
F·D·B
your partner in progress
ANNUAL REPORT 2012

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 others in the banking and finance sector.

The bank has also 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™ and Invest Smart™, a financial literacy programme in all Fiji secondary schools as well as the annual FDB small business awards.

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CHAIRMAN'S LETTER

FIJI DEVELOPMENT BANK

Development Bank Centre
360 Victoria Parade
PO Box 104
Suva, Fiji.
Tel: 3314 866
Fax: 3314 886

28 November, 2012

28 November, 2012.
Commodore Josaia Voreqe Bainimarama
Prime Minister and Minister of Finance
Level 4, Government Buildings (New Wing)
Gladstone Road
SUVA.

Dear Sir,

RE: 2012 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, 2012.

Despite slow growth in new business and stiff competition from other banks and financial institutions, the bank recorded a net profit of $2.86MM. This was an increase of $0.41MM compared to the 2011 financial year.

The bank's gross loan portfolio declined by 3.7% to $324.51MM, due to early exit of a few large clients and write-off of non-performing accounts.

The board wishes to express its sincere gratitude to the executive management and staff for their effort and commitments throughout the financial year.

We look forward to the continued support and contribution of the government in our endeavour to provide affordable developmental financing for the economic and social development of Fiji.

Yours sincerely,

…………………..

Robert G. Lyon (Mr.)
CHAIRMAN

EXECUTIVE REPORT

Our customers are central to our business. We continue to strive to build and maintain life-long relationships with our customers by ensuring continuity and consistency in the quality of service and financial products that we provide.

The financial period stated for the purposes of this annual report is 1 July, 2011 to 30 June, 2012. For ease of reference, the financial year is noted as 2012.

Global environment

The global economic conditions during this period can perhaps best be described as volatile. According to the World Bank's global economic prospects report (2012), the first half of 2012 showed greater promise as "significant structural, fiscal and monetary policy steps in high-income Europe during the fourth quarter of 2011 and the first quarter of 2012 contributed to significant improvement in market sentiment, and less constraining financial conditions."

For 2011, the world economy was expected to grow by 4.3%. However, growth in advanced economies was revised downward to 2.2% from 2.4%. By May, 2012 the global economic conditions has deteriorated due to renewed sovereign debt and financial sector concerns in Europe. The Euro zone problems during the year extended to Spain and Cyprus followed by Ireland, Portugal and Greece with the respective banking sectors requiring bail out. In Japan, the recovery from the Fukushima earthquake and tsunami continued while in China and India, their economies continued to decelerate as reduced external demand for goods and services reflected in the declining investment on industrial output.

Closer to home, in Australia, the non-mining sectors continued to show an unused portion of the economy's productive capacity while in New Zealand, lower commodity prices affected trading partner outlook. The high exchange value of these two currencies against the Fiji dollar would also pose significant challenges to local importers and resulting cost of imported goods.

Local economic indicators

At the end of September 2011, consumption remained positive but lukewarm. Consumer prices on all items dropped by 0.4% from 10.1% and 2% for food items from 11.1%. Fiji's foreign reserves increased also to $1,626.70MM, equivalent to 4.8 months of import of goods and non-factor services. Inflation for the period also decelerated to 9.7% from 10.4% the previous month. Investment indicators showed positive results with a business expectation survey (BES) showing firms' willingness to increase investment particularly in plant and machinery over the medium term.

By December 2011, consumer prices on all items declined further by 2% while prices on food items held steady at 9.1%. Cumulative to November 2011, sugar cane output increased by 15.5% over 2010 with the tonne of cane to tonne of sugar (TCTS) ratio dropping to 12.3t. Tourism also had a strong showing for the year due in large part to efforts by Tourism Fiji's active promotion and marketing abroad as well as Air Pacific's expanded service to its direct destinations in particular Australia.

Investment indicators for 2011 suggested possible recovery for 2012 with investment intentions and activities focused on Fiji's resource and tourism sectors suggesting subdued fixed capital formation in other industries.

As at June 2012, the consumption stimulus brought on by lowered taxes on personal income saw consumer prices drop as well to 4.7% on all items and 4% for food items. Investment for the first five months of 2012 was valued at $41.50MM mainly in the real estate, building and construction sectors. Conversely, domestic cement sales declined annually by 2.2% suggesting weak activity in the construction sector.

The two floods of January and March/April 2012 had a profound impact on personal as well as business assets. The flood affected 15,000 people and left in its wake, an estimated $90MM in damage to homes, businesses and livelihoods.

Like 2011, liquidity in the banking system remained high ($538MM) resulting in lending

A new strategic plan for the 2013-2015 period is highly anticipated for the bank. This will chart the way forward for the FDB in the medium term.

and deposit rates to fall to as low as 7.11% and 2.6% respectively at the end of June 2012.

Our business

The bank reported a net profit of $2.86MM for the financial year ending 30 June, 2012. This was an increase of 14.1% over the 2011 financial year. The 2012 net profit also represented a return on average assets (ROA) of 0.9% - up from 0.7% in 2011 and a return on average equity (ROE) of 2.5% for 2012 – a 0.3% increase over 2011.

The bank's main source of revenue, interest income, decreased by 18.2% when compared to 2011. This decrease is largely attributed to the reduction in the overall market interest rate and also a reduction in the bank's loan book as a result of competition. Reduced income was also noted in other sources of revenue including fees, bad debt recovered and rental income.

The bank's interest and other borrowing expenses declined by $5.94MM as cost of borrowing reduced by 1.6% compared to 2011. The bank also redeemed high cost bonds totalling $34.10MM during the financial year.

Based on a thorough risk assessment, the bank set aside $13.76MM for future credit impairment. This was a decline of 18.4% over the financial year due to a slight improvement noted in the impaired loan portfolio.

Our risks

Development banking is a high risk business. It is imperative therefore, that the bank implements prudent risk management strategies to remain sustainable. The bank acknowledges that whilst risk is an integral component to its business; it can be shared and minimised.

In maintaining equilibrium, the bank continues to employ the methods and processes to manage risk from the enterprise-wide perspective whilst assessing the opportunities that contribute directly to the achievement of the bank's strategic objectives.

The bank looks forward to strengthening the enterprise risk framework which is where the enterprise risk management (ERM) team will be responsible for facilitating risk identification and risk avoidance throughout the organisation in consultation with the policy and processes unit. ERM will become a priority to ensure that the bank maintains a stable position and able to withstand the various degrees of risk in an attempt to fulfil its development banking role.

Our customers

Our customers are central to our business. We continue to strive to build and maintain life-long relationships with our customers by ensuring continuity and consistency in the quality of service and financial products that we provide. As often as possible, our relationship and sales officers visit project sites even as far as the maritime islands where we have a number of customers as well. The onsite visitations give us an appreciation of the project as well as an opportunity to learn from and mentor the project owner.

Our people

FDB competes to recruit the best candidate possible for vacancies within the organisation. The technical and diverse nature of the bank's business provides an opportunity for anyone with specialised skills and a passion for development financing to join and take on the challenge that is development banking.

Every regard is given to help staff improve personally and professionally and it is with the latter in mind that professional development courses are offered in-house and externally to staff on a regular basis. External trainings attended by staff include those provided by Fiji National University, Investment Fiji, Sun Insurance, Fiji Institute of Accountants and the Fiji Human Resources Institute to name a few.

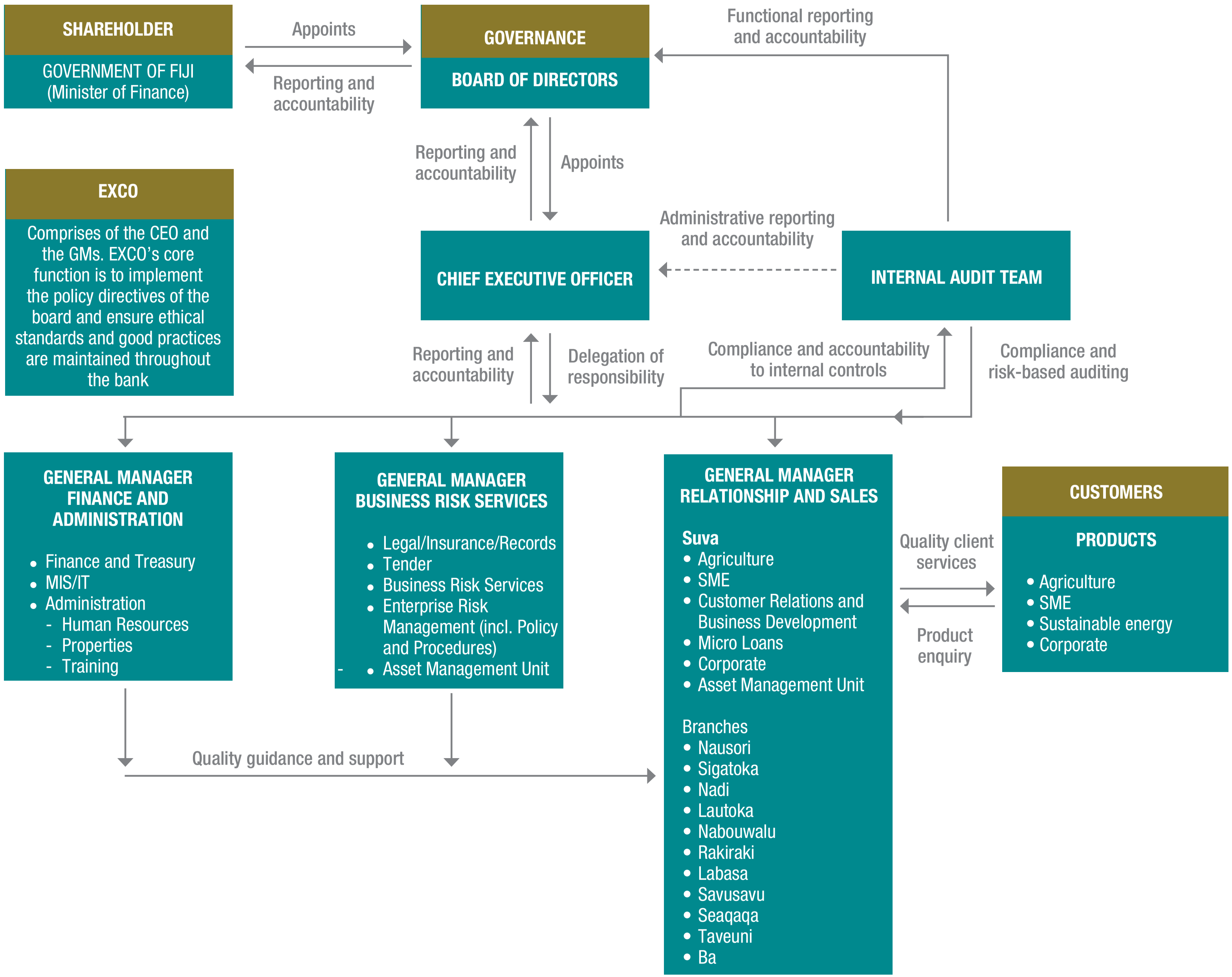
The staff development policy and training needs analysis supports a culture of continuous learning and up-skilling through on-the-job training, part-time studying as well as correspondence and short courses at both overseas and local institutions. Each year the bank's executive committee (EXCO) approves a quota of staff interested in undertaking relevant undergraduate courses local tertiary institutions.

Looking ahead

The Reserve Bank of Fiji (RBF) forecasts that the local economy will grow by 2.7% in 2013. The growth is forecast on anticipated activities in the agriculture, manufacturing and financial intermediation sectors as well as moderate contributions expected from the other sectors.

A new strategic plan for the 2013-2015 period is highly anticipated for the bank. This will chart the way forward for the FDB in the medium term.

