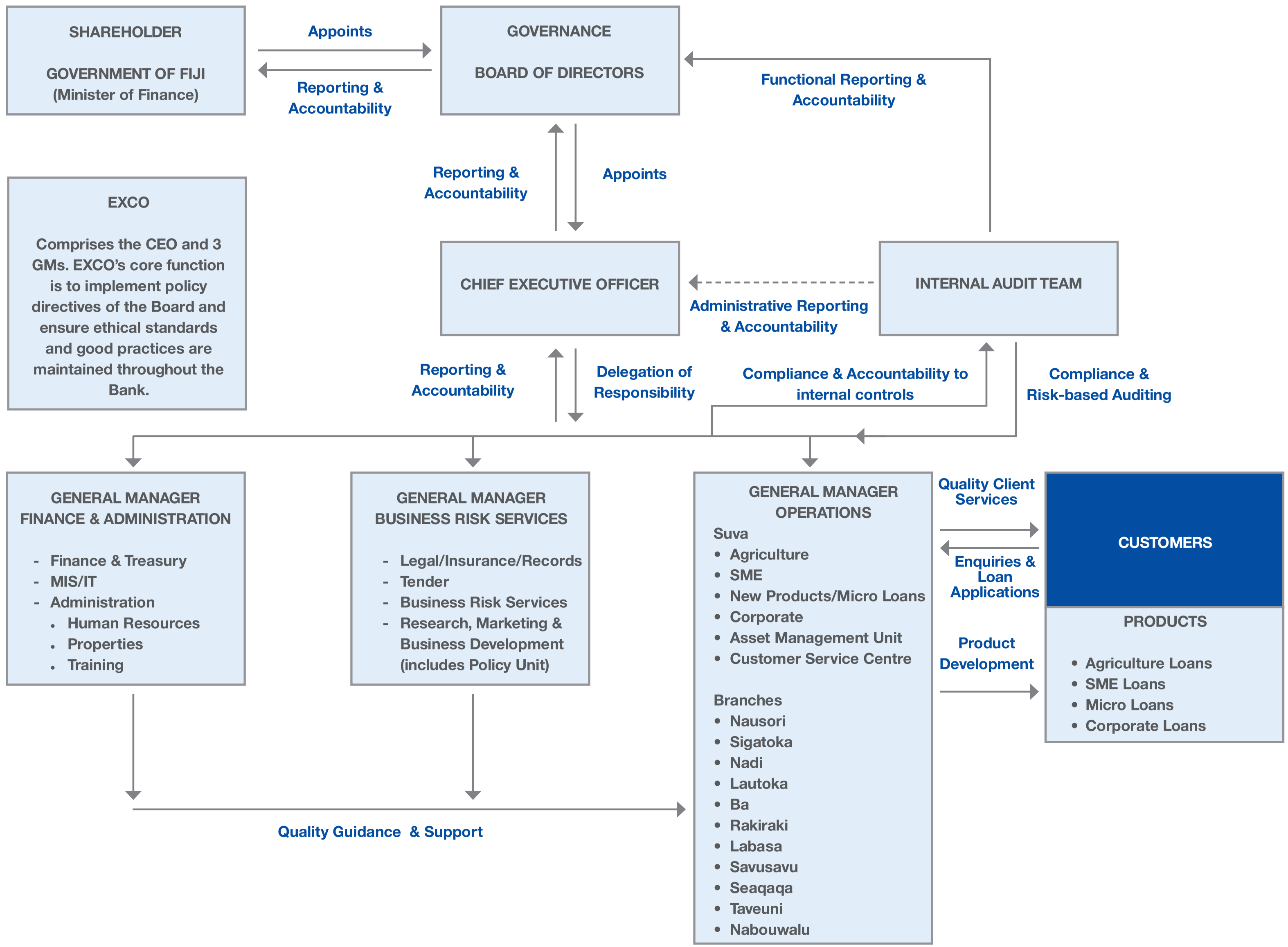
As a result of discussions at this conference, the bank engaged the services of consultant Gary Turnstall in January 2011 to review the bank's entire operations which included the revised strategic plan (2010-2012), credit structure particularly the TIA portfolio and how the bank could source cheaper funds. The result of Mr. Turnstall's review yielded several recommendations of which the following four have been prioritised for immediate attention in the 2012 financial year:

1. Manage the risk portfolio of TIA under 10% of the total loan portfolio;
2. Reduce cost of funds;
3. Create a dynamic and efficient workforce;
4. Drive business growth through quality sales and service delivery.

Starting 1 July, 2011 the bank will undergo another restructure to realign some of its major departments including the Asset Management Unit, Business Risk Services, Relationship and Sales (formerly Operations), Finance & Administration and CEO's Office so as to streamline and make efficient processes and services necessary for achieving the four priority areas as noted above.

Deve Toganivalu
Chief Executive Officer

FIJI DEVELOPMENT BANK ORGANIGRAM



Pearls of Paradise farm, Malake Island.

BOARD OF DIRECTORS

Mr. Robert G. Lyon
Chairman
(Appointed August 2010)

Worked for the ANZ Banking Group from 1965 – 2008 of which the last 14 years was spent in the Asia-Pacific region. Following his retirement as Managing Director Pacific in 2006, he was appointed non-executive Chairman ANZ Pacific, a position he held until 2008.
Mr. Lyon is the current Chairman of the Foundation for Development Co-operation (FDC), Chairman of FDC (Singapore), Chairman of FDC (Pacific) Ltd. and Chairman of FINTEL,
He holds a Graduate Diploma in Organization Development from the Royal Melbourne Institute of Technology (RMIT University) and is a Fellow of the Australian Human Resources Institute and a Senior Fellow of the Financial Services Institute of Australasia.

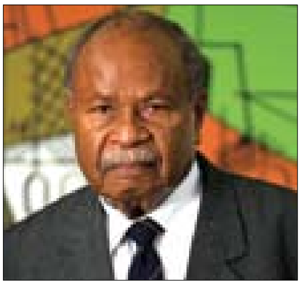
Mr. John Prasad
Chairman
(September 2008 – resigned August 2010)

Mr. Prasad was 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, Fiji Sugar Corporation and HFC.

Mr. Jitoko Tikolevu
Deputy Chairman
(Served September 2007 – 2010; Reappointed August 2010)

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 Investment Fiji.

Mr. Joseva Serulagilagi
Director
(Appointed August 2008)



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
(Appointed August 2008)

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

(August 2007 – August 2010)

Mr. Cavu was the former 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.

Mr. Isikeli Tikoduadua

Director

(Appointed January 2010)

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).

Mr. Mason Smith

Director

(Appointed November 2009)

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 was an officer in the Fiji Military Forces (1985-2007).

Ms. Olivia Mavoa

Director

(Appointed January 2011)

Ms. Mavoa is the General Manager for Musket Cove Resort, Malololailai. She holds a Postgraduate Diploma in Business Administration from Central Queensland University, Australia. Prior to this, she was the Manager for Fiji Trade & Investment Board (now Investment Fiji), Northern Regional Office (March 2009-2010) and Tourism & Business Consultant for Mavoa Consultancy (2004-2009). She was also the CEO for Fiji Hotel Association from 1994 to 2004. She holds vast experience in business and industrial relations consultancy as well as the tourism sector.

Olivia Mavoa and Robert Lyon at Kaiming Agro-Processors, Navua.

Corporate Governance is an important issue for the Fiji Development Bank and the board considers that a Comprehensive Corporate Governance framework provides the bank with a strong commercial advantage. It enables the board and the bank to achieve ethical and stewardship obligations and at the same time facilitates the making of effective and timely decisions.

The bank's corporate governance structures create value (through entrepreneurism, innovation, development and exploration) and provide accountability and a control system commensurate with the risks involved.

The board is responsible to shareholders for the strategic guidance and oversight of the bank as set out in the Fiji Development Bank Act (Cap 214) as well as the Charter and the Code of Corporate Governance. The board recognises its overriding responsibility to act honestly, fairly and diligently in building sustainable value for its sole shareholder (Government) while acknowledging the bank's other stakeholders – staff, customers and the communities in which it operates as important to an integrated and responsible approach to business.

The Board

Under the Act, the Minister of Finance appoints the directors to the board. The directors are appointed for a period of three years and are eligible for reappointment. The quorum of the meeting shall be four.

The board meets monthly and a director's fee in addition to a sitting allowance for every sub-committee meeting is paid to members in accordance with the payment schedule set out by the Ministry of Finance.

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.

Code of Corporate Governance determines how the bank functions:

The board is responsible for the appointment of the chief executive officer and reviews his performance. On the recommendation of the CEO, the board also appoints the general managers of the bank.

The board strives to achieve a balance of skills, knowledge, experience and perspective among its directors. This is particularly important for the banking sector because of the customer relationship that cuts across every sector of the economy and the need to understand events in the local and global context. The board determines the structure of the management of affairs of the bank, delegates business operations to the executive management (EXCO) led by the CEO and includes the general managers; and assumes the policy making role for the business and risk management of the bank. The board also ensures that EXCO conducts its day-to-day activities on behalf of the bank in accordance with policy.

The details of each director's participation at meetings are as below:

Name	Position	Date Of Appointment	Date Of Completion	Meeting Attended
Robert G. Lyon	Chairman	September 2010	-	9/9
John Prasad	Chairman	September 2008	August 2010	3/3
Jitoko Tikolevu	Deputy Chairman	September 2007	-	11/12
Joseva Serulagilagi	Member	September 2008	-	12/12
Manasa Vaniqi	Member	September 2008	-	5/12
Olivia Mavoa	Member	February 2011	-	6/6
Mason Smith	Member	April 2010	-	6/12
Isikeli Tikoduadua	Member	January 2010	-	12/12

Board Sub-Committees

Audit committee

The board established the audit sub-committee to enhance accountability and the relationship between the board, management and the auditor. The committee also ensures:

1. Oversight of specific areas of review critical to the overall operation of the bank;
2. Oversight of the operations of the Internal Audit Team of the bank;
3. 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; and
4. Responsible for the integrity of the bank's financial reports.

The members are:

Mr. Robert G. Lyon - Chairman
Mr. Jitoko Tikolevu - Member
Ms. Olivia Mavoa - Member

The audit sub-committee met three times during the year.

Credit Risk Committee

The board established this committee to review and assess the integrity and adequacy of the risk management function of the bank, in particular as it relates to market, credit, liquidity and funding risks. The members are:

Mr. Jitoko Tikolevu - Chairman
Mr. Isikeli Tikoduadua - Member
Mr. Mason Smith - Member

This committee is responsible for reviewing and recommending credit risk management policies including portfolio concentrations, lending limits, economic risk capital and any off-balance sheet activities (guarantees and indemnities) outside of the normal course of the business for board approval. The credit risk committee met 10 times during the year.

Management - Executive Committee (EXCO)

The Executive Committee (EXCO) of the bank comprises of the Chief Executive Officer (CEO), the General Manager Business Risk Services (GMBRS), the General Manager Operations (GMO) and the General Manager Finance and Administration (GMF&A). EXCO meets at least once every fortnight to review operations and make operational decisions. The key functions of EXCO are:

- Implement the policies, corporate objectives and strategic direction set by the board
- Allocate resources within the allocated budget approved by the board.
- Manage the day to day affairs of the bank to achieve the targets and the goals set by the board to maximise the shareholder's value.
- Ensure compliance of all regulations and laws.
- Set up and implement an effective internal control system, commensurate with the business requirements.

Compliance and Regulatory Framework

Internal Audit

Internal audit provides independent assurance that the design and operation of the risk and control framework across the bank is effective. Its operations are guided by an Internal Audit Charter established by the bank.

The internal audit team is responsible for monitoring the operations of the bank and determines its compliance with the pre-set internal control systems and procedures. Internal audit also works collaboratively with the external auditor to ensure a comprehensive audit scope. The team reports directly to the board's audit committee with dotted line reporting to the CEO for administrative purposes only. This ensures the independence of the internal audit team.

Participants at the 2010 Managers Conference in Suva.

External Audit
The external auditor provides an independent opinion that the bank's financial reports are true and fair and comply with applicable standards.

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 reports of the bank is required to be independently audited annually and in accordance with the FMA. The Auditor General is the external auditor of the bank.

Stakeholders

Employees
All employees are required to comply with the bank's internal policies and procedures whilst performing their day to day duties.

Any non-compliance and non-performance is dealt with in accordance with the set procedures as laid down in the General Instructions and the collective agreement the bank has with the Fiji Bank and Finance Sector Employees Union.

The Human Resource Division of the bank ensures that all individual employees 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 FDB.

To safeguard the interest of the bank's clients, the bank has strict guidelines to ensure client data confidentiality is maintained at all times.

Customers
The bank recognises that our customer is our most valuable stakeholder. The bank strives to maintain the utmost level of customer service. Where a customer feels that he/she has not been treated fairly; a complaint procedure is in place where customers can lodge a written complaint directly to the CEO. These complaints are dealt directly by the CEO's Office.

Community
As a responsible employer and business operator in the community, the bank currently supports financial literacy programmes in all secondary schools in Fiji as well as the promotion of small and micro-entrepreneurs through its annual Small Business Awards which forms its corporate social responsibility programme.
In, addition, the bank continues to maintain an annual allocation for sponsorships and donations to various charities and educational institutions.

EXECUTIVE MANAGEMENT

Mr. Deve Toganivalu
Chief Executive Officer

Mr. Toganivalu is a graduate of James Cook University (Northern Queensland, Australia) and holds a Bachelor of Commerce majoring in Management and Finance. He has over 30 years of experience in the banking industry having spent 12 years with the Bank of New Zealand prior to joining the Fiji Development Bank in 1987. He has since held various managerial level positions including General Manager Operations, General Manager Agriculture and Development Finance, General Manager New Business and General Manager Business Risk Services. Mr. Toganivalu is also a Board Member of the Fiji Sugar Corporation Limited.

Mr. Tevita Madigibuli
General Manager Operations

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.

Mr. Saiyad Hussein
General Manager Finance & Administration

Mr. Hussein holds a Postgraduate Diploma in 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.

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.

Overview

Overall, 2011 was a challenging year for the bank in terms of financial performance. Despite the local economic environment moving at a sluggish pace, the bank recorded a net profit of $2.50MM for the financial year ending 30 June, 2011. This was an increase of 6.23% in comparison to the 2010 financial year. The increase was the result of an increase in income by 25.49 % and a decrease in borrowing expenses by 7%. Through effective controls, the bank was also able to maintain the operating expenses within the approved budget.

Income

The bank's main source of revenue, Interest Income, increased by 14.37% when compared to the 2010 financial year. This increase is largely attributed to the improvement in impaired assets. The bank's additional revenue source which includes Fees and Other Charges also recorded an increase of $5.14MM when compared to the last financial year.

Interest & Borrowing Expenses

Over the financial year, the liquidity in the banking system improved significantly. The bank took advantage of the high liquidity in the system by redeeming high cost bonds with low rate bonds much earlier.

The bank was able to reduce average weighted cost of funds by 0.51% to 6.08% in 2011.

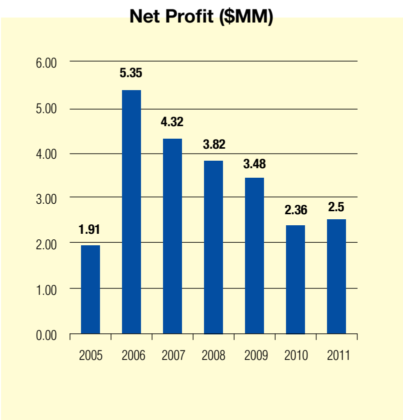
Overall, the bank was able to also decrease its borrowing expenses by $1.30MM (7.14%) when compared to 2010.

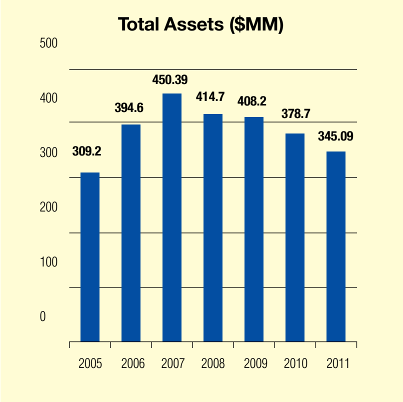
Financial Income and Expense

$MM

	2011	2010	Change	Change rate (%)
Interest income	34.73	30.36	4.36	14.37
Interest & other borrowing expenses	(16.90)	(18.20)	1.30	(7.14)
Net interest income	17.83	12.17	5.66	46.55
Net Fees income	4.95	4.04	0.91	22.42
Other income	7.08	2.86	4.23	148.04
Operating expenses	(10.50)	(10.11)	0.38	3.79
Allowance for credit impairment	(16.86)	(6.59)	10.27	155.73
Allowance for loss - Govt. guarantee	-	-	-	-
Diminution in investments	-	-	-	-
Profit before income tax	2.50	2.36	0.15	6.23
Income tax expense	-	-	-	-
Net profit	2.50	2.36	0.15	6.23

Financial Highlights





Operating Expenses

The increase in Value Added Tax (VAT) by 2.5% to 15% in 2011 and the increase in market price for fuel resulted in an increase of bank's operating expenses by 3.79%. Despite the increase in expenditure, effective controls ensured that expenses were kept within the approved budget levels.

The total operating expense for the 2011 financial year was $10.50MM.

Allowance for Credit Impairment

The bank set aside $16.86MM in 2011 to cater for future credit losses. The amount is based on a risk assessment as per the bank's credit impairment guidelines. It also took into consideration overall market conditions. The credit impairment was an increase of 155.73% when compared to 2010. The increase was necessary to cater for risk associated with a few larger corporate accounts.

Financial Conditions

Asset Structure

				$MM
	2011	**Composition (%)**	**2010**	**Composition (%)**
Cash	44.73	12.96%	21.51	5.68%
Amounts due from subsidiary	0.00	0.00%	0.00	0.00%
Loans and advances	272.14	78.86%	325.21	85.87%
Other Debtors	3.58	1.04%	4.32	1.14%
Property, plant & equipment	14.81	4.29%	15.37	4.06%
Intangibles	0.05	0.01%	0.06	0.01%
Investments (incl. subsidiary)	0.07	0.02%	0.07	0.02%
Land held for resale	0.68	0.20%	0.51	0.14%
Non current asset held for resale	9.04	2.62%	11.66	3.08%
Total	345.09	100.00%	378.72	100.00%

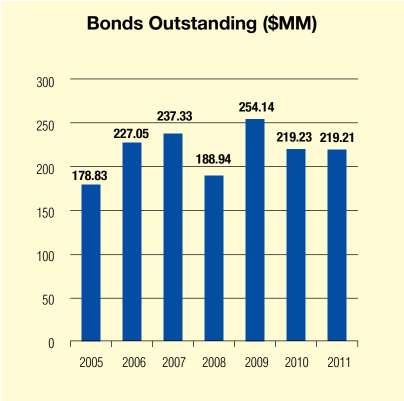
As at 30 June, 2011 the bank's total assets amounted to $345.09MM, a decrease of 8.88% over 2010. Total loans and advances, the largest asset category, also dropped by 16.32% due to low disbursements and early loan retirement.

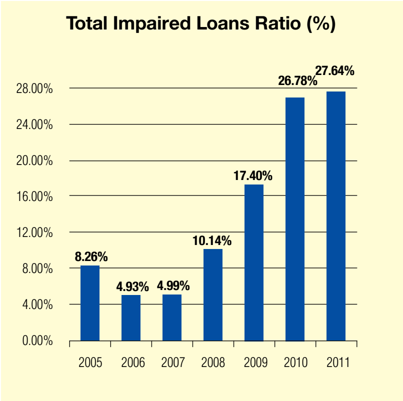
Liability Structure

				$MM
	2011	Composition (%)	2010	Composition (%)
Total Borrowings	219.22	94.54%	253.94	94.75%
Employee entitlements	1.84	0.79%	1.57	0.58%
Deferred income	1.79	0.77%	2.02	0.75%
Accounts payable and accruals	3.86	1.67%	5.06	1.89%
Other liabilities	5.16	2.22%	5.41	2.02%
Total	231.87	100.00%	267.99	100.00%

In 2011, total liabilities amounted to $231.87MM, resulting in a decrease of $36.13MM (13.48%) over 2010. The bank's major source of funding came from the issuance of bonds and promissory notes in the domestic market. As at June 2011, total borrowings fell by 13.67% when compared to June 2010. The decrease in borrowing is due mainly to the low level of disbursements.