Fiji Development Bank Organigram



BOARD OF DIRECTORS

Mr. Robert G. Lyon

Chairman

(appointed September 2010).

Mr. Lyon spent over 43 years with the ANZ Bank. He has worked extensively in the Asia-Pacific region including 12 years as managing director Pacific, during which time he also looked after ANZ's retail operations in Asia.

Mr. Lyon has held numerous board positions including chairman of FINTEL/Kidanet, and Melbourne City Marketing (Australia). His current chairman appointments include the Foundation for Development Cooperation, Sunergise, Denarau Residential Estates Limited and the Kula Fund Investment Board. He is also a board member of the Melbourne Chamber of Commerce, the Pacific Economic Bulletin, the Denarau Corporation Limited, the Australia-Papua New Guinea Business Council (APNGBC) and the Australia Pacific Islands Business Council (APIBC).

Mr. Lyon also spent 14 years with the Australia-Fiji Business Council (AFBC) of which he was its president for five years. He holds a graduate diploma in organisation development from the RMIT University in Melbourne (Australia) and is a fellow of the Australian Human Resources Institute and a senior fellow of the Financial Services Institute of Australasia. In 2005 he was awarded the 30th Independence Anniversary Commemorative Medal by the government of Papua New Guinea for services to the banking industry.

Mr. Jitoko Tikolevu

Deputy chairman

chairman (served September 2007 – 2010; reappointed September 2010).

Mr. Tikolevu is the chief executive officer of the Fiji Revenue and Customs Authority (FRCA). He is a graduate of business studies from the University of the South Pacific (Fiji) and holds a master of commerce in taxation with honours from the University of Auckland (New Zealand). He is also a director for Investment Fiji.

Ms Olivia Mavoa

Director

(appointed January 2011).

Ms. Mavoa is the general manager for Musket Cove Resort on Malololailai Island. She holds a postgraduate diploma in business administration from the Central Queensland University (Australia).

Her work experience include manager for the then Fiji Trade and Investment Board's (now Investment Fiji) northern regional office (March 2009-2010), tourism and business consultant for Mavoa Consultancy (2004-2009) and chief executive officer for the then, Fiji Hotel Association (now Fiji Islands Hotel and Tourism Association) from 1994 to 2004.

Mr. Joseva Serulagilagi
Director
(appointed August 2008 – 2011; reappointed September 2011).

Mr. Serulagilagi is the chairman of the Public Service Commission, the Tailevu Provincial Council and the Rewa Cooperative Dairy Company Limited. He holds a bachelor of arts in sociology and management/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 the University of Bradford (United Kingdom). He is a retired civil servant with a career spanning over 34 years.

Mr. Manasa Vaniqi
Director
(appointed August 2008 – 2011; reappointed September 2011).

Mr. Vaniqi is the permanent secretary for sugar. He has previously served as permanent secretary for the Ministry of Provincial Development and Multiethnic Affairs and as deputy secretary for 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 has vast experience in the civil service.

Mr. Isikeli Tikoduadua
Director
(appointed January 2010).

Mr. Tikoduadua is the chief executive officer of Home Finance Company. He holds a master of business administration from the University of the South Pacific (Fiji). 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 in Fiji.

Mr. Mason Smith
Director
(appointed November 2009).

Mr. Smith was the permanent secretary for agriculture (2009-2012). He resigned as PS in June 2012 to pursue opportunities in the private sector. A career military officer (1985-2007) he entered the public service serving as counsellor and later as acting head of mission for Fiji's Permanent Representative to the United Nations (2007-2009).

He holds a master of management in defence studies from the University of Canberra (Australia), a postgraduate certificate in diplomacy and is a fellow of the Asia-Pacific Centre for Security Studies in Hawaii (United States of America).

GOVERNANCE STATEMENT

The Fiji Development Bank recognises the importance of good corporate governance and believes that organisation-wide transparency and accountability ensures that it conducts its business in a manner that inspires trust from all stakeholders in particular our customers and employees.

To ensure this takes place, the bank conforms to the international financial reporting standards (IFRS), the FDB Act (Cap 214), banking regulation requirements as directed by the Reserve Bank of Fiji (RBF), the consumer credit amendment act (2006) and accompanying regulations (2009) as well as any policy directives set by government as the sole shareholder. By creating such an enabling environment, we believe that benefits to stakeholders - government, employees, customers, creditors, investors, regulators, society and other concerned parties – can be maximised.

Corporate responsibility as part of our business

Our clients

We will provide exemplary customer service at all our touch points. Our customers have complete faith and trust in our abilities to serve them well. The bank is committed to provide banking services and products that will respond to the individual customer's needs.

Our people

The bank intends to develop staff competencies and skills to optimise benefits to the bank. It is committed to build a favourable working environment and culture in the organisation as well as to ensure a clear career path and suitable compensation for staff so as to create a team spirit.

Our community

The bank is earnest and aware of its responsibility and contribution to society by participating in activities that will improve the quality of life for all citizens. The bank will also monitor and continuously improve bank policies and financial products to ensure it meets with the current and future needs of Fiji and her people.

Our stakeholders

The bank's objective is to perform sustainably in the pursuit of market share. This will enhance the bank's value to its shareholder and stakeholders.

The board

Members of the board are appointed by the minister of finance and operate under the provisions of the FDB Act (Cap 214). The board is responsible to government as the sole shareholder for the governance and oversight of the operations and financial performance of the bank. It also sets the strategic direction and financial objectives, determines the appropriate risk appetite of the bank and monitors operational performance.

The board members are persons of calibre with diverse expertise, skills and experience. They have tremendously dedicated themselves in terms of both expertise and time to the business of the bank, especially to the meetings of the Board and other committees to ensure operational efficiency and optimal benefit to the bank.

The board of directors meet once a month and are paid a director's fee in addition to a sitting allowance as directed by the Ministry of Finance for every sub-committee meeting attended.

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

The details of the directors' participation at such meetings are given below:

NAME	POSITION	DATE OF APPOINTMENT	MEETING ATTENDED
Robert G. Lyon	Chairman	September 2010	7/7
Jitoko Tikolevu	Deputy chairman	September 2010	5/7
Joseva Serulagilagi	Member	September 2011	7/7
Manasa Vaniqi	Member	September 2011	6/7
Olivia Mavoa	Member	February 2011	7/7
Mason Smith	Member	April 2010	5/7
Isikeli Tikoduadua	Member	January 2010	7/7

Board sub-committees

The board of directors have set up three committees to assist in the supervision or scrutiny of certain matters so as to ensure accountability and efficiency. These committees are authorised to make decisions in accordance with their delegated powers.

Audit committee

The bank gives priority to internal control systems at both management and operational levels to ensure that benefits to customers and the bank are properly managed. The board established the audit committee to ensure oversight and review of areas critical to the overall operation of the bank. The members are:

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

The committee oversees the operation of the internal audit team and provides liaison between the board, auditors and the management on matters pertaining to the bank's financial reporting policies as well as internal control, procedures and processes. It is also responsible for the integrity of the bank's financial reports. The audit committee met three times during the year.

This committee also acts on behalf of the board of directors and oversee all material aspects of FDB's financial reporting, control audit functions, except those specifically related to the responsibilities of another standing committee of the board.

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. Robert G. Lyon : Chairman
Mr. Isikeli Tikoduadua : Member
Mr. Mason Smith : Member

This committee is also 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 five times during the year.

Human resources committee

This committee was established during this financial year with delegated powers to make decisions relating to the management of human resources in relation to staff within the bank in accordance with statutory regulations. The members are:

Mr. Joseva Serulagilagi : Chairman
Mr. Robert G. Lyon : Member
Mr. Manasa Vaniqi : Member

The role of this committee is to provide strategic direction in moving the organisation's human resource agenda forward and to continually review the organisation's approach to ensure it has a workforce capable of delivering its strategic aims and objectives.

Management

Executive committee (EXCO)

The chief executive officer (CEO) heads the executive committee (EXCO) that comprises of the general manager business risk (GMBRS), the general manager relationship and sales (GMRS) and the general manager finance and administration (GMFA). 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 so as to maximise the shareholder's value;
- Ensure compliance of all regulations and laws; and
- Setup and implement an effective internal control system, commensurate with business requirements.

Compliance and regulatory framework

Internal audit

Internal audit operations are guided by an internal audit charter. The internal audit team is responsible for monitoring the operations of the bank and determines its compliance with the internal control systems and procedures. The team directly reports to the board's audit committee with dotted line reporting to the CEO for administrative purposes only. This ensures the independence of the team.

External audit

Under the FDB Act (Cap 214) and the Financial Management Act (2004) as well as its subsequent amendment promulgation (no.21) of 2007, the financial statement of the bank is required to be independently audited annually and in accordance with the FMA. The auditor general is the external auditor of the bank who provides an independent opinion that the bank's financial reports are true, fair and comply with applicable standards.

Stakeholders

Employees

Employees whilst performing their duties are required to adhere to the bank's internal policies and procedures. Any non-compliance and non-performance is dealt with in accordance with the set procedures in the collective agreement with the Fiji Bank and Finance Sector Employees Union (FB&FSEU) and the general instructions (GI) of the bank. The human resource department of the bank ensures that all individual employees sign and abide by the code of conduct, oath of secrecy and to declare any conflict of interest that may arise while fulfilling their duty as employees of the bank.

To safeguard the interest of its many 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. Whereby, 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 corporate entity, the bank supports financial literacy programmes in all secondary schools in Fiji as well as the recognition of small business entrepreneurs through its annual small business awards (SBAs). In addition, the bank maintains an annual allocation for sponsorships and donations to various charities and educational institutions.

EXECUTIVE MANAGEMENT

Mr. Deve Toganivalu
Chief Executive Officer

Mr. Toganivalu holds a bachelor of commerce in management and finance from James Cook University (Australia). 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 at the bank 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. Nafitalai Cakacaka
General Manager Business Risk Services

Mr. Cakacaka holds a bachelor of arts in business management from the University of the South Pacific (Fiji) and a certificate in master level from the Pacific Coast Banking School (USA). Prior to this appointment, he was the manager risk corporate. Mr. Cakacaka is also a member of the Fiji Institute of Bankers.

Mr. Tevita Madigibuli
General Manager Relationships and Sales

Mr. Madigibuli is a graduate of the University of the South Pacific. He holds a master of business administration, a bachelor of arts in business studies and a diploma in tropical agriculture (in animal science) from the University of the South Pacific (Fiji). Prior to his appointment he held the post of manager asset management unit.

Mr. Saiyad Hussain
General Manager Finance and Administration

Mr. Hussain holds a postgraduate diploma in financial management, a bachelor of arts in accounting and financial management as well as a diploma in economics from the University of the South Pacific (Fiji). He is a chartered accountant by profession. Prior to his appointment he held the position of manager finance.

FINANCIAL YEAR IN REVIEW

Overview

Generally, 2012 had been a stable year for the bank in terms of its financial performance despite high liquidity and intense competition in the market. The bank achieved a net profit of $2.86MM which was an increase of 14.1% in comparison to 2011. This was largely achieved as a result of lower borrowing expenses; a reduction of 35.2%. Through stringent cost control measures, the bank has been able to maintain its operating expenses within the approved budget.