Profitability





Historical Performance	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Financial											
Net profit($M)	0.30	0.70	2.04	0.45	1.91	5.35	4.32	3.82	3.48	2.36	2.50
Total Assets ($M)	322.30	284.70	271.40	269.20	309.20	394.60	450.39	414.69	408.21	378.72	345.09
Total Assets / Equity (%)	4.08	3.57	3.32	3.28	3.68	4.41	4.72	4.17	3.77	3.42	3.05
Average Earning assets (AEA) ($M)	345.80	327.70	302.00	282.70	302.90	359.80	421.10	446.24	438.97	435.61	381.55
Borrowing Cost (%)	7.35	7.12	6.24	4.88	4.01	3.92	6.92	5.37	5.62	6.59	6.08
Total Cost / AEA (%)	7.59	7.50	7.10	7.06	6.44	6.00	7.94	7.51	5.68	3.83	7.17
Profit (Loss) / Average Equity (%)	0.39	0.88	2.53	0.55	2.27	5.98	4.67	3.92	3.35	2.15	2.23
Long Term Debt : Equity	2.99:1	2.43:1	2.12:1	1.99:1	2.49:1	2.55:1	2.49:1	1.90:1	2.35:1	1.98:1	1.44:1
Interest Spread (%)	2.01	2.51	3.97	3.73	3.79	4.11	2.39	4.76	3.34	0.38	3.02
Earning Spread (%)	2.84	3.30	4.61	6.13	5.55	5.79	4.48	8.89	4.54	1.96	6.18
Operating Efficiency											
Staff Cost / AEA (%)	1.64	1.75	2.09	2.50	2.14	1.89	1.73	1.87	1.46	1.58	1.75
Total Income / AEA (%)	10.19	10.42	10.88	11.73	10.21	10.29	6.37	9.66	6.82	4.38	7.83
Lending											
Approvals (Number)	1,751	1,019	1,007	1,105	1,903	2,104	1,709	1,502	1,840	1,817	717
Approvals ($M)	50.40	24.43	67.19	76.45	227.27	188.21	115.24	84.10	76.21	56.53	50.57
Loan Portfolio (Number)	6,092	6,282	5,990	4,372	5,588	5,888	5,251	5,989	5,987	6,435	5,258
Gross Loan Portfolio ($M)	321.70	293.30	282.50	281.18	325.01	392.69	446.27	443.07	433.26	426.21	336.80
Growth in Loan Portfolio (%)	1.41	-8.83	-3.68	-0.46	15.59	20.79	13.64	-0.72	-2.21	1.63	-20.98
Arrears / Loan Portfolio (%)	7.29	6.84	6.66	7.42	4.32	1.32	1.20	2.54	6.88	19.41	15.24

FIJI DEVELOPMENT BANK'S MARKET SHARE

	FDB ($M)	Commercial Banks ($M)	Credit Institutions ($M)	Fiji Total ($M)	FDB as a % of Fiji Total
Agriculture	**42.3**	**27.0**	**18.1**	**87.4**	**48.4**
Sugarcane Growing	5.9	0.8	-	6.7	88.0
Forestry & Logging	12.9	11.7	13.0	37.6	34.3
Others 23.5	14.5	5.1	43.1	54.5	
Mining & Quarrying	**0.7**	**4.4**	**2.2**	**7.3**	**9.1**
Manufacturing	**45.2**	**265.4**	**17.6**	**328.2**	**13.8**
Food, Beverages and Tobacco	27.5	94.9	0.6	123.0	22.3
Textiles, Clothing and Footwear	2.4	33.7	1.2	37.3	6.4
Metal Products and Machinery	1.4	21.6	0.9	23.9	5.7
Others	13.9	115.2	14.9	144.0	9.7
Building and Construction	**68.8**	**214.0**	**36.4**	**319.2**	**21.6**
Real Estate (Development)	**85.1**	**305.7**	**7.6**	**398.4**	**21.4**
Non-Bank Financial Institutions	**-**	**4.2**	**-**	**4.2**	**-**
Public Enterprises	**-**	**66.7**	**0.6**	**67.3**	**-**
Wholesale, Retail, Hotels and Restaurants	**17.5**	**761.0**	**30.3**	**808.8**	**2.2**
Hotels and Restaurants	5.7	271.3	6.4	283.4	2.0
Other Commercial Advances	11.8	489.7	23.9	525.4	2.2
Transport, Communications and Storage	**13.7**	**116.9**	**55.6**	**186.2**	**7.4**
Professional Business Services	**18.5**	**81.1**	**26.7**	**126.3**	**14.6**
Private Individuals	**44.4**	**851.6**	**136.2**	**1,032.2**	**4.3**
Housing	42.3	685.0	-	727.3	5.8
Car or Personal Individual Transport	0.2	8.1	-	8.3	2.3
Others	1.9	158.5	-	160.4	1.2
Central and Local Government	**12.6**	**24.4**	**0.3**	**37.3**	**33.7**
Other Sectors	**1.4**	**240.7**	**8.0**	**250.1**	**0.5**
TOTAL	**349.9**	**2,963.1**	**339.6**	**3,652.6**	**9.6**

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 2011. The bank's market share is highlighted.

Switched **On**

Rajesh Kumar, 37, is a man who has bright ideas for his business. Opened in December 2005, Sewak's Electrical Works, named after Rajesh's father, is a thriving small business located in the heart of Savusavu Town.

"I worked as an electrician with the Ministry of Primary Industries' Land & Water Resource Management section in Labasa for seven years where I got my work experience and it was there that I decided that I would go into business for myself one day," the Naqere man said.

Starting out with a free vehicle, compliments of his father, Sewak, and $1,000 in hard earned savings, Rajesh got his business going with his wife Reshma managing the administrative and over the counter sales at the shop while he concentrated on getting the sales and contract work.

A year after opening, a rival electrical company nearby was going out of business so Rajesh took over the shop at the Cooke's United Building where he has been located ever since.

In early 2011, Rajesh applied for working capital under the Small Business Scheme (SBS) facility FDB to help purchase stock for sale and materials for contract jobs. The SBS is designed for any entrepreneur starting out or already has a business in operation. The purpose of this facility is to help the applicant purchase or establish a business including the purchase or construction of buildings, equity investment, purchase of plant and equipment including motor vehicles, provision of working capital and the acquisition of shares. There is no maximum ceiling for this facility but it can only be used by businesses with a turnover of up to $100,000.

"The loan helped my business greatly because I was able to purchase much needed stock and material for my jobs," he said.

For a small business operator with a staff of three, Rajesh does well in covering electrical work not only for homes and commercial complexes, but also marine vessels, which, on this part of the island is very hard to find. Savusavu was declared an international port of entry in May 2008 and is a popular port of call with international yachts.

"I have clients not only in Savusavu but also Rabi, Taveuni and Kioa Island," Rajesh said.

The next step for Rajesh is a twin cab four wheel drive to help reach those steep, hilly locations where many of the affluent residents of Savusavu prefer to build their homes.

Rajesh and wife Reshma in their workshop. (Inset): Rajesh's gift from his father, Sewak.

Overview

The Operations business plan was to achieve a 60:40 focused sector to non focused sector lending portfolio by June 2012 as contained in the 2010-2012 Revised Strategic Plan. This was to be achieved through:

1. Sale of the Home Loan portfolio in year 1;
2. Increase in disbursement to the focused sector; and
3. Reduce disbursement to the non-focused sector.

Accordingly, the disbursement plan for the two sectors was to gradually increase lending to the Focused Sector and decrease lending accordingly for the non-Focused Sector. One strategy taken to expand the Focused sector disbursement was to acquire the four largest agro processors as well as import substitution and export oriented manufacturing businesses of which, three have been acquired to date.

Work also progressed on feasibility studies for the creation/expansion/reinstatement of large scale commercial farms for import substitution commodities such as cattle, dairy, sheep and rice farming to name a few possible ventures.

In comparison to commercial institutions, challenges faced by development banks are always greater because of the inherent risks that accompany the sectors invested in. In addition to environmental, climatic, social and economic conditions, doing business at the grassroots level must also be conducted with respect to the prevailing cultural or traditional norms that exist in the community.

Lending Activities during the Year

With respect to the 60:40 target set, the total portfolio as at the end of the June 2011 financial year stood at 39:61. For 2009 – 2011, the bank's target portfolio distribution was yet to be achieved. The non-achievement of

FDB CEO Deve Toganivalu addresses the 2010 Managers Conference.

the 60:40 ratio can be attributed to the following factors:

a. Disbursement target not matched.
b. Sale of the Home Loan portfolio did not eventuate.
c. Mid-stream settlement of a few of the bank's performing clients.

Portfolio

The bank's portfolio as at the end of the 2011 financial year stood at 5,255 customers with a loan value of $349.88MM of which 74.41% of accounts valued at $136.83MM comprised the Focused sector. The majority by number of accounts are represented by agricultural loans followed by wholesales/retails.

The non-Focused sector portfolio by borrowers accounted for 25.59% and valued at $213.05MM, the majority of which are concentrated in the Building & Construction and Real Estate sectors.

Compared to 2010, the total portfolio decreased in number and value by 19.55% and 20.13% respectively. The decline in the portfolio was due mainly to mid-stream settlement of debts and charge offs during the year.

In 2011 the bank approved a total of 707 applications valued at $60.56MM. The number of applications approved decreased by 59.01% over the 2010 period. By value, this also saw a decrease of 2.64% when compared to the 2010 financial year.

		Jun 2009		Jun 2010		Jun 2011	
		Value ($MM)	% to Total Portfolio	Value ($MM)	% to Total Portfolio	Value ($MM)	% to Total Portfolio
Focused	Current Portfolio ($MM)	135	31%	158	36%	137	39%
	Expected Portfolio ($MM)	145	33%	192	48%	244	54%
	Difference (%)	-8%	-2%	-22%	-12%	-78%	-15%
Non-Focused	Current Portfolio ($MM)	295	69%	280	64%	213	61%
	Expected Portfolio ($MM)	288	67%	209	52%	211	46%
	Difference (%)	3%	2%	25%	12%	1%	15%
Total Portfolio	Current Portfolio ($MM)	430		438		350	
	Expected Portfolio ($MM)	433		401		455	
	Difference (%)	-1%		8%		-30%	

Focused Sector Loans

During the 2011 financial year, the bank approved a total of 599 projects valued at $35.99MM. Of this, 28.59% ($17.31MM) of the approvals were for the Agriculture sector. Improving rural livelihoods and quality of life are the basis of such loans. The bank encourages subsistence farmers to take advantage of opportunities created by the local market demand as well as processing and export demands to increase their production from semi-commercial to commercial level. Loans under this sector also focus on forestry and logging and other resource based activities.

Approvals for the Manufacturing sector accounted for 18.47% ($11.19MM). Lending to this sector is encouraged for the simple reason that manufacturing and value adding local resources will spur economic growth, particularly where import substitution can be realised.

The Transport, Communication and Storage sector accounted for 8.04% ($4.87MM) of total approvals with micro, small and medium enterprises in the Wholesale, Retail, Hotels & Restaurants sector comprising 3.60% ($2.18MM) and Professional & Business Services at 0.73% ($0.44MM) of approvals.

Savusavu Special Administrator Vijay Chand visits the FDB booth during the Savusavu Open Day in July 2010

FDB booth at the 2010 Agriculture Show in Suva.

FDB booth at the 2010 Asco Motor Road Show in Kadavu.

FDB booth at the RBF Micro Finance Village, 2010 Hibiscus Festival in Suva.

Non-Focused Sector Loans

For the non-Focused sector, 108 applications valued at $24.56MM were approved. Of these, 24.49% ($14.83MM) were approved under Corporate Loans (loans valued over $500,000) to the Wholesale, Retail, Hotels & Restaurants sector while 14.77% ($8.95MM) was approved for the Real Estate sector. Compared to the 2010 financial year, improved activity in the Wholesale, Retail, Hotels & Restaurants sector saw approvals total $14.83MM (24.49%)

Market Share

The total market share of the bank's portfolio in relation to total loans and lease advances outstanding by all commercial banks and other licensed credit institutions stood at 9.6% at the end of the 2011 financial year. The reduction of 2.5% is indicative of the prevailing economic downturn experienced during the year. A similar reduction in market share was also experienced for other financial institutions.

The bank's market share for the Agricultural sector however, remains dominant at 48.4% when compared to other financial institutions. This is a strong indicator of the bank's commitment to development priorities in the rural and agricultural sector.

Strengthening Outreach

On 17 December, 2010 and 18 May, 2011, the bank opened two new branches in Nabouwalu and Taveuni respectively bringing to 11, the total number of branches FDB has Fiji-wide. Nabouwalu was previously serviced by Seaqaqa Branch and Taveuni by Savusavu Branch. With the opening of the two new branches, the bank further solidified its role as a key development partner of Government in the development of rural economies through the provision of affordable financing.

In February, 2011, the bank hosted an inaugural road show in Navua and participated in several microfinance and financial literacy expos organised by the Reserve Bank of Fiji (RBF) during the year. The bank also participated in the Ministry of Primary Industries' Agriculture Show which it also co-sponsored.

To improve customer access to payment channels, the bank on 27 May, 2011 joined the M-PAiSA service with Vodafone. This service allows all Vodafone and INKK customers registered for this service, to do amongst other things, loan repayments to the bank.

Credit Institution License

The bank continues to work towards securing a Credit Institution License with the RBF as a countermeasure to the high cost of funds it currently faces. The CIL will allow the bank to take unlimited term deposits which will improve liquidity, reduce the cost of funds and allow the bank to become self sustainable and provide competitive interest rates to customers.

Northern Development

In line with government's plan to spur economic activity in the Northern Division, the bank continues to give special attention to the north as is evident with the opening of the Nabouwalu and Taveuni Branches. The bank will also continue to work closely with the Northern Development Programme (NDP) to facilitate new project applications and monitoring of on-going projects.

Opening of Nabouwalu Branch, 17 December, 2010.

Opening of Taveuni Branch, 18 May, 2011.

New Product

As part of government's plan to convert electricity generation from fossil fuel to sustainable energy sources and reduce fuel importation, the Department of Energy (DOE) with the World Bank are promoting the use of solar, hydro or coconut oil fuel (alternative fuel for diesel generators) for lights or electricity generation through the Sustainable Energy Financing Project (SEFP).

In view of this plan, the bank undertook to be a Performance Financing Institution (PFI) for the World Bank and signed an MOU accordingly in April 2011 in which the World Bank guarantees 50% of the loan principal for borrowers accessing the facility with the bank. The facility will cater for energy loans of up to $1,000,000 with the loan term to end by December, 2017, when the World Bank guarantee expires.

Looking Ahead

In January, 2011 an independent review conducted by Mr. Gary Turnstall raised a few significant issues for immediate attention. Commissioned by the board, the Executive Committee (EXCO) decided that of the issues highlighted, the most critical four would be given immediate attention and as such formed an Implementation Team to consult with staff and recommend ways in which each could be comprehensively addressed. The following are the four key areas:

1. Manage the risk portfolio of TIA to under 10% of the total loan portfolio;
2. Reduce cost of funds;
3. Create a dynamic and efficient workforce; and
4. Drive business growth through quality sales and service delivery.

The key findings of the team led to the board in its meeting of June 2011, approving a reorganisation of the bank with effect from 1 July, 2011 of which the three main areas of operations will now be:

1. Relationship & Sales - formerly Operations, includes all lending centres and the newly created Customer Relations & Business Development Unit;
2. Business Risk Services – includes the new centres of Credit Risk, Policy & Approvals, Enterprise Risk Management & Compliance as well as the Asset Management Unit and Legal & Insurance;
3. Finance & Administration – includes Finance & Treasury, Human Resources & Training, MIS & IT, Properties & Administration and FDB Nominees.

2010 – 2011 Financial Year Data Based On RBF Classification

Sector/RBF Major	Approvals			
	No.	Value	% by No.	% by Value
Focused	**599**	**35,990,716**	**84.72%**	**59.43%**
Agriculture	401	17,313,945	56.72%	28.59%
Manufacturing	19	11,185,828	2.69%	18.47%
Mining and Quarrying	-	-	-	-
Professional & Business Services	36	439,334	5.09%	0.73%
Transport, Communication & Storage	52	4,869,899	7.36%	8.04%
Wholesale, Retail, Hotel & Restaurants	91	2,181,711	12.87%	3.60%
Non-Focused	**108**	**24,564,483**	**15.28%**	**40.57%**
Building & Construction	4	429,500	0.57%	0.71%
Others	-	-	-	-
Private Individuals	93	358,451	13.15%	0.59%
Professional & Business Services	-	-	-	-
Real Estate	9	8,946,632	1.27%	14.77%
Wholesale, Retail, Hotels & Restaurants	2	14,829,900	0.28%	24.49%
TOTAL	**707**	**60,555,200**		
Sector/RBF Major	**Portfolio as at 30/06/2011**			
	No.	Value	% by No.	% by Value
Focused	**3,910**	**136,831,058**	**74.41%**	**39.11%**
Agriculture	2,869	61,458,092	54.60%	17.57%
Manufacturing	91	39,318,331	1.73%	11.24%
Mining and Quarrying	5	356,491	0.10%	0.10%
Professional & Business Services	126	1,980,976	2.40%	0.57%
Transport, Communication & Storage	230	23,187,350	4.38%	6.63%
Wholesale, Retail, Hotel & Restaurants	589	10,529,818	11.21%	3.01%
Non-Focused	**1,345**	**213,049,951**	**25.59%**	**60.89%**
Building & Construction	65	91,670,005	1.24%	26.20%
Others	22	418,546	0.42%	0.12%
Private Individuals	1,110	43,868,722	21.12%	12.54%
Professional & Business Services	1	602,233	0.02%	0.17%
Real Estate	143	66,511,287	2.72%	19.01%
Wholesale, Retail, Hotels & Restaurants	4	9,979,158	0.08%	2.85%
TOTAL	**5,255**	**349,881,010**		

When you meet Dorothy Cammick, you can't help but be drawn to her. Her warmth and hospitality is obvious from the beginning - the key perhaps, to the success of her resort operations on Taveuni which she runs alongside her husband, Ric.

Better known as the Garden Island of Fiji, Taveuni is the third largest island in the Fiji Group. Covering an area of 435 square kilometers, it is home to the Tagimoucia flower, a national heritage park at Bouma and Fiji's second and third highest peaks – Uluigalau and Des Vouex Peak respectively.

"We came here from New Zealand in 1971 on our honeymoon and to look for land to buy, which we did and moved here eventually in 1975. For seven years we lived in a bure (traditional Fijian home) with our three children. We used a long drop toilet and had to drive nine miles to do our washing," Dorothy recalls with a smile.

The difficult start was preceded by an earlier mishap when a hurricane saw to it that the family dog and cargo on the ship they were travelling in, was lost before the Cammicks arrived on Taveuni to settle.

"We arrived here with nothing but I was fortunate because my husband (Ric) is a very practical man and he knew what needed to be done," Dorothy said.

Settling in to a life without many luxuries was not easy but the Cammicks are a sturdy people not immune to hard work and blessed with boundless energy. Soon, Dive Taveuni, the first tourism dive operation in Fiji was formed by the Cammicks, which they ran successfully for 27 years.

The straits of Somosomo is home to some of Fiji's best diving spots

Dorothy Cammick of Taveuni Island Resort.

- Rainbow Reef, The Great White Wall, Little White Wall, Rainbows End, Champion Rock and 3 Bommie to name a few. Many of these treasures were discovered and well documented by Ric for diving aficionados.

"For people to come out this way, we had to offer them something different, which we did with Dive Taveuni and even after all these years, Taveuni still presents a world class dive to the rest of the world," Dorothy said.

Towards the end of the 1990s, the Cammicks closed the dive operation to concentrate on their resort venture which they started from their homestead in 2000 with five bures. Taveuni Island Resort & Spa is now a five star resort, a stone's throw from the Matei Airport. The modern bures are nestled in 10 acres of beautifully landscaped flower gardens bordered by white sandy beaches, and overlooking the Somosomo Straits. A dip in the resort's horizon pool heightens a sense of infinity and immersion into the sea.

Clients of the Fiji Development Bank since 2005, the Cammicks received financing from FDB under its Building Construction facility to build seven additional bures and two spas. This loan facility caters for the construction of industrial or commercial buildings, shops, and tourist accommodation or resorts for owner occupation or rental investment.

Each of the 12 bures are constructed of native timber with tiled floors,

louvered windows, king-size beds and a verandah ideal for relaxing. The two spas pamper to resort guests that arrive from far flung corners of the globe such as Croatia, Russia, Poland and parts of Europe previously unknown to Fiji tourism. The 35 full time staff keep the resort running smoothly and the guests happy.

Because of connectivity problems and high cartage costs, the Cammicks have started their own food supply chain with chickens, eggs, fruits and vegetables. Meals are Fijian and continental, including dishes prepared with herbs and vegetables.

Taveuni Island Resort & Spa also offers good diving and amazing snorkeling as well as beachcombing, bird watching, visits to the rainforest or secluded beaches to escape from it all.

"Our workers are not our 'workers' they are more like family because many of them have been with us for a very long time…some from the very beginning," Dorothy said.

Ginger soaked in brine, Kaiming Agro-Processors, Navua.

For 2011, it was forecasted that the domestic economy would recover to a modest 2.1% from the provisional -0.2% in 2010. The anticipated growth was based on higher output forecasted by the Reserve Bank of Fiji (RBF) for the agriculture, fisheries & forestry; manufacturing; hotels & restaurants; mining & quarrying; wholesale & retail; financial intermediation; electricity & water; real estate & business services and the other community, social & personal services sector. The positive growth saw the monthly average inflation for June 2011 fall to 5.6% from 6.8% in June 2010.

The negative growth experienced in 2010 was the result of several factors – the impact of Cyclone Mick in December 2009, Cyclone Tomas in March 2010 and a drought brought on by a prolonged El Nino in the mid to latter parts of 2010 which led to a decline in the agriculture, transport, storage & communication as well as the real estate & business services sectors.

Managing risk is a challenge in an environment that is influenced by the global as well as the domestic conditions. Lending to the various sectors is determined by the movement, condition and growth within the industry that are subjected under its own risk parameters. Managing risk therefore, becomes an integral part of the bank's lending and more so because the bank raises its funds in the market in the confines of limited deposits. For 2011, improved liquidity in the market saw the weighted average cost of funds reduce by 0.51% to 6.08%. Despite the positive trend in the money supply, the impact on the bank's lending was slow to realise due to the long term nature of our assets against the short term duration of the bond market. Re-pricing of assets became a potential risk to the bank's sustainability and bringing forth a difference risk profile and challenges such as ability to repay loans and a possible increase in impaired assets.

To ensure that business remains sustainable, the bank continues to employ the methods and processes to manage risks from the enterprise-wide perspective whilst assessing the opportunities that contribute directly to the achievement of the bank's strategic objectives.

Regulatory Control

The bank is governed under the FDB Act 1967 (Cap 214) and is required to facilitate the initiatives and directives of the government in delivering its development objectives. The focus of the 2010-2012 Revised Strategic Plan is the resource based sectors and to this end, the lending policies in the agricultural sector was reviewed to accommodate the needs of the sector.