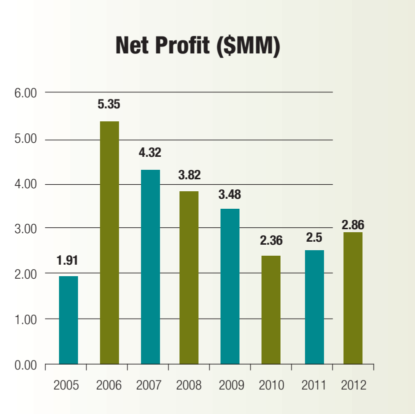
Income

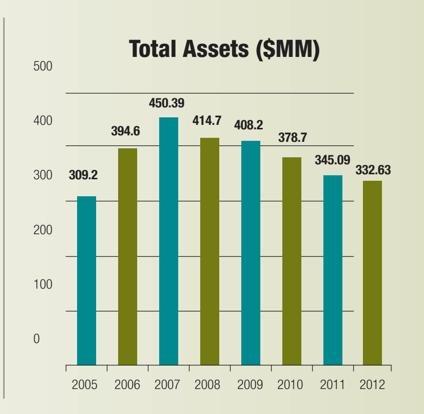
The bank's main source of revenue, interest income, decreased by 18.2% compared to 2011. This came in the wake of a consistent drop in interest rates as a direct result of high liquidity in the market. The falling interest rates also prompted early settlement for several large accounts. A decline was also noted in the bank's other revenue sources including fees, bad debt recovered and rental income.
As at 30 June, 2012 the bank's total assets amounted to $332.63MM, a decrease of 3.6% over 2011. Total loans and advances which is the bank's most critical asset, declined by $13.48MM due to low disbursements and the write-off of impaired accounts during the year.

Financial income and expense

$MM

	2012	2011	Change	Change rate (%)
Interest income	28.40	34.73	(6.32)	(18.21)
Interest & other borrowing expenses	(10.95)	(16.90)	5.94	(35.18)
Net interest income	17.45	17.83	(0.38)	(2.12)
Net Fees income	3.34	4.95	(1.60)	(32.41)
Other income	6.95	7.08	(0.14)	(1.91)
Operating expenses	(10.66)	(10.50)	0.16	1.56
Allowance for credit impairment	(13.76)	(16.86)	3.09	18.35
Allowance for loss - Govt. guarantee	(0.46)	-	(0.46)	-
Profit before income tax	2.86	2.50	0.35	14.09
Income tax expense		-	-	-
Net profit	2.86	2.50	0.35	14.09





Financial conditions

Asset structure

$MM

	2012	Composition (%)	2011	Composition (%)
Cash	55.62	16.72%	44.73	12.96%
Amounts due from subsidiary	0.07	0.02%	0.00	0.00%
Loans and advances	258.66	77.76%	272.14	78.86%
Other Debtors	2.68	0.81%	3.58	1.04%
Property, plant & equipment	14.72	4.43%	14.81	4.29%
Intangibles	0.06	0.02%	0.05	0.01%
Investments (incl. subsidiary)	0.07	0.02%	0.07	0.02%
Land held for resale	0.74	0.22%	0.68	0.20%
Non current asset held for resale	0.00	0.00%	9.04	2.62%
Total	332.63	100.00%	345.09	100.00%

Interest and borrowing expenses

The bank's interest and other borrowing expenses declined by $5.94MM (1.6%) compared to 2011. The reduction in cost of funds was the result of lower interest rates due to high liquidity in the financial market. The bank also redeemed high cost bonds totalling $34.10MM during the financial year.

The maturity analysis depicts a better liquidity position of the bank with the current level of liquid assets strengthening over total borrowings.

Operating expenses

The 2012 operating expenses stood at $10.66MM. A slight increase of 1.6% was due to the job evaluation exercise carried out by the bank which resulted in an increase in total staff cost.

Allowance for credit impairment

After a thorough evaluation of the bank's risk factors, an allowance for credit impairment of $13.76MM was provisioned to accommodate for future credit loss. This was a decrease of 18.4% over 2011 due to a slight improvement in the impaired loan portfolio.

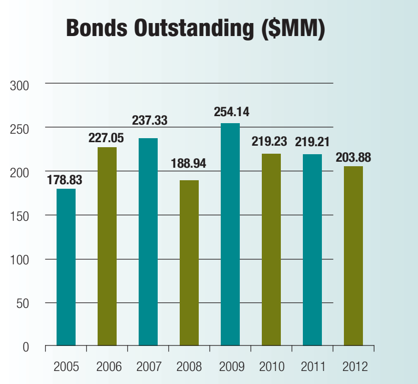
Liability structure

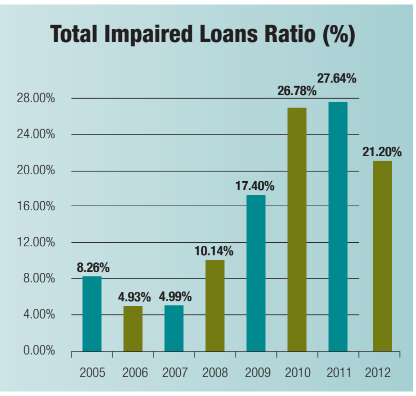
For 2012, total liabilities amounted to $216.54MM, a decrease of $15.33MM (6.6%) over 2011. This was mainly due to the redemption of bonds valued at $85.10MM, low level of new borrowings during the year and low disbursement as well. The bank's major source of funding is through issuance of bonds, promissory notes and acquisition of limited term deposit.

Liability structure

$MM

	2012	Composition (%)	2011	Composition (%)
Total Borrowings	203.88	94.15%	219.22	94.54%
Employee entitlements	1.83	0.84%	1.84	0.79%
Deferred income	1.59	0.74%	1.79	0.77%
Accounts payable and accruals	3.79	1.75%	3.86	1.67%
Other liabilities	5.45	2.52%	5.16	2.22%
Total	216.54	100.00%	231.87	100.00%





Historical Performance	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Financial												
Net profit($M)	0.30	284.70	2.04	0.45	1.91	5.35	4.32	3.82	3.48	2.36	2.50	2.86
Total Assets ($M)	322.30	3.57	271.40	269.20	309.20	394.60	450.39	414.69	408.21	378.72	345.09	332.63
Total Assets / Equity (%)	4.08	327.70	3.32	3.28	3.68	4.41	4.72	4.17	3.77	3.42	3.05	2.87
Average Earning assets (AEA) ($M)	345.80	7.12	302.00	282.70	302.90	359.80	421.10	446.24	438.97	435.61	381.55	330.70
Borrowing Cost (%)	7.35	7.50	6.24	4.88	4.01	3.92	6.92	5.37	5.62	6.59	6.08	4.45
Total Cost / AEA (%)	7.59	0.88	7.10	7.06	6.44	6.00	7.94	7.51	5.68	3.83	7.17	7.52
Profit (Loss) / Average Equity (%)	0.39	2.43:1	2.53	0.55	2.27	5.98	4.67	3.92	3.35	2.15	2.23	2.50
Long Term Debt : Equity	2.99:1	2.51	2.12:1	1.99:1	2.49:1	2.55:1	2.49:1	1.90:1	2.35:1	1.98:1	1.44:1	0.95:1
Interest Spread (%)	2.01	3.30	3.97	3.73	3.79	4.11	2.39	4.76	3.34	0.38	3.02	3.97
Earning Spread (%)	2.84	3.30	4.61	6.13	5.55	5.79	4.48	8.89	4.54	1.96	6.18	7.25
Operating Efficiency												
Staff Cost / AEA (%)	1.64	1.75	2.09	2.50	2.14	1.89	1.73	1.87	1.46	1.58	1.75	2.04
Total Income / AEA (%)	10.19	10.42	10.88	11.73	10.21	10.29	6.37	9.66	6.82	4.38	7.83	8.39
Lending												
Approvals (Number)	1,751	1,019	1,007	1,105	1,903	2,104	1,709	1,502	1,840	1,817	717	746
Approvals ($M)	50.40	24.43	67.19	76.45	227.27	188.21	115.24	84.10	76.21	56.53	50.57	76.48
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	4,536
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	324.51
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	-3.65
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	12.98

FIJI DEVELOPMENT BANK'S MARKET SHARE

	FDB ($M)	Commercial Banks ($M)	Credit Institutions ($M)	Fiji Total ($M)	FDB as a % of Fiji Total
Agriculture	**42.8**	**29.0**	**12.1**	**83.9**	**51.0**
Sugarcane Growing	5.8	0.5	-	6.3	92.0
Forestry & Logging	13.5	8.5	14.4	36.4	37.1
Others	8.2	11.9	4.7	24.8	32.9
Mining & Quarrying	**0.2**	**5.5**	**3.1**	**8.8**	**2.6**
Manufacturing	**59.3**	**241.1**	**28.6**	**329.0**	**18.0**
Food, Beverages and Tobacco	31.2	73.9	1.2	106.3	29.3
Textiles, Clothing and Footwear	2.5	34.1	1.2	37.8	6.7
Metal Products and Machinery	0.7	23.9	1.3	25.9	2.6
Others	14.1	109.2	24.9	148.2	9.5
Building and Construction	**44.7**	**189.0**	**37.9**	**271.6**	**16.5**
Real Estate (Development)	**70.9**	**353.1**	**6.8**	**430.8**	**16.4**
Non-Bank Financial Institutions	**-**	**0.5**	**-**	**0.5**	**-**
Public Enterprises	**-**	**65.0**	**0.4**	**65.4**	**-**
Wholesale, Retail, Hotels and Restaurants	**23.2**	**782.4**	**41.8**	**847.4**	**2.7**
Hotels and Restaurants	9.1	284.7	13.7	307.5	3.0
Other Commercial Advances	14.1	497.7	28.1	539.9	2.6
Transport, Communications and Storage	**9.3**	**132.2**	**61.7**	**203.2**	**4.6**
Professional Business Services	**23.5**	**81.9**	**22.6**	**128.0**	**18.4**
Private Individuals	**37.7**	**863.3**	**136.8**	**1,037.8**	**3.6**
Housing	36.4	682.8	-	719.2	5.1
Car or Personal Individual Transport	0.1	8.9	-	9.0	1.7
Others	1.1	171.6	-	172.7	0.6
Central and Local Government	**9.4**	**26.0**	**0.3**	**35.7**	**26.4**
Other Sectors	**3.7**	**221.6**	**9.6**	**234.9**	**1.6**
TOTAL	**324.7**	**2,990.6**	**361.7**	**3,676.9**	**8.8**

NOTE: Fiji total refers to total loans and lease advances outstanding by all commercial banks, licensed credit institutions and the Fiji Development Bank as at 30 June, 2012. The bank's market share is highlighted.

MELI RELIES ON WISDOM

Meli Buinimasi in his first taxi financed by FDB.

To be successful as an entrepreneur, wisdom wins out ahead of academic qualification as a necessary quality, according to Meli Buinimasi, 50, owner-operator of Meli's Store in Delainasoqo Settlement in Kalabu, seven kilometres outside of Suva along the Suva-Nausori corridor.

"I was only educated up to class eight at Marist Brothers Primary School but the lessons I've learned through my life experience has helped me in my business. For me, being wise is more important than having some colourful qualification," says Meli, the 50 year-old father of three, store owner and taxi operator, who operates Meli's Store in Delainasoqo Settlement, Kalabu.

"I started from scratch with my business and I've really progressed because of perseverance and discipline."

As an *i-Taukei* businessman, success didn't come easily for the father of three.
"It was a really tough uphill battle for me when I started because I literally started with nothing. All I had was this dream and I was determined to get there."

Meli approached the Fiji Development Bank in 2001 after the family owned shop went bankrupt in 2000. He raised his equity for the loan by borrowing from relatives.

"I decided to restart the family shop because growing up I saw that one way or another everyone ends up at the shop. People always need goods from the shop whether it is food items or anything else."

The bank approved a small loan under its then small business scheme (now referred to SME facility) for working capital for the purchase of goods for his store.

The cash injection set the store on the path to financial recovery and in 2005, Meli applied for a second loan to improve his store. With this loan, he also purchased a billiards table from which he drives a separate revenue stream.

"My shop really improved with the financial assistance provided by FDB. However, despite the improvements made, I also needed to contain my cost of transportation for the transport of my goods so I approached FDB again for a car loan so that I could transport my own goods instead of paying for transportation."