The macro-economic policies of the RBF during the year supported the initiatives by encouraging banks to lend more. Its monetary position was accommodative in stimulating the economy through the activities of the banks. Due to the high liquidity position, low underlying inflation and slow economic growth, the monetary policies of RBF remained vigilant to any indicators of emerging inflationary pressure.

FDB Road Show in Navua.

Policy Directives

During the year, the bank implemented the following policies:

1. **Revised Bank Guarantee Facility.** This policy was revised to streamline and update the implementing guideline including opening the facility to new customers of the bank.
2. **Complaints Management Policy Guidelines.** This was designed under the RBF policy framework issued in December 2009 to ensure proper and timely handling of all complaints received either at head office or in the branches.
3. **Sustainable Energy Financing Policy.** In collaboration with the Department of Energy and the World Bank to help government reduce the nation's fuel import bill, the bank designed a lending product that would enable businesses incorporate certain renewable energy systems.

Dairy farmer Filimone Naicavu, Tailevu.

Competition

The bank lends in a competitive financial market that includes commercial banks and non-bank credit institutions. Small & Mediums Enterprise loans to the focused sectors are given at a subsidised rate.

For the agriculture sector in particular where the risk factors are substantial, the bank lends at below market rate in keeping with its core role of development financing and as a result holds 48.4% market share valued at $42.30MM for all agricultural loans as at 30 June, 2011.

In terms of servicing corporate loans at market rates, the cost of funds prohibited the provision of a rate comparable to that offered by commercial banks and as expected, several large corporate accounts exited to commercial banks during the financial year. The willingness of commercial banks to take on these businesses is testament to the FDB's ability to financially assist these enterprises to its current level of success.

Insurance

To minimise loss against natural and man-made hazards, the bank ensures that it provides an appropriate level of cover to all clients for the duration of the loan period. While the bank has a preferred insurance provider, clients are advised on their option to find similar service providers should they wish as per the Consumer Credit Act (1999).

Liquidity Risk

Market liquidity rose from $510.20MM in December 2010 to approximately $660MM in June 2011. This was a marked improvement from $390MM at the end of November 2009 when the RBF lifted its cap on interest rates set in April 2009.

The improved liquidity translated to a nominal decrease in the average weighted cost of funds by 0.56%. Timely management of investments, maturities, short term borrowings, Government backed bonds and promissory notes enabled the bank to keep liquidity at a satisfactory level.

Interest Rate Risk

While the cost of funds came down marginally during the financial year, this was still significantly above many deposit taking institutions who were paying nominal rates of between 0.5-2%p.a. With the cost of funds determined by the market subject to domestic and global economic conditions as well as the policies

Farmers Rajesh & Sanjesh Prasad, Dreketi.

Dalo famer Savirio Lomanivere, Bua.

and politics of government, the bank managed its assets to ensure maximum returns.

FDB continues to work with the RBF on its Commercial Institutional License (CIL) for deposit taking as a long term solution.

Political Risk and Other Factors

A good external and internal indicator of how government politics and policies impact business, is to a look at the annual tourism earnings and the number of projects undertaken in the local construction industry respectively.

For 2009 and 2010, Fiji earned $816MM and $979MM (p) respectively from the tourism sector. For the first quarter of 2011, this sector recorded earnings of $209MM (p) in the first quarter of 2011. Tourism continues to be a strong performing sector.

For 2008-2010 the building and construction sector has remained relatively stable with a total estimated Value of Work Put in Place reaching $254MM, $250.26MM and $259.37MM respectively. For the first two quarters of 2011, the same was estimated at $127.68MM. This industry last peaked in 2006 when a total of $316.72MM of Value of Work Put in Place was achieved. Building and infrastructural works are strong indicators of a vibrant economy.

Structural reforms with resolutions to political uncertainties at the national level were the key priority in promoting investor confidence and improving growth. Particularly of interest to the bank were the land reforms and the sugar sector. Reforms under the Forestry and Dairy Industry will have some direct challenges on the bank's resilience to undertake major movements in its books through government-owned entities.

New policies on price controls aimed at benefiting consumers at the lower end, have some negative impact on the cost of production which would deter investments. Small business felt the increase in the cost of electricity but enjoyed competitive pricing in the communication and financial sectors.

Allowance for Loan Losses

The bank adheres to the RBF guidelines for account grading which determines provisions for loan losses. Individually Assessed Allowance is estimated on Trouble and Impaired Assets (TIA) to ensure doubtful accounts are provided for. The RBF requires that at least 70% of the value of all loans and advances are assessed annually.

The bank's allowance for loan loses is in compliance with the International Finance Reports Standards (IFRS).

From Real Estate to **Rice Farming**

Over the last two years, Government has increased its focus on import substitution as a means of decreasing reliance on imported food items and improving Fiji's self-sufficiency. Included in the list of crops to be cultivated locally is rice. Fiji imports close to $40MM of rice each year.

In 2009, Simon Swaran Singh a former Labasa resident who migrated to the United States of America in the mid-1990s, returned home to farm rice.

"I came back because I wanted to give something back, to help people because I was born here. I acquired a lease of 15 acres initially at Dreketi with a goal of reaching about 100 acres for rice farming," the former school teacher and real estate agent said.

The Dreketi Irrigation Scheme is now the home of Rewa Rice and 143 rice farmers that supply the mill. In the 2010/2011 season, a total of 305 hectares of rice was harvested. Off-season planting averages around 280ha.

Investing close to $0.25MM of his own resources on two harvesters and a dozer for the farm, Simon has gradually increased his lease holding to 105 acres of which 65 acres are now under rice farming.

Operating as Mershadan Farms, Simon is arguably one of the bigger producers of rice within the scheme.

"For the first season I farmed eight acres, the second season was

Simon clears a blocked drain in one of his rice paddies.

15 acres and by the fourth season I had planted 30 acres and managed to harvest around 24 tonnes of rice," Simon said.

For his sixth season, Simon is looking forward to harvesting approximately 60 tonnes from the 65 acres that he has under farm. Using the broadcasting method instead of employing costly labour to transplant rice; Simon has managed to contain his operational costs.

In early 2010, FDB approved working capital for Simon's expansion plans. FDB offers working capital for agricultural and fisheries projects, whether new or ongoing, provided the business meets the eligibility criteria.

To prepare an acre for planting, Simon spends around $200 and he found that using a rotavator with a tractor works out cheaper and he can get a whole lot more done faster. The inclusion of machinery is undoubtedly a huge leap forward in mechanizing rice farming in Fiji and it is Simon's plan to eventually become the largest rice farmer in Fiji. A tonne of rice paddy fetches $750 per tonne (June 2011).

"For Labasa it's all about red rice (popularly known as Bua Rice) and rice grown here in Dreketi has low chemical input and leans more towards organic production. Out of the 143 farmers here, only 10 to 15% of them use fertilizer for their crops," Simon said urging locals to favour the locally produced cereal over its more expensive import variety.

"Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large."

- *Making Good Business Sense by Lord Holme and Richard Watts.*

As a responsible corporate citizen, the bank continued to financially support its three key corporate social programmes – Donations and Sponsorships, financial literacy initiatives Money Smart™ and Invest Smart™ as well as the annual FDB Small Business Awards.

In addition to these, the bank has also participated in a number of community based expositions and road shows organised by the Reserve Bank of Fiji, the Ministry of Primary Industries and ASCO Motors. These events provided an opportunity to the bank to reach existing and potential customers in the rural and maritime regions where greater awareness on the various Focused sector financial products namely Agriculture and Small Business Scheme, were promoted to customers.

In February 2011, the bank also organised and hosted its very own road show in Navua where over 1,000 people from the Serua/Namosi Province had an opportunity to learn more about the bank's financial products geared to the resource-based sector.

Donations and Sponsorship

Through donations and sponsorships, the bank ensures that credible educational, not-for-profit organizations and charities with strong, sustainable community-based programmes receive much needed funding when requested.

In the 2011 financial year, the bank was a minority sponsor of the 2011 Agriculture Show. In terms of

Donation to Fiji Red Cross Society.


Donation to the Retired Soldiers and Ex-Servicemen's Association.

In April 2011, ADFIAP, the Association of Development Financing Institutions in Asia and the Pacific recognised Money Smart™ as one of two winners of its Human Resource Development Category as part of its annual Outstanding Development Projects Awards.

donations, the bank accommodated requests from the following organisations: Namosi Secondary School, Cuvu College, Prem Methodist Kindergarten (Sigatoka). Fiji Society for the Blind, Salvation Army, Fiji Association for the Deaf, Fiji Cancer Society, United Blind Persons Society, Retired Soldiers and Ex-Service Men's Association and the Fiji Red Cross Society.

Money Smart™ and Invest Smart™

Working collaboratively with the Ministry of Education since 2006, the bank has spent close to $250,000 to develop and implement Money Smart™ and Invest Smart™; the financial literacy programme for all (162) secondary schools in Fiji.

Money Smart™ was introduced as part of the Commercial Studies Curriculum at the Form 3 level in 2007 and Invest Smart™ introduced at the Form 4 level in 2011.

Money Smart™ introduces the basics of financial literacy. The main activities contained in the curriculum include Goal Setting (identifying needs and wants), Creating a Budget and Savings Plan followed by Saving Money. The latter being a practical measure of how well students have grasped the basic theory relevant to goal setting, planning and budget. Between 2007 and 2010, Money Smart™ course work comprised 30% of the total marks towards the Commercial Studies for the Fiji Junior Certificate Examination (FJCE) sat by students in Form 4.

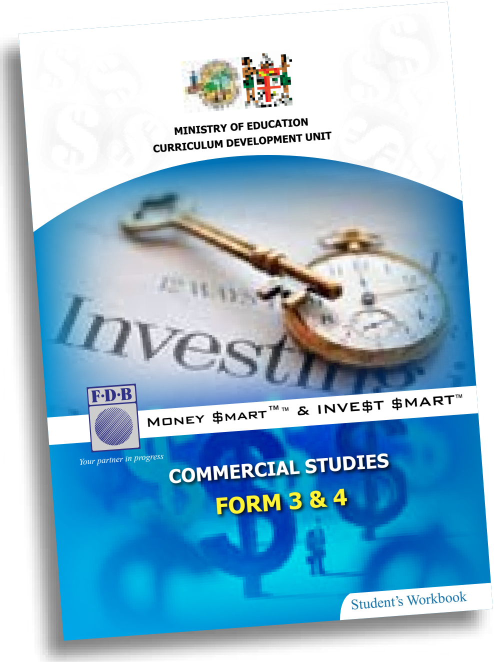
Annually, the bank also awards schools that receive 100% or as close to 100% in their moderated marks. Should two or more schools score the same for their moderated marks for their category, then the average savings per student is taken into consideration. The following schools were given the Money Smart™ Award for 2010.