In 2007, Meli applied for a third loan to purchase a taxi.

"I chose a taxi so that when it is not making runs to deliver my goods, it is making money transporting passengers," the savvy shopkeeper said.

"I've been with FDB for 12 years now and I'm staying with them because they are always ready to help me every time I approach them. I started with them and I've grown with them."

Meli is also looking to expanding his taxi fleet with a second car and he is eager to begin making payments so he can focus on his bigger goal which is purchasing a property.

"I've been planning on buying a property for a long time. I will rent out this property so that it provides a stable income for me. The store will always face problems and my taxi will continue to lose its value every day. A property is different because its value will increase as time goes and there is a big demand for residential properties these days," he said.

"All these ideas I have are through experience and observing what is going on around me, learning to understand what consumers need and that is how I make use of these opportunities presented to me."

OPERATIONAL REVIEW

Agriculture show in Lautoka.

Overview

In comparison to commercial institutions, development banks are always exposed to greater challenges and vulnerable to inherent risks in the projects they invest in. In addition to political, environmental, social and economic conditions, doing business at the grassroots must also give due consideration to prevailing cultural or traditional norms that exist at the community level.

During the financial year $55.80MM was disbursed, an increase of 119.2% when compared to 2011. Noted also was a reduction of the bank's trouble and impaired asset (TIA) portfolio by 8.3% and 25.9% by number and by value respectively when compared to 2011.

Lending activities during the year

Portfolio

The bank's portfolio as at 30 June, 2012 stood at 4,536 customers with a loan value of $325.43MM. This was a decrease of 13.7% (716) and 7% ($24.25MM)) respectively when compared to 2011.The drop in the number of accounts is due mainly to mid-stream settlement of accounts and charge offs.

The focused sector portfolio comprised 3,324 accounts (73.3%) valued at $152.19MM (46.8%), a decrease of 586 (17.6%) accounts but an increase of $15.36MM (10.1%) in the portfolio value compared to 2011. The majority of the focused sector portfolio are represented by agricultural loans ($71.19MM) followed by manufacturing ($39.89MM). The increase in the focused sector value was due to an increase in lending to these two sectors.

The non-focused sector portfolio comprised1,212 accounts(26.7%) valued at $173.24MM (53.2%), a decrease of 133 (11%) and $39.81MM (11.4%) respectively. The largest decrease in number and value was seen in the building and construction sector. The majority of accounts in this portfolio are concentrated in the private individual category although by value, these reside with those projects in the building and construction; and the real estate sectors.

Throughout the 2012 financial year, a total of 746 applications valued at $76.48MM were approved, an increase of 5.5% (by number) and 26.3% (by value) respectively when compared to 2011. The value of applications received during the year also increased by 26.3% when compared to 2011.

Focused Sector Loans

All loans given to this sector are valued below $0.50MM per project. A total of 600 projects valued at $39.10MM were approved in 2012.

The majority of approvals, 80.4% (by number), was for the focused sector. The agriculture sector dominated lending activities with a total of 381 (51.1%) applications valued at $17.25MM (22.6%). The high number of agricultural applications processed is indicative of the bank's role and commitment in developing commercial enterprise in the resource based sector.

Approvals for agriculture was followed by manufacturing valued at $11.20MM, transportation, communication and storage at $5.22MM, electricity, gas and water at $2.46MM, wholesale, retail, hotels and restaurants sector at $1.93MM; and the professional and business services at $1.04MM.

The bank has the largest network of branch operations in Fiji. Apart from the main municipalities, the bank also operates in remote locations such as Nabouwalu, Seaqaqa and Taveuni for a total of 12 locations.

Non-focused sector loans

All loans to this sector are valued above $0.50MM per project. For the non-focused sector, 146 applications valued at $37.38MM were approved.

In descending order of approvals, the wholesale, retail, hotel and restaurants sector recorded the highest with a total of $24.30MM, followed by real estate with $11.22MM, others at $1.14MM, private individuals with $0.43MM; and building and construction with $0.29MM.

Reduction in home loan interest rate

The board in its meeting of November 2011 approved an across the board reduction of 1.5% in the interest rate for the choice home loan (CHL) clients w.e.f. 1 December, 2011 as follows:

1. CHL from 10.25% to 8.75% variable;
2. Line of Credit (LOC) from 12.5% to 11%; and
3. Residential investment property from 10.75% to 9.25%.

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 8.8% for 2012 compared to 9.6% for 2011, a decline of 0.8%. This decline is noted in the market share as per Fiji total for the bank in mining and quarrying (from 9.1% to 2.6%), building and construction (from 21.6% to 16.5%), real estate development (from 21.4% to 16.4%), transport, communication and storage (from 7.4% to 4.6%), professional business services (from 4.3% to 3.6%); and central and local government (from 33.7% to 26.4%).

The decline in market share for these sectors was the result of the much lower interest rates offered by other financial institutions in the face of high liquidity which caused a movement in several of our medium and corporate size accounts. The bank managed to minimise any further decline in its business and overall market share by refocusing its lending to its core business and those sectors not traditionally viewed as profitable by our competitors namely agriculture. This reflects strongly on the bank's continued commitment to the development of the agricultural sector. To offset decline in the other sectors, the bank grew its portfolio for agriculture (2.6%), manufacturing (4.2%), wholesale/retail/hotels and restaurants (0.5%), professional business

Agriculture show in Suva.

ASCO road show in Nabouwalu, Bua.

services (3.8%) and other sectors (1.1%). Overall, the market (Fiji total) increased by 0.7% from $3,652.60MM in 2011 to $3,676.90MM in 2012.

Strengthening outreach

The bank has the largest network of branch operations in Fiji. Apart from the main municipalities, the bank also operates in remote locations such as Nabouwalu, Seaqaqa and Taveuni for a total of 12 locations. This wide network is a commitment on the part of the bank to improving the standard of living for rural dwellers through commerce by providing access to affordable finance. Inaccessibility to financial services is a deterrent to growth and it is envisioned that with the presence of FDB in the remote areas particularly, that investments and enterprise will continue to grow and contribute to a better standard of living for everyone concerned.

During the year, the bank continued its participation in community based expositions and road shows organised by the Reserve Bank of Fiji and the Ministry of Agriculture. In addition, the bank was part of the Investment Fiji seminar for potential exporters and seminar for resource owners and investors; the Fiji Export Council's export readiness workshop; Save the Children Fiji's financial management workshop; and the World Wide Fund for Nature inter-provincial climate change adaptation forum held in Nadave.

New product

The sustainable energy financing policy (SEFP) facility was approved by the board in May 2010. In July 2011, the bank, through the Department of Energy was designated as a participating financial institution by the World Bank for its sustainable energy financing project (SEFP) partial guarantee.

The facility is in line with government initiatives to reduce imports of fossil based fuels and convert Fiji's energy needs to sustainable and renewable sources such as solar, hydro, coconut oil fuel (alternative fuel for diesel generators) for electricity generation in addition to energy efficient equipment. The facility is not a standalone product – it must have an income generating prospect.

During the year, the bank received 99 enquiries of which 13 applications valued at $3.20MM were received and 11 applications valued at $2.46MM were approved.

Sustainable Energy Financing Policy	Total	
	No	Value ($)
Loan Enquiries	99	11,086,721
Loan Application Received	13	3,199,067
Loan Approved	11	2,457,721

Prime Minister Frank Bainimarama commissions the Tropik Wood mill operations in Wairiki, Bua.

Northern development programme

The Northern Development Programme (NDP) was put in place by government with the aim to grow and inspire greater economic activity in the Northern Division. With the opening of the pine chip mill in Wairiki, Bua in April 2012, the opportunities for employment and economic growth are now in play for the Northern Division. A number of infrastructure programmes in particular the extension of the power grid from Seaqaqa to Dreketi and the sealing of the Dreketi/Nabouwalu road is expected to spur greater economic activity in the region. The bank continues to work closely with the Northern Development Programme (NDP) to provide financial assistance and to monitor and supervise on-going projects in the division.

Credit institution license (CIL)

The bank continues to work with the RBF to secure a credit institution license (CIL) as a countermeasure to the high cost of funds. The CIL will allow the bank to take term deposits from customers that will improve banks liquidity, reduce the cost of funds, and enhances sustainability and be more competitive in terms of interest rates.

Looking ahead

The challenges posed by climate change is a now a serious consideration for our business because of the wider ramifications it has on the social, economic and political spheres which influence policy. The devastating floods of January and March/April 2012 caused $90MM in damage equivalent to 2% of GDP. Such events delay and divert much need financial resources for capital development towards rehabilitation.

In light of the extraordinary risks to business climate change poses, the bank's approach to future business will be a prudent one which will look at not only mitigation but adaptation strategies for the risks presented.

2011 – 2012 FINANCIAL YEAR DATA BASED ON RBF CLASSIFICATION

Sector/RBF Major	Approvals			
	No.	Value	% by no.	% by value
Focused	**600**	**39,098,192**	**80.43%**	**51.12%**
Agriculture	381	17,254,716	51.07%	22.56%
Electricity, gas & water	11	2,457,721	1.47%	3.21%
Manufacturing	16	11,198,705	2.14%	14.64%
Mining and quarrying	-	-	-	-
Transport, communication & storage	42	5,222,211	5.63%	6.83%
Professional & business services	31	1,038,039	4.16%	1.36%
Wholesale, retail, hotel & restaurants	119	1,926,800	15.95%	2.52%
Non-Focused	**146**	**37,383,315**	**19.57%**	**48.88%**
Building & construction	5	294,500	0.67%	0.39%
Others	26	1137678	3.49%	1.49%
Private individuals	97	429,874	13.00%	0.56%
Real estate	14	11,223,563	1.88%	14.67%
Professional & business services	-	-	-	-
Wholesale, retail, hotels & restaurants	4	24,297,700	0.54%	31.77%
TOTAL	**746**	**76,481,507**		

Sector/RBF Major	Portfolio as at 30/06/2012			
	No.	Value	% by no.	% by value
Focused	**3,324**	**152,186,889**	**73.28%**	**46.77%**
Agriculture	2,479	71,194,700	54.65%	21.88%
Electricity, gas & water	7	2,391,916	0.15%	0.74%
Manufacturing	75	39,886,879	1.65%	12.26%
Mining and quarrying	3	220,772	0.07%	0.07%
Transport, communication & storage	175	27,723,028	3.86%	8.52%
Professional & business services	103	1,615,448	2.27%	0.50%
Wholesale, retail, hotels & restaurants	482	9,154,146	10.63%	2.81%
Non-Focused	**1,212**	**173,240,836**	**26.72%**	**53.23%**
Building & construction	49	59,884,216	1.08%	18.40%
Others	34	1,093,615	0.75%	0.34%
Private individuals	1,001	37,762,343	22.07%	11.60%
Real estate	122	56,336,763	2.69%	17.31%
Professional & business services	1	632,833	0.02%	0.19%
Wholesale, retail, hotels & restaurants	5	17,531,065	0.11%	5.39%
TOTAL	**4,536**	**325,427,725**		

ETUATE FINDS HIS "GOLDMINE"

Etuate Waqa checks his watermelons.

If there is one thing Etuate Waqa has learnt from spending 33 years working as an electrician at the Vatukoula Gold Mine, it is that "we each make our own fortune." The 53 year-old mining employee has decided after serving more than half his life as a tradesman, that when he attains the retirement age of 55, he will swap his tool box for farming tools.

"Even though I have been working in Vatukoula all these years, I always knew that one day I will return to the land to farm because that's where I started out from," Etuate said.

Etuate was born in Vatukoula in 1960 and spent his early childhood in Naduri, Macuata in Vanua Levu after his family moved there. The family later moved to Ba where he attended Ba Methodist School from 1966 to 1978. Upon completing high school, Etuate trained as an electrician at the then Fiji Institute of Technology in Ba (now Fiji National University). In 1980 he moved back to Vatukoula where he got a five year apprenticeship at the mine. He has been there ever since.

"I will be retiring in two years when I turn 55 and In anticipation of my retirement, I started looking for land a few years ago which I thought was a good way to retire; farming and just living off the land. I started looking around and a friend of mine told me to try the Fiji Development Bank because they sometimes sell land through mortgage sale. There was no looking back from then on," Etuate said.

In January 2012, Etuate approached FDB to finance a 20 acre holding on mortgagee sale in Nalawa, Ra. His loan application for financing was approved under the bank's agricultural land purchase facility. This facility allows individuals or groups to purchase land for the purpose of farming or any other form of agriculture production other than sugarcane.

"Every chance I get, I travel to my farm. My two days-off per week is devoted entirely to working on the farm. I'm lucky to have a wife that supports me as she now works full time on the farm along with the two farm hands I have employed. They used to work for the previous owner of this farm," he said.

"We started by planting 800 watermelons and we expect to harvest this very soon. We have planted them in stages so that our supply to the market is consistent. In the second lot we planted 700 and in the third another 1,300. This was part of the system put in place by the farm hands. We have also planted chillie trees, cucumbers, tomatoes and capsicums."

Etuate's farm is thriving in such a short time. Within a few months he has harvested half an acre of long bean and half an acre of cucumber. He has also planted 1.5 acres of cassava last an acre of kumala. In 2013, he plans to construct his farm house and convert his current dwelling into a storage shed.

Even though his farm is less than a year old, Etuate has already started making regular repayments on his loan. His goal is to pay his loan off as soon as possible so he can take an additional loan later to purchase a tractor.

Etuate started off the farm using personal funds and it is his dream to eventually become the largest vegetable farmer in Ra Province. At the present time the bulk of his produce is sold to vendors at Waimicia, a popular stopover along the Kings highway and he continues working with FDB loan officers in Rakiraki to secure a bigger market for his burgeoning supply.

The retirement cushion that Etuate has set up for himself will certainly ensure a smooth transition from the gold mines of Vatukoula to his own "gold mine" in Nalawa.

RISK MANAGEMENT

A farm in Sigatoka Valley after the March flood.

Remnants of the Moto Bridge in Ba after the January flood.

Overview

For development banks, its high risk business focus means implementing prudent risk management strategies if it is to remain sustainable and relevant. The bank acknowledges that while risk is an integral component to our business, it can also be shared and minimised.

Risk as posed by natural disasters is one such consideration. As experienced during the floods of January and March 2012, astute farmers, businesses and ordinary citizens immediately implemented measures to hasten recovery and reduce/minimise risk in the event of similar occurrences in the future. The estimated cost of damage was tagged at $90MM of which $40MM is estimated to be for Nadi alone. The Reserve Bank of Fiji's (RBF) flood rehabilitation facility (FRF) was immediately offered to help affected farmers and businesses with their rehabilitation efforts.

It is the bank's mandate to provide financing for projects that contribute to the development of Fiji's economy and helps improve the quality of life for her people. To ensure that business remains sustainable, the bank continues to employ methods and processes to manage risk from the enterprise-wide perspective whilst reassessing the opportunities that contribute directly to the bank's strategic objectives.

Regulatory control

The RBF plays a pivotal role in directing and regulating the bank's lending activities through regular reviews and issuance of monetary policy guidelines. The RBF supervision guideline provides the bank guidance on acceptable international standards and the macroeconomic policies of government. The bank's operation is also subject to certain requirements under various regulations including the consumer credit amendment act (2006), the banking act and the Fiji Revenue and Customs Authority (FRCA) requirements for businesses.

Policy directives

Solely owned by the government of Fiji, the bank is also subject to government policy directives. During the year, the following were designed and implemented to accommodate government's macro and microeconomic policies:

1. **Small medium enterprise credit guarantee scheme (SMECGS).**
   Government allocated $3MM in the 2012 budget to be administered by the RBF. All commercial banks and licensed credit institutions providing SME loans at interest rates below 10% are eligible to apply.
2. **Amendment to the sustainable energy financing projects (SEFP) policy.**
   The policy was amended to streamline the eligibility criteria for customers and provide clarification on the maximum loan amount, term of loan and the interest rates. The bank also signed a memorandum of understanding with the Department of Energy as the executive agency for the World Bank's sustainable energy financing project (SEFP). Under the MOU, the bank would now be a participating financial institution for the guarantee facility provided by the WB for a limited range of renewable and sustainable energy loans.
3. **Revision of the general recovery policy**
   The bank previously had two procedures set out for the recovery of bad debts. Recovery A for those that had securities listed as bill of sale and Recovery B specifically for those with consumer/lease facilities. The board in its meeting of October 2011, approved the implementation of a revised recovery policy merging the two into a single recovery procedure that covers all items listed as security with the bank.
4. **ISEFF facility review (eligibility extension)**
   The import substitution and export credit facility (ISEFF) is a RBF facility offered by the bank. The facility offers financing to commercial farmers and exporters of selected goods and services. The amendment to the policy included the addition of substitution businesses engaged in poultry, honey and pig farming to the list.

For the agriculture sector in particular where the risk factors are substantial, the bank lends at below the market rate in keeping with its core role of development financing.

Competition

The bank engages its business in an environment that is highly competitive. High liquidity in the lending sector has resulted in low interest rates offered as an inducement for borrowing. The lower interest rates prompted a few established clients to exit to competiters as is expected under such conditions.

With a clear focus on our core business of lending to the agricultural and SME sector, the bank provides financial services at subsidised rates for all loans under $50,000 for this purpose.

For the agriculture sector in particular where the risk factors are substantial, the bank lends at below the market rate in keeping with its core role of development financing. Early in 2012, RBF directed all commercial banks to set aside 4% of their deposits and similar liabilities in loans for the agriculture sector and 2% for the renewable energy sector. This posed a great challenge as the directive did not restrict the issuance of such loans to new lending, leaving the bank open to poaching of its larger and more established accounts. The willingness however, of commercial banks to take on such entities from FDB is testament to the bank's ability to nurture and grow them to their current level of success.

The anticipated entry of new competitor, Bred Bank (Fiji) Limited in the latter half of 2012 also presents its own set of challenges particularly to retail and corporate banking. Competition amongst similar service providers is always good for the customer because each is compelled to continually evaluate its products and services.

Insurance

Loan insurance arrangements are crucial to the bank's operations as it minimises loss against natural and man-made hazards. The bank provides adequate levels of cover, premiums are paid and policies maintained including attendance to claims throughout the duration of the loan. To enrich service to our customers, the bank provides insurance through the concept of a one-stop shop, clients are advised on their option to find similar service providers should they wish as per the consumer credit amendment act (2006).

Liquidity risk

Market liquidity rose from $518MM in December 2011 to approximately $538MM in June 2012. This was a marked increase from $393MM at the end of November 2009 when the RBF lifted its cap on interest rate placed in April 2009. The favourable liquidity level led to a reduction in lending and time deposit rates by between two and four basis points for commercial banks. This also aided the bank in managing a reduction in cost of funds. The price of bonds (three years and above) however, remained high during the review period.

Efficient management of investments, maturities, short term borrowings, government backed bonds and promissory notes enabled the bank to maintain liquidity at a satisfactory level.

Gosal Distributors, manufacturers of Nambawan toilet tissues.

FDB booth at the ASCO road show in Nabouwalu. Bua.

Relationship and sales officer Rakiraki, Kaliova Nadumu on a field visit.

Interest rate risk

Despite the cost of funds reducing to 4.5% as at June 2012 from 6.1% in June 2011, this was still significantly above other financial service providers who were paying nominal rates of between 0.5 - 2% per annum. With the cost of funds determined by the market subject to domestic and global economic conditions as well as the policies and politics of government, the bank managed its assets to ensure maximum returns.

FDB continues to work with the RBF on obtaining a commercial institutional license (CIL) for deposit taking as a long term solution to managing cost of funds.

Political and other risk factors

As the country stabilises politically, the confidence in safety and security is reflected in annual tourism earnings and the number of investment projects undertaken locally.

Fiji's earnings from tourism for the July to December 2011 period was estimated at $600.50MM with 372,316 visitors arriving to our shores during this period compared to $548.30MM and 354,114 visitors for the same period in 2011 (Fiji Bureau of Statistics). Tourism continues to be a strong performing sector.

An estimated $70.80MM worth of construction work was put in place during the June quarter of 2012. The amount is $2.90MM or 4.2% higher than the March 2012 quarter and $6.40MM or 10% higher than the June 2011 quarter. The value of work carried out for the private sector was $50.20MM with the remaining $20.60MM for government.

The value of work put in place for new buildings and capital repairs was $27.70MM, a decrease of $0.5 million or 1.6% compared to the March quarter of 2012 and also a $0.80MM or 2.8% decrease over the June quarter of 2011. The value of work put in place for non-residential buildings and residential buildings were $24MM and $3.70MM respectively. These were mainly for construction work on commercial buildings, shops, religious and educational institutions.

For current repairs and maintenance, 99.1% of the value of work done was for the private sector and 0.9% for government. Of the total estimated value of work put in place of $9MM, 12.1% were for residential buildings and 87.9% were for non-residential buildings. For civil engineering works, 43.4% of the value of work done was for the private sector and 56.6% for government. Of the total estimated value of work put in place of $34.30MM, 20.2% were for earthmoving works, 46.8% were for roads and bridges works and 33% were for other types of work.

Allowance for loan losses

FDB adheres to the RBF guidelines for account grading which determines provisions for loan losses. Individually assessed allowance (IAA) is estimated on trouble and impaired assets (TIA) to ensure doubtful accounts are provisioned for. The RBF requires that at least 70% of the value of all loans and advances are assessed annually. The bank's allowance for loan losses is in compliance with the international finance reports standards (IFRS), basel III.

Looking ahead

Management looks forward to implementing the enterprise risk management framework. The ERM unit is included under the revised organisation structure as recommended by consultant Gary Turnstall in his organisation review in early 2011. The ERM unit will be responsible for facilitating risk identification and risk avoidance throughout the organisation in consultation with the policy and processes unit to develop policies which will be responsible for addressing these issues.

FROM ARCHITECT TO AGRO-ENTREPRENEUR

When Kaiming Qiu, 42, came to Fiji from Sichuan, China in 1996 to work as an architect he had no idea that in two short years he would undergo a transformation in his career. Better known by his English name of Calvin, Qiu is the owner and operator of Kaiming Agro Processing Ltd, an agro processing facility in Navua.

He arrived in Fiji in 1996 as an architectural engineer and interpreter on a Chinese construction project. When his contract came to an end he returned briefly to China before coming back in 1999 to invest in agriculture, a career that he was totally new to.

"In my first two years here I found that there was an advantage for the agriculture sector because of the low level of industrial development and low level of pollution that comes about as a result. Customers prefer agriculture products that are grown in a green environment, and Fiji is an ideal location for that," Calvin said.

"Products that come out of Fiji are highly regarded in the international market because it is green, semi-organic or certified organic products."

In the first few years, Calvin supplied fresh produce to exporters and processors before deciding to go into agro processing on his own in 2006. In the initial stages processing centred on dalo, cassava and ginger in brine for export. Through adept analysis of the market and a shift in demand, Calvin decided to downsize the dalo and cassava side of his operations in favour of ginger.

"Islanders are the biggest buyer of dalo and cassava overseas. I found that their tastes are shifting to fast foods like McDonalds and fish and chips, away from their traditional foods so I foresee a drop in demand in the future. I also found out from my buyers in New Zealand, Australia and North America that I could get much more money for ginger this as well," Calvin said.