Urban Category
Central College Lautoka

Rural Category
Rampur College (Navua)

Remote Category
Wainibuka Secondary School (Tailevu)

Very Remote Category
Ratu Finau Secondary School (Lau)



With the abolition of the FJCE at the end of 2010, Invest Smart™ was developed as a Common Assessment Task (CAT) by the Ministry of Education for the Form 4 level in 2011. The revised Money Smart™ and Invest Smart™ Student's Workbook and the Invest Smart™ Teacher's Teacher's Guide & Assessment Booklet were printed and handed over to the Ministry in May 2011.

Invest Smart™ further develops on the fundamentals of Money Smart™ by teaching students to investigate investment opportunities available in local financial institutions, design an investment plan and show evidence of investment of the savings accumulated over the two years.

In April 2011, ADFIAP, the Association of Development Financing Institutions in Asia and the Pacific recognized Money Smart™ as one of two winners of its Human Resource Development Category as part of its annual Outstanding Development Projects Awards. The awards are given to members, which in the judgment of the ADFIAP Awards Board, have implemented or enhanced outstanding and innovative development projects.

The two programmes are not only innovative but also sustainable for the long term. Government is also looking to include financial literacy into the school curriculum of all primary and secondary schools in Fiji in 2013.

EXPOS/Road Shows and the FDB Navua Road Show.

In the 2011 financial year, a concerted effort has been made to attend as many community-based expositions and road shows as possible. With the assistance of the Reserve Bank of Fiji and the Ministry of Agriculture, the Bank attended six expos on the two main islands as well as the outer islands in Cakaudrove and Lomaiviti.

In February 2011, the Bank also hosted its first ever road show in Navua Town. The road show hosted some 22 government, statutory and private enterprises over two-days at the Vashist Muni Memorial Primary School grounds where over 1,000 people came to learn enquire and buy a host of items for their business or personal use.

The event was about creating a market place where resource-base owners, farmers and anyone interested in starting a business, could come to find a market for their produce or products, discuss purchasing of agro-input materials with exhibitors and at the same time access financial services with FDB in addition to FNPF and Inland Revenue.

The classroom seminar sessions were hugely popular with many in attendance commenting that more of such events were needed. The series of parallel sessions included the following:

a. Technical - inputs from MPI and other sector experts;
b. Marketing – input from the buyers and exporters on what they look for, quality of produce and pricing; and
c. Business development – input from FDB on business plan and meeting the checklist.

Navua was selected as the venue for this event because of its proximity and location to people living in Serua, Namosi and Beqa Island – the target group for the event – and the fact that they had no financial institution located in their town. The potential benefits in


Classroom session at the FDB Road Show in Navua.


FDB staff processing enquiries at the FDB Road Show in Navua.

terms of business offered by the road show for residents living here were by location:

- Root crops, retail trading, wholesale, transportation (Namosi area)
- Water transport, scuba diving, boat tours, fishing (Beqa & coastal area)
- Aquaculture (fish and prawn farming, dairy farming, building renovation/construction, retails traders, water transport (Navua Town)
- Logging, value adding furniture, wood carving (Serua area)

At the end of the two days, the Bank registered a total of 91 enquiries valued at $1.43MM.

FDB Small Business Awards

The Bank's annual Small Business Awards was presented at the Forum Secretariat Fale on 24 November, 2010. Chief Guest on the occasion was Joes Farm and Dalmax Managing Director, Michael Joe.

In its seventh year, the SBA continues to grow in prestige as small business entrepreneurs realize the benefits of being a recipient of this Award. The Awards was created by the bank to recognize small businesses that are making a positive contribution to their sector, their community and to the national economy. It also serves as an encouragement to these small businesses to expand beyond their current parameters into medium sized enterprises.

Below are the winners for 2010:

1. Professional Services Category sponsored by Sun Insurance
   George Small Engine Repair
2. Agriculture Category sponsored by Crest Chicken
   Namuwai Dalo & Yaqona Farm
3. Wholesale/Retail Category sponsored by Fintel
   Ra Quality Kava & Junior's Pawn Shop
4. Tourism Category sponsored by The Fiji Development Bank
   Adi's Handicraft Centre
5. Open Category sponsored by Reserve Bank
   Ultimate Debt Agency
6. Manufacturing Category sponsored by New India Assurance
   Pusp Lata Tailoring

1 George Small Engine Repair winner of the Professional Services Category sponsored by Sun Insurance

2 Namuwai Dalo & Yaqona Farm Agriculture Category sponsored by Crest Chicken

3 Ra Quality Kava & Junior's Pawn Shop winner of the Wholesale/Retail Category sponsored by FINTEL

4 Adi's Handicraft Centre winner of the Tourism Category sponsored by The Fiji Development Bank

5 Ultimate Debt Agency winner of the Open Category sponsored by Reserve Bank

6 Pusp Lata Tailoring winner of the Manufacturing Category sponsored by New India Assurance

FINANCIAL REPORT

Fiji Development Bank and its Subsidiary Company
Directors' Report
Year Ended 30 June 2011

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 2011, 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.	Robert G. Lyon	-	Chairperson; Appointed on 28/08/2010
Mr.	Jitoko Tikolevu	-	Deputy Chairperson; Reappointed on 04/08/2010
Mr.	Josefa Serulagilagi	-	Appointed on 15/08/2008
Mr.	Isikeli Tikoduadua	-	Appointed on 20/01/2010
Mr.	Manasa Vaniqi	-	Appointed on 15/08/2008
Mr.	Mason Smith	-	Appointed on 30/11/2009
Ms.	Oliva Mavoa	-	Appointed on 06/01/2011

Former Directors

Mr.	John Prasad	-	Chairperson; Resigned on 29/08/2010
Mr.	Ilaisa Cavu	-	Appointment ended on 31/08/2010

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 2011 was $2,502,000 (2010 – $2,351,897).
The operating profit for the Bank for the year was $2,504,584 (2010 - $2,357,608).

DIVIDENDS

The directors recommend that no dividend be declared or paid.

BAD AND DOUBTFUL DEBTS

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

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

UNUSUAL TRANSACTIONS

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

Fiji Development Bank and its Subsidiary Company
Directors' Report
Year Ended 30 June 2011

SIGNIFICANT EVENT

The Bank lent $23.20 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 2011, the amount outstanding on this account including interest was $33.95 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 9th day of December 2011.

Director | **Director**

Fiji Development Bank And Its Subsidiary
Statement By Directors
Year Ended 30 June 2011

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

(i) the accompanying income statement of the Bank and subsidiary is drawn up so as to give a true and fair view of the results of the group for the year ended 30 June 2011;

(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 2011;

(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 2011;

(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 2011;

(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 9th day of December 2011.

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

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Email: info@auditorgeneral.gov.fj
Website: www.oag.gov.fj

Scope

I have audited the financial statements of the Fiji Development Bank for the financial year ended 30 June 2011, 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 2011 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
Suva, Fiji
13 December 2011

AUDITOR-GENERAL
FIJI

Fiji Development Bank and its Subsidiary Company
Statement of Financial Position
As at 30 June 2011

	Notes	CONSOLIDATED		THE BANK	
		2011	2010	2011	2010
		$	$	$	$
Assets					
Cash		44,776,489	21,556,022	44,732,724	21,512,938
Loans and advances	6	272,141,459	325,210,691	272,141,459	325,210,691
Investment in subsidiary	7	-	-	20,000	20,000
Investments	8	50,251	50,251	50,251	50,251
Non current asset held for sale	9	9,040,639	11,657,377	9,040,639	11,657,377
Land held for resale	10	675,822	513,149	675,822	513,149
Property, plant and equipment	11	14,805,809	15,372,324	14,805,809	15,372,324
Intangibles	12	45,218	56,763	45,218	56,763
Other debtors	13	3,585,165	4,326,700	3,582,037	4,324,052
TOTAL ASSETS		345,120,852	378,743,277	345,093,959	378,717,545
Liabilities					
Bonds - Held-to-maturity	14	163,385,062	219,913,487	163,385,062	219,913,487
Short term borrowings	15	55,830,053	34,736,928	55,830,053	34,736,928
Employee entitlements	16	1,836,175	1,566,906	1,836,175	1,566,906
Deferred income		1,792,623	2,023,282	1,792,623	2,023,282
Accounts payable and accruals	17	3,875,477	4,354,202	3,864,085	4,346,555
Other liabilities	18	5,158,511	5,407,521	5,158,511	5,407,521
TOTAL LIABILITIES		231,877,901	268,002,326	231,866,509	267,994,679
Equity					
Capital	19	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		46,004,753	43,502,753	45,989,252	43,484,668
Total capital and reserves		113,242,951	110,740,951	113,227,450	110,722,866
TOTAL LIABILITIES AND EQUITY		345,120,852	378,743,277	345,093,959	378,717,545

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 47 to 66.

Fiji Development Bank and its Subsidiary Company
Statements of Comprehensive Income
For the Year Ended 30 June 2011

	Notes	CONSOLIDATED		THE BANK	
		2011	2010	2011	2010
		$	$	$	$
INCOME					
Interest Income	2	34,728,532	30,364,508	34,727,731	30,363,558
Interest expense		16,897,803	18,197,122	16,897,803	18,197,122
Net Interest income		17,830,729	12,167,386	17,829,928	12,166,436
Fee Income	3	4,947,203	4,041,258	4,947,203	4,041,258
Other income	4	7,081,974	2,855,221	7,081,974	2,855,221
OPERATING INCOME		29,859,906	19,063,865	29,859,105	19,062,915
OPERATING EXPENSES	5	10,499,343	10,119,528	10,495,958	10,112,867
OPERATING PROFIT BEFORE ALLOWANCES		19,360,563	8,944,337	19,363,147	8,950,048
Allowance for credit impairment	6	16,858,563	6,592,440	16,858,563	6,592,440
Diminution in investments	8	-	-	-	-
Allowance for loss - Government Guarantee	13	-	-	-	-
OPERATING PROFIT BEFORE INCOME TAX EXPENSE		2,502,000	2,351,897	2,504,584	2,357,608
Income tax expense	1(p)	-	-	-	-
OPERATING PROFIT AFTER INCOME TAX		2,502,000	2,351,897	2,504,584	2,357,608

The income statements are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 47 to 66.

Fiji Development Bank and its Subsidiary Company
Consolidated Statement of Cash Flows
For the Year Ended 30 June 2011

	Notes	2011 $ Inflows (Outflows)	2010 $ Inflows (Outflows)
OPERATING ACTIVITIES			
Interest and subsidy received		31,189,267	24,005,128
Interest and other costs of borrowing paid		(17,069,009)	(17,760,565)
Dividends received		-	18,689
Fees received		4,947,203	4,041,258
Cash paid to suppliers and employees		(10,009,365)	(11,228,611)
Other receipts		7,323,805	2,977,819
Net cash from operating activities	25 (ii)	16,381,901	2,053,718
INVESTING ACTIVITIES			
Customer loans granted		(33,437,723)	(53,536,529)
Customer loans repaid		76,251,899	71,164,356
Payments for property, plant and equipment		(405,107)	(688,756)
Receipts from disposal of property and equipment		66,656	38,500
Payments for land held for resale		(162,673)	(71,809)
Net cash from investing activities		42,313,052	16,905,762
FINANCING ACTIVITIES			
Proceeds from long-term borrowings		61,763,239	48,904,363
Repayment of long-term borrowings		(94,232,850)	(83,858,000)
Net increase/(decrease) in short-term borrowing		(3,004,875)	4,283,075
Net cash used in financing activities		(35,474,487)	(30,670,563)
Net increase/(decrease) in cash and cash equivalent		23,220,467	(11,711,082)
Cash at the beginning of the financial year		21,556,023	33,267,104
Cash at the end of the financial year	25 (i)	44,776,489	21,556,022

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 47 to 66.