Calvin Qiu at his office in Navua

With technical assistance from the Facilitating Agricultural Commodity Trade (FACT) project of the Secretariat of the Pacific Community (SPC), Calvin approached FDB in 2009 for a loan to fund the $0.50MM processing facility in Navua which he designed himself. The loan was financed under FDB's building and construction loan facility which is available for the construction of industrial or commercial buildings, processing factories, shops, and tourist accommodation or resorts for owner occupation or rental investment. This facility is available to both locals and foreign investors provided they meet with the bank's minimum requirements.

In 2010, Calvin got a second loan from FDB under the Export Credit Facility (ECF) which assisted him with short term working capital to purchase the ginger stocks for export. ECF is available at 4% p.a. for the purposes of providing working capital to all new and established exporters in of agricultural, forestry, marine and mineral water products as well as services in the audio-visual and the information, communication and technology (ICT) sectors).

Calvin now not only exports ginger in brine but also crystallised ginger as well as ginger in syrup. Calvin revealed that talks are under way for the export of fresh ginger to Australia and crushed ginger to North America.

Calvin's decision to venture into and expand into value-added ginger products came at a time when the industry was beginning to showing signs of revival. In the last four years (2008-2011) Fiji's ginger export has not been able to surpass the 2007 production of 3,110 tonnes. In 2010, ginger production reached 2,338t, improving slightly to 2,575t in 2011. According to the SPC, processed ginger weighing around 3,000t could fetch between $6.50 - $7.50MM.

During its heyday in the late 1980s and early 1990s, Fiji had a sizeable trade in ginger before a nematode (plant parasitic roundworm) disease ravaged the industry. Fiji ginger is renowned for its unique flavour, low fibre and high oleoresin content.

"When buying ginger in Fiji, you need to buy all of your stock between January and March which is the main harvesting season. I have 42 brine pools that can hold 28t of ginger. The brine can keep the ginger fresh for up to two years," Calvin said.

Ensuring a consistent supply of quality ginger from farmers is also a challenge that Calvin is working closely with his suppliers to ensure. His plant provides employment for 180 people. He hopes to reach a turnover of $6MM by 2015.

CORPORATE SOCIAL RESPONSIBILITY

Investment Fiji seminar for exporters in Sigatoka.

WOWS-Fiji Cancer Society morning tea.

Fiji Export Council's export readiness seminar in Suva.

The bank continued its support for financial literacy in secondary schools through the Money $mart™ and Invest $mart™ initiatives as well as the annual FDB small business awards, as its core corporate social programmes.

In addition, the bank maintains a sponsorship and donation programme, which registered charities and social groups working with disadvantaged communities can apply for.

Money $mart™ and Invest $mart™

Money $mart™ and Invest $mart™ are complementary financial literacy programmes designed by the ministry of education and supported by the bank, to encourage students in the third and fourth forms respectively, to learn about budgeting, financial planning, saving and best ways to invest those savings.

Money $mart™ was introduced into the commercial studies curriculum in 2007and Invest $mart™ followed in 2011. The ministry of education has noticed a marked change in the attitude of students towards savings and investment with the majority opening bank accounts and a number signing up voluntarily with the Fiji National Provident Fund (FNPF), buying shares in the Unit Trust of Fiji as well as other investment options with commercial banks and licensed credit institutions.

FDB small business awards

The FDB Small Business Awards started in 2004, provides a platform for recognition for exceptional entrepreneurs particularly those in the small business sector. Small businesses by the Reserve Bank of Fiji (RBF) definition are those entities that have a gross turnover of between $30,000 and $100,000 annually and employ between five and 20 people. All entrants must be 100% locally owned.

The bank views small businesses as the cornerstone of economic growth with a pivotal role in alleviating poverty. The award serves as an encouragement for winners to start thinking of growth and expansion.

Donations and sponsorship

Through donations and sponsorships, the bank ensures that educational and charitable organisations with strong, sustainable community based programmes are given due consideration particularly for the donations programme. During the year, the bank gave donations to Save the Children Fiji, St John Association of Fiji, Association of the Deaf, the Sisters of Compassion, WOWS-Fiji Cancer Society, the Paralympic Committee and the Fiji Red Cross Society.

In terms of sponsorship, the bank also supported a number of financial inclusion events (expositions and road shows) hosted by RBF throughout Fiji, the ASCO Motors Road Show in Nabouwalu, the Agriculture Show in Suva, Labasa and Lautoka as well as the Post Fiji Nabukaluka 7s road show.

In addition, the bank was part of a series of Investment Fiji seminars for potential exporters and resource owners in Suva, Sigatoka, Nausori and Labasa; the Fiji Export Council's Export Readiness Workshop in Suva; Save the Children Fiji's Financial Management Workshop; and the World Wide Fund Inter-provincial Climate Change Adaptation Forum held in Nadave.

2011 FDB SMALL BUSINESS AWARDS WINNERS

Wholesale/retail category
Sponsored by **Sun Insurance**

Winner: A's Cakes 'N' Coffee
Commendation award:
Tokamo Shopping Centre

Professional services category
Sponsored by **Reserve Bank Of Fiji**

Winner: Sewak's Electrical
Commendation award:
Vanualevu Medical Diagnostics

Best business practice
Sponsored by **Joes Farm and Fiji Development Bank**

Winner: Viti Surf Legend

Agriculture category
Sponsored by **Crest Chicken**

Winner: Saten's Poultry
Commendation award:
Manueli Vakavilaba

Manufacturing category
Sponsored by **New India Assurance**

Winner: Paradise Handling
Commendation award:
Home Furnishing Builders

Tourism category
Sponsored by **The Fiji Times**

Winner: Tokman Imagez
Commendation award:
Viti Surf Legend

Special award
Sponsored by **Fiji Development Bank**

Winner: Paradise Handling

FINANCIAL REPORT

Fiji Development Bank and its subsidiary company
Directors' report
For the year ended 30 June, 2012.

In accordance with a 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 2012, 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 29/09/2010
Mr.	Jitoko Tikolevu	-	Deputy Chairperson; reappointed on 04/09/2010
Mr.	Josefa Serulagilagi	-	Reappointed on 15/09/2011
Mr.	Isikeli Tikoduadua	-	Reappointed on 20/01/2010
Mr.	Manasa Vaniqi	-	Reappointed on 15/09/2011
Mr.	Mason Smith	-	Reappointed on 30/11/2009
Ms.	Olivia Mavoa	-	Reappointed on 06/01/2011

PRINCIPAL ACTIVITIES

The principal business activities of the bank and its subsidiary 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 for the year was $2,913,892 (2011 – $2,502,000) after providing an income tax expense of $16,017 (2011 – NIL). The operating profit for the bank for the year was $2,857,586 (2011 - $2,504,584).

DIVIDENDS

The directors recommend that no dividend be declared or paid for the year.

BAD AND DOUBTFUL DEBTS

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

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

UNUSUAL TRANSACTIONS

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

Fiji Development Bank and its subsidiary company
Directors' report
For the year ended 30 June, 2012. *(continued)*

NON-CURRENT ASSETS
Prior to the completion of the financial statements of the bank, the directors took reasonable steps to ascertain whether any non-current assets were unlikely to be realised in the ordinary course of the business compared to the values as recorded in the accounting records of the bank. Where necessary these assets have been written down or adequate provision has been made to bring the values of such assets to an amount that they might be expected to realise. As at the date of this report, the directors are not aware of any circumstances that will cause the value of non-current assets in the bank's financial statements misleading.

SIGNIFICANT EVENT
There were no significant changes in the state of affairs of the bank during the financial year.

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 12 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 11th day of December, 2012.

Director

Director

Fiji Development Bank and its subsidiary
Statement by directors
For the year ended 30 June 2012 *(continued)*

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

(i) the accompanying statement of comprehensive income of the bank and subsidiary is drawn up so as to give a true and fair view of the results of the group for the year ended 30 June, 2012;

(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, 2012;

(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, 2012;

(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, 2012;

(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 11th day of December, 2012.

Director

Director

Independent audit report

Rerevaka na Kalou ka doka na Tui

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

ACHIEVEMENT IN BUSINESS EXCELLENC THROUGH QUALITY MANAGEMENT

Telephone: (679) 330 9032
Fax: (679) 330 3812
Email: info@auditorgeneral.gov.fj
Website: www.oag.gov.fj

Fiji Development Bank and its subsidiary company
Financial statements for the year ended 30 June, 2012.

I have audited the accompanying statements of Fiji Development Bank and its subsidiary (Bank) which comprise the statement of the financial position as at 30 June, 2012 the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 44 to 63.

Directors and management's responsibility for the financial statements

Directors and management are responsible for the preparation and fair presentation of these financial statements in accordance with the international financial reporting standards (IFRS) and the requirements of the Fiji Development Bank Act (Cap 214). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I have conducted my audit in accordance with the international Standards on auditing. Those standards require that I comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor assessors considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Audit opinion

In my opinion:

a) proper books of account have been kept by the Fiji Development Bank and its subsidiary, 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 financing 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:
        - give a true and fair view of the state of affairs of the Fiji Development Bank and its subsidiary as at 30 June, 2012 and of the results, movements in reserves and cash flows of the bank for the year ended on that date: and
        - give the information required by the Fiji Development Bank Act (Cap 214) in the manner so required.

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

Tevita Bolanavanua
Auditor General
Suva, Fiji
9 January, 2013.

AUDITOR-GENERAL FIJI

Fiji Development Bank and its subsidiary company
Consolidated statement of financial position
As at 30 June, 2012.

	Notes	CONSOLIDATED		THE BANK	
		2012	2011	2012	2011
		$	$	$	$
Assets					
Cash and cash equivalents	6	53,638,475	42,749,531	53,621,755	42,732,724
Held to maturity investments	7	2,026,958	2,026,958	2,000,000	2,000,000
Loans and advances	8	258,662,029	272,141,459	258,662,029	272,141,459
Receivable due from subsidiary	9	-	-	74,695	-
Other receivables	10	2,854,651	3,585,165	2,679,605	3,582,037
Investment in subsidiary	11	-	-	20,000	20,000
Investments	12	50,251	50,251	50,251	50,251
Non current asset held for sale	13	-	9,040,639	-	9,040,639
Land held for resale	14	736,918	675,822	736,918	675,822
Property, plant and equipment	15	14,723,752	14,805,809	14,723,752	14,805,809
Intangibles	16	56,668	45,218	56,668	45,218
TOTAL ASSETS		332,749,702	345,120,852	332,625,673	345,093,959
Liabilities					
Accounts payable and accruals	17	3,842,568	3,875,477	3,790,346	3,864,085
Short term borrowings	18	93,986,026	55,830,053	93,986,026	55,830,053
Other liabilities	19	5,450,368	5,158,511	5,450,368	5,158,511
Bonds - held-to-maturity	20	109,891,798	163,385,062	109,891,798	163,385,062
Employee entitlements	21	1,829,655	1,836,175	1,829,655	1,836,175
Deferred income		1,592,444	1,792,623	1,592,444	1,792,623
TOTAL LIABILITIES		216,592,859	231,877,901	216,540,637	231,866,509
Equity					
Capital	22	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		48,918,645	46,004,753	48,846,838	45,989,252
Total capital and reserves		116,156,843	113,242,951	116,085,036	113,227,450
TOTAL LIABILITIES AND EQUITY		332,749,702	345,120,852	332,625,673	345,093,959

On behalf of the Board — Director — Director

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 44 to 66.

Fiji Development Bank and its subsidiary company
Consolidated statement of comprehensive income
For the year ended 30 June, 2012.

	Notes	CONSOLIDATED		THE BANK	
		2012	2011	2012	2011
		$	$	$	$
INCOME					
Interest income	2	28,405,155	34,728,532	28,404,296	34,727,731
Interest expense		(10,953,789)	(16,897,803)	(10,953,789)	(16,897,803)
Net interest income		17,451,366	17,830,729	17,450,507	17,829,928
Fee income	3	3,343,815	4,947,203	3,343,815	4,947,203
Other income	4	7,096,828	7,081,974	6,946,827	7,081,974
OPERATING INCOME		27,892,009	29,859,906	27,741,149	29,859,105
OPERATING EXPENSES	5	(10,737,799)	(10,499,343)	(10,659,262)	(10,495,958)
OPERATING PROFIT BEFORE ALLOWANCES		17,154,210	19,360,563	17,081,887	19,363,147
Allowance for credit impairment	8	(13,764,656)	(16,858,563)	(13,764,656)	(16,858,563)
Allowance for impairment - grants	10	(459,645)	-	(459,645)	-
		-	-	-	-
OPERATING PROFIT BEFORE INCOME TAX EXPENSE		2,929,909	2,502,000	2,857,586	2,504,584
OPERATING PROFIT BEFORE		-	-	-	-
Income tax expense	1(q)	(16,017)	-	-	-
OPERATING PROFIT AFTER INCOME TAX					
Other comprehensive income		2,913,892	2,502,000	2,857,586	2,504,584
		-	-	-	-
Total comprehensive income, net of tax		2,913,892	2,502,000	2,857,586	2,504,584

The consolidated statement of comprehensive income are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 44 to 66.

Fiji Development Bank and its subsidiary company
Consolidated statement of cash flows
For the year ended 30 June, 2012.

	Notes	2012 $ Inflows (Outflows)	2011 $ Inflows (Outflows)	2012 $ Inflows Outflows)	2011 $ Inflows (Outflows)
OPERATING ACTIVITIES					
Interest and subsidy received		26,651,000	31,189,267	26,651,000	31,189,267
Interest and other costs of borrowing paid		(13,620,035)	(17,069,009)	(13,620,035)	(17,069,009)
Fees received		3,343,815	4,947,203	3,343,815	4,947,203
Cash paid to suppliers and employees		(7,208,491)	(10,009,365)	(7,208,404)	(10,008,919)
Customer loans granted		(55,727,987)	(33,437,723)	(55,727,987)	(33,437,723)
Customer loans repaid		65,677,135	76,251,899	65,677,135	76,251,899
Other receipts		7,661,687	7,323,805	7,661,687	7,322,678
Net cash flows from operating activities	28 (ii)	26,777,124	59,196,077	26,777,211	59,195,396
INVESTING ACTIVITIES					
Payments for property, plant and equipment		(769,410)	(405,107)	(769,410)	(405,107)
Receipts from disposal of property and equipment		117,900	66,656	117,900	66,656
Payments for land held for resale		(61,095)	(162,673)	(61,095)	(162,673)
Net cash flows used in investing activities		(712,605)	(501,124)	(712,605)	(501,124)
FINANCING ACTIVITIES					
Proceeds from long-term borrowings		77,777,156	61,763,239	77,777,156	61,763,239
Repayment of long-term borrowings		(119,720,948)	(94,232,850)	(119,720,948)	(94,232,850)
Proceeds from short-term borrowings		32,475,787	4,195,125	32,475,787	4,195,125
Repayment of short-term borrowings		(5,707,570)	(7,200,000)	(5,707,570)	(7,200,000)
Net cash flows used in financing activities		(15,175,575)	(35,474,486)	(15,175,575)	(35,474,486)
Net increase in cash and cash equivalent		10,888,944	23,220,467	10,889,031	23,219,786
Cash at the beginning of the financial year		42,749,531	19,529,064	42,732,724	19,512,938
Cash at the end of the financial year	28 (i)	53,638,475	42,749,531	53,621,755	42,732,724

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 44 to 66.

Fiji Development Bank and its subsidiary company
Consolidated statement of changes in equity
For the year ended 30 June, 2012.

CONSOLIDATED

	Notes	Capital $	General reserve $	Revaluation reserve $	Accumulated profits $	Total $
Balance at 30 June, 2010	22	56,050,636	8,064,000	3,123,562	43,502,753	110,740,951
Net profit for the 2011 year		-	-	-	2,502,000	2,502,000
Opening retained earnings as at 30 June, 2011		56,050,636	8,064,000	3,123,562	46,004,753	113,242,951
Net profit for the 2012 year					2,913,892	2,913,892
		-	-	-	-	-
Balance at 30 June, 2012		**56,050,636**	**8,064,000**	**3,123,562**	**48,918,645**	**116,156,843**

THE BANK

	Notes	Capital $	General reserve $	Revaluation reserve $	Accumulated profits $	Total $
Balance at 30 June, 2010	22	56,050,636	8,064,000	3,123,562	43,484,668	110,722,866
Net profit for the 2011 year		-	-	-	2,504,584	2,504,584
Opening retained earnings as at 30 June, 2011		56,050,636	8,064,000	3,123,562	45,989,252	113,227,450
Net profit for the 2012 year		-	-	-	2,857,586	2,857,586
		-	-	-	-	-
Balance at 30 June, 2012		**56,050,636**	**8,064,000**	**3,123,562**	**48,846,838**	**116,085,036**

The consolidated statements of changes in equity are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 44 to 66.

Fiji Development Bank and its subsidiary company
Notes to and forming part of the financial statements
For the year ended 30 June, 2012.

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Fiji Development Bank is a fully owned by the 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, 2012 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 21st November 2012

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 FDB Act.

(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 judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements including the following notes:

- Note 1(g) – plant and equipment impairment; and
- Note 1(i) – allowance for credit impairment

(d) Principles of consolidation

Subsidiary

The consolidated financial statements of the group include the financial statements of the bank being the chief entity and its controlled entity as disclosed in Note 7. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statement of the subsidiary is included in the consolidated financial statements from the date that control commences until the date that controls ceases.

Transactions eliminated on consolidation

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

(e) Revenue recognition

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

Interest income

Interest income on investments, loans and advances is recognised as it accrues. Interest on impaired loans is recognised as income only when received.

Fiji Development Bank and its subsidiary company
Notes to and forming part of the financial statements
For the year ended 30 June, 2012. *(continued)*

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Revenue recognition (continued)

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 of property, plant and equipment are credited or debited directly to the statement of comprehensive income.

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, 2012. *(continued)*

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Property, plant and equipment *(continued)*

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) Intangible assets

The bank recognises it's internally generated banking software (Bank Management System) and any other externally purchased software as intangible assets in its books. Due to the finite life of the software, it is depreciated at 20% per annum.

(i) Loans and advances

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

Term loans are carried at principal balances outstanding plus interest accrued. Finance leases are shown net of unearned interest. There were no new finance leases granted in the current financial year.

Policies adopted in classifying loans

Each customer account is graded individually using established guidelines. Critical factors include 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.

(j) Bad and doubtful loans and advances

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

Fiji Development Bank and its subsidiary company
Notes to and forming part of the financial statements
For the year ended 30 June, 2012. *(continued)*

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Bad and doubtful loans and advances *(continued)*

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.

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 realisable value

Collective allowance

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

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

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

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's minimum provisioning guidelines.

Bad debts written off/recovered

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

Impairment

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

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

Fiji Development Bank and its subsidiary company
Notes to and forming part of the financial statements
For the year ended 30 June, 2012. *(continued)*

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Investments

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

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

(l) Transactions in foreign currencies

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

(m) Land held for sale

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

(n) Cash

Cash includes cash on hand and other amounts which are integral to the cash management function and which are not subject to a term facility.

(o) Other debtors

Other receivables are stated at cost less impairment losses.

(p) Accounts payable and accruals

Accounts payable and accruals are stated at cost.

(q) Taxation

The bank has made no provision for taxation, as it is not subject to income tax in accordance with section 17(29) of the Income Tax Act (1985). However, The bank's subsidiary FDB Nominees Ltd adopts the principles of tax effect accounting and thus is the basis of recognition of tax expense in consolidated financial statements of the bank.

(r) Employee entitlements

Annual leave

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

Long service leave

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

Gratuity

The accrual for gratuity represents amounts payable to employees who have achieved in excess of the minimum 10 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, 2012. *(continued)*

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) **Employee entitlements *(continued)***

Triennial leave

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

Number of Employees

The number of employees as at 30 June, 2012 was 196 (2011:192).

(s) **Contingent liabilities and credit commitments**

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

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

Information on the face value and credit equivalents of commitments and contingent liabilities shown in note 19.

(t) **Capital grants from government**

Capital grants received from government are credited directly to equity.

(u) **Deferred income**

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

(v) **Intangible assets**

The bank classifies its banking software (Bank Management System) and additional modules for upgrading its Sun System as an intangible asset. This is amortised annually on a straight line basis at 20%.

Financial information of these intangible assets is further listed in note 16.

Fiji Development Bank and its subsidiary company
Notes to and forming part of the financial statements
For the year ended 30 June, 2012. *(continued)*

	CONSOLIDATED		THE BANK	
	2012	2011	2012	2011
	$	$	$	$
2 INTEREST INCOME				
Included in interest income are interest subsidies received/receivable from the government for:				
- Agricultural loans	927,716	1,019,516	927,716	1,019,516
- Commercial loans to Fijians scheme	667,771	1,392,168	667,771	1,392,168
- Economic rehabilitation package scheme	110,150	142,955	110,150	142,955
- Small business scheme	212,446	296,810	212,446	296,810
- Northern rehabilitation package	167,834	212,153	167,834	212,153
	2,085,917	3,063,602	2,085,917	3,063,602
3 FEE INCOME				
Application fees	76,665	75,275	76,665	75,275
Establishment fees	606,366	463,086	606,366	463,086
Commitment fees	95,490	58,310	95,490	58,310
Bank service fees	1,764,909	2,186,967	1,764,909	2,186,967
Arrears fees	302,483	1,672,497	302,483	1,672,497
Legal fees	497,257	490,068	497,257	490,068
Other fee income	645	1,000	645	1,000
	3,343,815	4,947,203	3,343,815	4,947,203
4 OTHER INCOME				
The following items are included in other income:				
Gain on sale of property, plant and equipment	56,500	80,328	56,500	80,328
Bad debt recovered	5,283,156	4,875,448	5,283,156	4,875,448
Insurance commission	120,053	139,801	120,053	139,801
Rental income	594,003	624,001	594,003	624,001
	6,053,712	5,719,578	6,053,712	5,719,578
5 OPERATING EXPENSES				
Items included in operating expenses:				
Amortisation of bond discounts	182	133	182	133
Auditors' remuneration	39,996	23,197	39,996	23,197
Directors' fees	123,667	158,665	123,667	158,665
Depreciation	778,184	833,736	778,184	833,736
Employee costs	6,748,969	6,670,530	6,748,969	6,670,530
	7,690,998	7,686,261	7,690,998	7,686,261

Fiji Development Bank and its subsidiary company
Notes to and forming part of the financial statements
For the year ended 30 June, 2012. *(continued)*

	CONSOLIDATED		THE BANK	
	2012	2011	2012	2011
	$	$	$	$
6 CASH & CASH EQUIVALENTS				
Petty cash	1,600	1,600	1,600	1,600
Overdraft facility	15,000	15,000	15,000	15,000
Deposit accounts -branches	3,950,833	22,962,439	3,934,113	22,945,632
Reserve Bank of Fiji call account	1,205,424	10,000,000	1,205,424	10,000,000
Colonial National Bank call account	20,442,478	4,245,069	20,442,478	4,245,069
Bank Of Baroda - head office	28,023,115	5,525,398	28,023,115	5,525,398
National Bank of Fiji savings - Suva	25	25	25	25
	53,638,475	42,749,531	53,621,755	42,732,724

The banks maintain the overdraft facility of $15,000 to cater for staff withdrawal based on their eligibility level. Deposit accounts are maintained for FDB's daily transactions with it's clients and the account earns interest at floating rates based on daily rates. The RBF call account is maintained by FDB with RBF for funding of the import substitution and export finance facility (ISEFF). Colonial National Bank and Bank of Baroda accounts are interest bearing accounts for investing FDB's surplus funds.