Fiji Development Bank and its Subsidiary Company
Statements of Changes in Equity
For the Year Ended 30 June 2011

CONSOLIDATED

	Notes	Capital $	General reserve $	Revaluation reserve $	Accumulated profits $	Total $
Balance at 30 June 2009		56,050,636	2,500,000	3,123,562	41,150,856	102,825,054
Net profit for the year		-	-	-	2,351,897	2,351,897
Opening retained earnings as restated at 30 June 2010		56,050,636	2,500,000	3,123,562	43,502,753	105,176,951
General Reserve for Credit Losses at 30 June 2010		-	5,564,000	-	-	5,564,000
Net profit for the year		-	-	-	2,502,000	2,502,000
Balance at 30 June 2011		**56,050,636**	**8,064,000**	**3,123,562**	**46,004,753**	**113,242,951**

THE BANK

	Capital $	General reserve $	Revaluation reserve $	Accumulated profits $	Total $
Balance at 30 June 2009	56,050,636	2,500,000	3,123,562	41,127,060	102,801,258
Net profit for the year	-	-	-	2,357,608	2,357,608
Opening retained earnings as restated at 30 June 2010	56,050,636	2,500,000	3,123,562	43,484,668	105,158,866
General Reserve for Credit Losses at 30 June 2010	-	5,564,000	-	-	5,564,000
Net profit for the year	-	-	-	2,504,584	2,504,584
Balance at 30 June 2011	**56,050,636**	**8,064,000**	**3,123,562**	**45,989,252**	**113,227,450**

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 47 to 66.

Fiji Development Bank and its Subsidiary Company
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011

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 2011 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 27th October 2011.

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

Fiji Development Bank and its Subsidiary Company
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011 (con't)

Revenue recognition (con't)
only when received.

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

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

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

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

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

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

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

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

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

Fiji Development Bank and its Subsidiary Company
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011 (con't)

(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.

Fiji Development Bank and its Subsidiary Company
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011 (con't)

Bad and doubtful loans and advances (con't)

Individually assessed allowances

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 income statement. Debts previously written off and subsequently recovered are written back to the income statement in the year in which they are recovered.

Impairment

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

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

Fiji Development Bank and its Subsidiary Company
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011 (con't)

(j) Investments

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

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

(k) Transactions in foreign currencies

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

Fiji Development Bank and its Subsidiary Company
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011 (con't)

Employee entitlements (con't)

Triennial leave

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

Number of Employees

The number of employees as at 30 June 2011 was 192 (2010: 198).

(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.

Fiji Development Bank and its Subsidiary Company
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011 (con't)

	CONSOLIDATED		THE BANK	
	2011	2010	2011	2010
	$	$	$	$
2 INTEREST INCOME				
Included in interest income are interest subsidies received / receivable from the Government for:				
- Agricultural loans	1,019,516	858,259	1,019,516	858,259
- Commercial Loans to Fijians scheme	1,392,168	1,838,499	1,392,168	1,838,499
- Economic Rehabilitation Package Scheme	142,955	169,722	142,955	169,722
- Small Business Scheme	296,810	298,581	296,810	298,581
- Northern Rehabilitation Package	212,153	230,720	212,153	230,720
	3,063,602	3,395,781	3,063,602	3,395,781
3 FEE INCOME				
Application fees	75,275	76,262	75,275	76,262
Establishment fees	463,086	547,849	463,086	547,849
Commitment fees	58,310	169,333	58,310	169,333
Bank Service fees	2,186,967	1,775,058	2,186,967	1,775,058
Arrears fees	1,672,497	1,028,048	1,672,497	1,028,048
Legal fees	490,068	443,314	490,068	443,314
Other fee income	1,000	1,394	1,000	1,394
	4,947,203	4,041,258	4,947,203	4,041,258
4 OTHER INCOME				
The following items are included in other income:				
Gain on sale of property, plant and equipment	80,328	27,200	80,328	27,200
Bad debt recovered	4,875,448	808,346	4,875,448	808,346
Insurance commission	139,801	156,906	139,801	156,906
Rental income	624,001	528,192	624,001	528,192
5 OPERATING EXPENSES				
Items included in administrative expenses:				
Amortisation of bond discounts	133	708	133	708
Auditors' remuneration	23,197	39,996	23,197	39,996
Directors' fees	158,665	99,552	158,665	99,552
Depreciation	833,736	829,491	833,736	829,491
Loss on property, plant and equipment	-	2,516	-	2,516
Employee costs	6,670,530	6,886,168	6,670,530	6,886,168

Fiji Development Bank and its Subsidiary Company
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011 (con't)

	CONSOLIDATED		THE BANK	
	2011	2010	2011	2010
	$	$	$	$
6 LOANS AND ADVANCES				
Loans and advances	336,795,354	426,205,982	336,795,354	426,205,982
Less: Interest and fees suspended	20,228,633	33,816,344	20,228,633	33,816,344
	316,566,721	392,389,638	316,566,721	392,389,638
Less: Allowance for credit impairment	44,425,262	67,178,947	44,425,262	67,178,947
Total loans and advances	272,141,459	325,210,691	272,141,459	325,210,691

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

Allowance for credit impairment is represented as follows:

	CONSOLIDATED 2011 $	CONSOLIDATED 2010 $	THE BANK 2011 $	THE BANK 2010 $
Individually assessed allowance				
Balance at the beginning of the year	38,649,924	31,018,882	38,649,924	31,018,882
Charge to the income statement	23,393,059	9,377,901	23,393,059	9,377,901
	62,042,983	40,396,783	62,042,983	40,396,783
Written off as bad debts against allowance for credit impairment	(36,489,625)	(1,746,859)	(36,489,625)	(1,746,859)
Balance at the end of the year	25,553,358	38,649,924	25,553,358	38,649,924
Unallocated Individually assessed allowance				
Balance at beginning of year	19,606,540	20,606,540	19,606,540	20,606,540
Charge/(credit) to the income statement	(7,698,500)	(1,000,000)	(7,698,500)	(1,000,000)
Transfer to individually assessed allowance	-	-	-	-
Transfer to general loan reserve	-	-	-	-
Balance at the end of the year	11,908,040	19,606,540	11,908,040	19,606,540
Collectively assessed allowance				
Balance at beginning of year	8,922,483	10,707,944	8,922,483	10,707,944
Charge/(credit) to the income statement	1,164,004	(1,785,461)	1,164,004	(1,785,461)
Balance at the end of the year	10,086,487	8,922,483	10,086,487	8,922,483
Total allowance for credit impairment	47,547,885	67,178,947	47,547,885	67,178,947

Fiji Development Bank and its Subsidiary Company
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011 (con't)

	CONSOLIDATED		THE BANK	
	2011	2010	2011	2010
	$	$	$	$
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 2011 $	CONSOLIDATED 2010 $	THE BANK 2011 $	THE BANK 2010 $
8 INVESTMENTS				
Shares in companies - at cost	3,349,541	3,349,541	3,349,541	3,349,541
Less: Allowance for diminution in value	3,299,290	3,299,290	3,299,290	3,299,290
	50,251	50,251	50,251	50,251
9 NON CURRENT ASSET HELD FOR SALE				
Loans and advances to subsidiary	12,784,522	11,657,377	12,784,522	11,657,377
Less: Interest and fees suspended	621,260	-	621,260	-
	12,163,262	11,657,377	12,163,262	11,657,377
Less: Allowance for credit impairment	3,122,623	-	3,122,623	-
Total loans and advances to subsidiary	9,040,639	11,657,377	9,040,639	11,657,377
Shares in subsidiary company - at cost	3,285,000	3,285,000	3,285,000	3,285,000
Less: Allowance for diminution in value	3,285,000	3,285,000	3,285,000	3,285,000
Total investment in subsidiary	-	-	-	-
Balance at the end of the year	9,040,639	11,657,377	9,040,639	11,657,377

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.

Fiji Development Bank and its Subsidiary Company
Notes to and Forming Part of the Financial Statements
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	CONSOLIDATED		THE BANK	
	2011	2010	2011	2010
	$	$	$	$
10 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	533,241	370,568	533,241	370,568
	1,533,241	1,370,568	1,533,241	1,370,568
Less: Allowance for dimunition in value	900,000	900,000	900,000	900,000
	633,241	470,568	633,241	470,568
Balance at the end of the year	675,822	513,150	675,822	513,149

	CONSOLIDATED AND THE BANK			
	Land and buildings	Plant and equipment	Fixtures and fittings	Total
	$	$	$	$
11 PROPERTY, PLANT AND EQUIPMENT				
Balance at beginning of the year	13,257,125	4,083,752	567,346	17,908,223
Acquisitions during the year	-	404,522	585	405,107
Disposals	(4,000)	(359,262)	-	(363,262)
	-	-	-	-
Balance at end of the year	13,253,125	4,129,012	567,931	17,950,068
Accumulated Depreciation				
Balance at beginning of the year	799,825	1,234,446	501,628	2,535,899
Depreciation charge for the year	192,449	586,333	45,856	824,638
Disposals	-	(216,278)	-	(216,278)
Balance at end of the year	992,274	1,604,501	547,484	3,144,259
Carrying amount				
Balance at beginning of year	12,457,300	2,849,306	65,718	15,372,324
Balance at end of the year	**12,260,851**	**2,524,511**	**20,447**	**14,805,809**

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.

Fiji Development Bank and its Subsidiary Company
Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011 (con't)

12 COMPUTER SOFTWARE - INTANGIBLES

	Total $
Balance at beginning of the year	62,777
In-house development cost	-
Acqusitions during the year	-
Disposals	-
Balance at end of the year	62,777
Accumulated Depreciation	
Balance at beginning of the year	6,014
Depreciation charge for the year	11,545
Balance at end of the year	17,559
Carrying amount	
Balance at beginning of year	56,763
Balance at end of the year	45,218

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. Included therein also is the acqusition of an additional module for upgrading of the Sun System.

	CONSOLIDATED		THE BANK	
	2011 $	2010 $	2011 $	2010 $
13 OTHER DEBTORS				
Government guarantees	5,039,571	5,039,571	5,039,571	5,039,571
Less allowance for loss - Government Guarantee	(5,039,571)	(5,039,571)	(5,039,571)	(5,039,571)
	-	-	-	-
Government interest subsidies	2,257,677	2,994,074	2,257,677	2,994,074
Others	1,327,488	1,332,626	1,324,360	1,329,978
	3,585,165	4,326,700	3,582,037	4,324,052
14 Bonds - Held-to-maturity				
Non-current				
RBF Export Facility	15,459,650	683,000	15,459,650	683,000
FDB Registered bonds - face value	147,882,000	219,182,850	147,882,000	219,182,850
Unamortised discount	43,412	47,637	43,412	47,637
	163,385,062	219,913,487	163,385,062	219,913,487

The RBF Export Facility has been reclassified from Accounts and other paybles to borrowing as the maturity profile of these funds ranges from 2 to 5 years.

The above registered bonds have a repayment term varying between 1 to 15 years and have been guaranteed by Government of Fiji.

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Notes to and Forming Part of the Financial Statements
For the Year Ended 30 June 2011 (con't)

	CONSOLIDATED		THE BANK	
	2011	2010	2011	2010
	$	$	$	$
15 BORROWINGS				
Short term borrowings	55,830,053	34,736,928	55,830,053	34,736,928

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%.

	CONSOLIDATED 2011 $	CONSOLIDATED 2010 $	THE BANK 2011 $	THE BANK 2010 $
16 EMPLOYEE ENTITLEMENTS				
Balance as at June 2010	1,566,906	1,321,828	1,566,906	1,321,828
Amount utilised	(193,759)	(38,488)	(193,759)	(38,488)
Expense for the year	463,028	283,566	463,028	283,566
Balance as at June 2011	1,836,175	1,566,906	1,836,175	1,566,906
17 ACCOUNTS PAYABLE AND ACCRUALS				
Interest accruals	2,968,287	3,182,905	2,968,287	3,182,905
Others	907,190	1,171,297	895,798	1,163,650
	3,875,477	4,354,202	3,864,085	4,346,555
18 OTHER LIABILITIES				
Seed Capital Fund	2,836,536	2,774,670	2,836,536	2,774,670
Staff Savings account	995,830	1,282,944	995,830	1,282,944
Export Facility	1,211,990	1,194,100	1,211,990	1,194,100
Farmers Assistance Scheme	114,155	155,808	114,155	155,808
	5,158,511	5,407,521	5,158,511	5,407,521

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 2011 $	CONSOLIDATED 2010 $	THE BANK 2011 $	THE BANK 2010 $
19 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

Fiji Development Bank and its Subsidiary Company
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For the Year Ended 30 June 2011 (con't)

	THE BANK 2011 $	THE BANK 2010 $
20 COMMITMENTS AND CONTINGENT LIABILITIES		
(a) Commitments		
(i) Loans approved but not disbursed	25,667,287	20,772,964
	25,667,287	20,772,964
(b) Contingent liabilities		
(i) Guarantees	936,782	1,450,000

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.

21 RELATED PARTY TRANSACTIONS

Directors
The following were directors of the Bank duirng the financial year ended 30 June 2011:

Current Directors

Mr Robert G. Lyon	Appointed on 28/08/2010 as Chairperson
Mr Jitoko Tikolevu	Deputy Chairperson; Reappointed on 04/08/2010
Mr Josefa Serulagilagi	Appointed on 15/08/2008
Mr Manasa Vaniqi	Appointed on 15/08/2008
Mr Isikeli Tikoduadua	Appointed on 20/01/2010
Mr Mason Smith	Appointed on 30/11/2009
Ms Oliva Mavoa	Appointed on 06/01/2011

Former Directors

Mr John Prasad	Chairperson; Resigned on 29/08/2010
Mr Ilaisa Cavu	Appointment ended on 31/08/2010

	CONSOLIDATED 2011 $	CONSOLIDATED 2010 $	THE BANK 2011 $	THE BANK 2010 $
Directors' fees	158,665	99,552	158,665	99,552

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.

Fiji Development Bank and its Subsidiary Company
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For the Year Ended 30 June 2011 (con't)

21 RELATED PARTY TRANSACTIONS (con't)

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
Tevita Madigibuli	General Manager Operations
Saiyad Hussain	General Manager Finance and Administration
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:

	CONSOLIDATED		THE BANK	
	2011	2010	2011	2010
	$	$	$	$
Short-term benefits	459,369	540,921	459,369	540,921

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 $262,591.71 (2010: $284,338.88) to executives are included in "Loans Advances" (refer note 6). The loans were provided under normal terms and conditions.

22 RISK MANAGEMENT POLICY

CREDIT RISK

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

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

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

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RISK MANAGEMENT POLICY (con't)

CREDIT RISK (con't)

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

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

CREDIT RISK CONCENTRATION

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

Industry	2011 $	2010 $
Agriculture	61,327,558	66,284,670
Building and construction	91,669,701	64,792,711
Manufacturing	39,409,580	41,062,706
Mining and quarrying	356,465	1,298,874
Private individuals	43,795,262	57,300,389
Professional and business services	2,572,808	22,457,776
Real estate	66,483,521	120,906,371
Transport, communication and storage	23,182,717	21,516,109
Wholesale, retail, hotels and restaurants	20,457,396	39,522,220
Others	324,868	2,721,535
Total	349,579,876	437,863,359

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.

LIQUIDITY RISK MANAGEMENT

Liquidity risk involves the inability of the Bank to fund increases in assets, manage unplanned changes in funding sources and to meet obligations when required, without incurring additional costs or inducing a cash flow crisis. 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. Bank's strong and effective liquidity risk management policy and framework ensures that Bank has sufficient liquid assets to meet liabilities that fall due in the short term and to meet any unexpected demands for funds by its depositors or creditors.

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.

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RISK MANAGEMENT POLICY (con't)
LIQUIDITY RISK MANAGEMENT (con't)

Since the bank does not have trading activities or 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.

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 2011	Increase in Lending Rate (+2.50%)	Decrease in Lending Rate (-2.50%)
Weighted Average Borrowing Cost (%)	6.08	8.58	3.58
Cost of Borrowing ($)	16,897,803	22,403,077	11,392,529
Profit/(loss) ($)	2,504,584	(3,001,040)	8,009,807

MARKET RISK

Market risk refers to the uncertainty of future earnings resulting from changes in interest rates, exchange rates, market prices and volatilities. Normally financial institutions assume market risk from consumer and corporate loans, position taking, and trading and investment activities.

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.

The strategy for controlling Bank's market risk involves:

- Investing surplus funds in other banks and financial institutions;
- Stringent control and limits;
- Timely Review of loan and deposit pricing;
- Regular independent review of all controls and limits; and
- Rigorous testing and auditing of all pricing, trading, risk management and accounting systems.

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RISK MANAGEMENT POLICY (con't)
MARKET RISK (con't)

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.

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

Liquidity Risk

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

	As at June 2011	Increase in Lending Rate (+2.50%)	Decrease in Lending Rate (-2.50%)
Weighted Average Lending Rate (%)	8.35	10.85	8.85
Interest Income ($)	34,728,532	41,140,847	28,312,559
Profit/(loss) ($)	2,504,584	8,916,549	(3,908,081)

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.

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RISK MANAGEMENT POLICY (con't)

OPERATIONAL RISK (con't)

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.

23 MATURITY ANALYSIS

2011	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	44,776	-	-	-	-	-	44,776
Loans	51,664	11,866	36,211	167,682	82,157	(25,553)	324,027
Total	**96,440**	**11,866**	**36,211**	**167,682**	**82,157**	**(25,553)**	**368,803**
Liabilities							
Borrowings	-	36,244	51,190	117,688	14,093	-	219,215
Total	**-**	**36,244**	**51,190**	**117,688**	**14,093**	**-**	**219,215**
2010							
Assets							
Cash	21,556	-	-	-	-	-	21,556
Loans	66,476	30,575	48,007	148,058	144,747	(38,650)	399,213
Total	**88,032**	**30,575**	**48,007**	**148,058**	**144,747**	**(38,650)**	**420,769**
Liabilities							
Borrowings	-	32,190	72,649	137,761	12,050	-	254,650
Total	**-**	**32,190**	**72,649**	**137,761**	**12,050**	**-**	**254,650**

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24 IMPAIRED AND PAST-DUE ASSETS

	THE BANK 2011 $	THE BANK 2010 $
Non-accrual loans without individual assessed allowance		
Gross	28,077,796	12,407,687
Less: suspended debt	(5,348,115)	(2,166,303)
Net non-accrual loans without individual assessed allowance	22,729,681	10,241,384
Non-accrual loans with individual assessed allowance		
Gross	62,285,080	94,979,068
Less: suspended debt	(14,958,222)	(27,929,370)
	47,326,858	67,049,698
Less: individual assessed allowance	(23,432,454)	(30,929,356)
Net non-accrual loans with individual assessed allowance	23,894,404	36,120,342
Restructured loans without individual assessed allowance		
Gross	240,730	134,639
Less: suspended debt	(30,254)	(23,082)
Net restructured loans without individual assessed allowance	210,476	111,557
Restructured loans with individual assessed allowance		
Gross	179,919	5,785,881
Less: suspended debt	(68,359)	(1,801,965)
	111,560	3,983,916
Less: individual assessed allowance	(77,963)	(2,871,041)
Net restructured loans with individual assessed allowance	33,597	1,112,875
Other impaired loans		
Gross	2,303,752	3,967,822
Less: suspended debt	(10,367)	(186,382)
Net other classified loans	2,293,385	3,781,440
Total impaired and past-due loans	49,161,543	51,367,598
Past-due loans		
Gross	30,960,605	23,829,621
Less: suspended debt	(274,331)	(213,280)
Total past-due loans	30,686,274	23,616,341

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25 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	
	2011	2010
	$	$
Cash	44,776,489	21,556,022
(ii) Reconciliation of operating profit after income tax to net cash provided by operating activities		
Operating profit after income tax	2,502,000	2,351,897
Add / (less) non-cash items:		
Amortisation of bond discounts	43,412	47,637
Depreciation	833,736	829,491
Gain on disposal of fixed assets	80,328	(24,684)
Accrual for annual and long-service leave	269,269	245,078
	16,858,563	6,592,440
	20,587,308	10,041,859
Change in assets and liabilities:		
Increase in interest receivable	(4,275,662)	(5,122,916)
Increase in deferred income	(230,659)	-
Decrease in accounts receivable	392,162	168,487
Increase/(Decrease) in grants and subsidies receivable	736,397	(1,236,464)
(Decrease)/Increase in interest payable	(214,618)	388,920
Decrease in other accruals	(613,027)	(2,186,168)
Net cash from operating activities	16,381,901	2,053,718

26 COMPARATIVES

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

27 PRINCIPAL ACTIVITIES

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

28 PRINCIPAL PLACE OF BUSINESS

The Bank's head office is located at the Development Bank Centre, 360 Victoria Parade, Suva. Tha Bank also has 11 branches located throughout Fiji.

BA BRANCH
Varoka, Ba, FIJI.
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Ph: (679) 881 1944
Fax: (679) 881 4009

LAUTOKA BRANCH
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Fax: (679) 666 5950

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