7 INVESTMENTS HELD TO MATURITY

Investment In bonds	2,026,958	2,026,958	2,000,000	2,000,000

Investment in bonds relates to $2,000,000 with Reserve Bank of Fiji at 12.31%, with maturity year being 2022 and $26,958 of investment by FDB Nominees Limited held in Home Finance Corporation at 3.75% and 5% for a term of 12 and 24 months respectively.

Fiji Development Bank and its subsidiary company
Notes to and forming part of the financial statements
For the year ended 30 June, 2012. *(continued)*

	CONSOLIDATED 2012 $	CONSOLIDATED 2011 $	THE BANK 2012 $	THE BANK 2011 $
8 LOANS AND ADVANCES				
Loans and advances	324,514,020	336,795,354	324,514,020	336,795,354
Interest and fees suspended	(18,535,396)	(20,228,633)	(18,535,396)	(20,228,633)
	305,978,624	316,566,721	305,978,624	316,566,721
Allowance for credit impairment	(47,316,595)	(44,425,262)	(47,316,595)	(44,425,262)
Total loans and advances	258,662,029	272,141,459	258,662,029	272,141,459

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 2012 $	CONSOLIDATED 2011 $	THE BANK 2012 $	THE BANK 2011 $
Individually assessed allowance				
Balance at the beginning of the year	25,553,358	38,649,924	25,553,358	38,649,924
Charge to the statement of comprehensive income	9,886,787	23,393,059	9,886,787	23,393,059
	35,440,145	62,042,983	35,440,145	62,042,983
Written off as bad debts against allowance for credit impairment	(13,995,946)	(36,489,625)	(13,995,946)	(36,489,625)
Balance at the end of the year	21,444,199	25,553,358	21,444,199	25,553,358
Unallocated Individually assessed allowance				
Balance at beginning of year	11,908,040	19,606,540	11,908,040	19,606,540
Charge/(credit) to the statement of comprehensive income	1,650,000	(7,698,500)	1,650,000	(7,698,500)
Balance at the end of the year	13,558,040	11,908,040	13,558,040	11,908,040
Collectively assessed allowance				
Balance at beginning of year	10,086,487	8,922,483	10,086,487	8,922,483
Charge to the statement of comprehensive income	2,227,869	1,164,004	2,227,869	1,164,004
Balance at the end of the year	12,314,356	10,086,487	12,314,356	10,086,487
Total allowance for credit impairment	47,316,595	47,547,885	47,316,595	47,547,885

Included in the above amounts are allowances for credit impairment of loans and advances to repossessed entities disclosed in Note 13.

9 RECEIVABLE FROM SUBSIDIARY

	CONSOLIDATED 2012 $	CONSOLIDATED 2011 $	THE BANK 2012 $	THE BANK 2011 $
FDB Nominees Limited	-	-	74,695	-

Fiji Development Bank and its subsidiary company
Notes to and forming part of the financial statements
For the year ended 30 June, 2012. *(continued)*

	CONSOLIDATED		THE BANK	
	2012	**2011**	**2012**	**2011**
10 OTHER RECEIVABLES	**$**	**$**	**$**	**$**
Government guarantees & grants	5,499,216	5,499,216	5,499,216	5,499,216
Allowance for loss - government guarantee & grants	(5,499,216)	(5,039,571)	(5,499,216)	(5,039,571)
	-	459,645	-	459,645
Government interest subsidies	2,085,917	2,257,677	2,085,918	2,257,677
Others	768,734	867,843	593,687	864,715
	2,854,651	3,585,165	2,679,605	3,582,037
11 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.

12 INVESTMENTS	**$**	**$**	**$**	**$**
Shares in companies - at cost	3,349,541	3,349,541	3,349,541	3,349,541
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
13 NON CURRENT ASSET HELD FOR SALE				
Loans and advances to repossessed entity	-	12,784,522	-	12,784,522
Interest and fees suspended	-	(621,260)	-	(621,260)
	-	12,163,262	-	12,163,262
Allowance for credit impairment	-	(3,122,623)	-	(3,122,623)
Total loans and advances to subsidiary	-	9,040,639	-	9,040,639
Shares in repossessed entity - at cost	3,285,000	3,285,000	3,285,000	3,285,000
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	-	9,040,639

The bank does not have a significant control in investment other then FDB Nominees Limited and Tokatoka Nadrau Investments Limited (repossessed entity). Therefore, the bank records these investments at the lower of the cost and net realisable value. The bank has significant control over FDB Nominees Limited and thus the investment is consolidated with the total bank's operation. However, the bank has now disposed off assets held for resale for repossessed entity and is expected to withdraw its shareholdings in the company after settlement.

Fiji Development Bank and its subsidiary company
Notes to and forming part of the financial statements
For the year ended 30 June, 2012. *(continued)*

	CONSOLIDATED 2012 $	CONSOLIDATED 2011 $	THE BANK 2012 $	THE BANK 2011 $
14 LAND HELD FOR RESALE				
Nasarawaqa Estate				
Cost	99,426	99,426	99,426	99,426
Allowance for impairment	(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	594,337	533,241	594,337	533,241
	1,594,337	1,533,241	1,594,337	1,533,241
Allowance for impairment	(900,000)	(900,000)	(900,000)	(900,000)
	694,337	633,241	694,337	633,241
Balance at the end of the year	736,918	675,822	736,918	675,822

CONSOLIDATED AND THE BANK	Land and buildings $	Plant and equipment $	Fixtures and fittings $	Total $
15 PROPERTY, PLANT AND EQUIPMENT				
At 1 July, 2011	13,180,786	8,089,911	746,494	22,017,191
Acquisitions during the year	301,585	572,449	2,025	876,059
Disposals	-	(1,641,838)	(516,188)	(2,158,026)
		-	-	-
At 30 June, 2012	13,482,371	7,020,522	232,331	20,735,224
Accumulated depreciation				
At 1 July, 2011	920,533	5,630,915	659,935	7,211,383
Depreciation charge for the year	179,567	558,771	28,301	766,639
Disposals	-	(1,468,063)	(498,487)	(1,966,550)
At 30 June, 2012	1,100,100	4,721,623	189,749	6,011,472
Carrying amount				
At 1 July, 2011	12,260,254	2,458,996	86,559	14,805,809
At 30 June, 2012	**12,382,271**	**2,298,899**	**42,582**	**14,723,752**

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. The last valuation of the bank's properties was performed by an independent valuer, Rolle Associates on 29 May, 2007.

Fiji Development Bank and its subsidiary company
Notes to and forming part of the financial statements
For the year ended 30 June, 2012. *(continued)*

	CONSOLIDATED $	THE BANK $
16 INTANGIBLES - COMPUTER SOFTWARE		
At 1 July, 2011	62,777	62,777
Acqusitions during the year	22,995	22,995
At 30 June, 2012	85,772	85,772
Accumulated amortisation		
At 1 July, 2011	17,559	17,559
Amortisation charge for the year	11,545	11,545
At 30 June, 2012	29,104	29,104
Carrying amount		
At 1 July, 2011	45,218	45,218
At 30 June, 2012	**56,668**	**56,668**

The bank had developed the bank management system (BMS) which was launched in December 2009. Prior to this the bank was using the loan management system (LMS). Included therein is the acqusition of an additional module for upgrading of the Sun System. Additions in the current year relate to Web Sense Web Security.

	CONSOLIDATED		THE BANK	
	2012 $	2011 $	2012 $	2011 $
17 ACCOUNTS PAYABLE AND ACCRUALS				
Interest accruals	1,796,613	2,968,287	1,796,614	2,968,287
Others	2,045,955	907,190	1,993,732	895,798
	3,842,568	3,875,477	3,790,346	3,864,085
18 SHORT TERM BORROWINGS				
Short term borrowings	93,986,026	55,830,053	93,986,026	55,830,053

The above borrowings have a repayment term of less than one year and have been guaranteed by the government of Fiji. The interest rate for the short term borrowing ranges from 4.15% to 8.5%.

Fiji Development Bank and its subsidiary company
Notes to and forming part of the financial statements
For the year ended 30 June, 2012. *(continued)*

	CONSOLIDATED		THE BANK	
	2012	2011	2012	2011
	$	$	$	$

19 OTHER LIABILITIES

Seed capital fund	2,817,427	2,836,536	2,817,427	2,836,536
Staff savings account	1,067,866	995,830	1,067,866	995,830
Export facility	1,450,920	1,211,990	1,450,920	1,211,990
Farmers assistance scheme	114,155	114,155	114,155	114,155
	5,450,368	5,158,511	5,450,368	5,158,511

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.

20 BONDS - HELDS-TO-MATURITY

Non-current				
RBF export facility	19,002,298	15,459,650	19,002,298	15,459,650
FDB registered bonds - face value	90,850,000	147,882,000	90,850,000	147,882,000
Unamortised discount	39,500	43,412	39,500	43,412
	109,891,798	163,385,062	109,891,798	163,385,062

The RBF's export facility has been reclassified from accounts and other paybles to borrowing as the maturity profile of these funds ranges from two to five years. The above registered bonds have a repayment term varying between one to 15 years and have been guaranteed by the government of Fiji.

21 EMPLOYEE ENTITLEMENTS

At 1 July, 2011	1,836,175	1,566,906	1,836,175	1,566,906
Utilised during the year	(234,953)	(193,759)	(234,953)	(193,759)
Arising during the year	228,433	463,028	228,433	463,028
At 30 June, 2012	1,829,655	1,836,175	1,829,655	1,836,175

The employee entitlement includes accrued leave and gratuity. The gratuity is accrued for all tenure staff after continuous service of 10 years and the staff is eligible for payment on retirement after reaching the age of 55 years.

22 CAPITAL

Authorised capital	100,000,000	100,000,000	100,000,000	100,000,000
Contributed capital	56,050,636	56,050,636	56,050,636	56,050,636

The bank was formed by an act of parliament and the contributed capital of $56,050,636 consists of equity contribution from the government of Fiji.

Fiji Development Bank and its subsidiary company
Notes to and forming part of the financial statements
For the year ended 30 June, 2012. *(continued)*

	2012	2011
	$	$
23 COMMITMENTS AND CONTINGENT LIABILITIES		
(a) Commitments		
(i) Loans approved but not disbursed	11,804,173	25,667,287
	11,804,173	25,667,287
(b) Contingent liabilities		
(i) Guarantees	845,952	936,782

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.

24 RELATED PARTY TRANSACTIONS

The following were directors of the bank during the financial year ended 30 June, 2012:

Current directors

Mr. Robert G. Lyon	Appointed on 29/09/2010 as chairperson
Mr. Jitoko Tikolevu	Deputy chairperson; reappointed on 04/09/2010
Mr. Josefa Serulagilagi	Reappointed on 15/09/2011
Mr. Manasa Vaniqi	Reappointed on 15/09/2011
Mr. Isikeli Tikoduadua	Reappointed on 20/01/2010
Mr. Mason Smith	Reappointed on 30/11/2009
Ms. Olivia Mavoa	Reappointed 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		THE BANK	
	2012	2011	2012	2011
	$	$	$	$
Directors' fees	123,667	158,665	123,667	158,665

Fiji Development Bank and its subsidiary company
Notes to and forming part of the financial statements
For the year ended 30 June, 2012. *(continued)*

24 RELATED PARTY TRANSACTIONS *(continued)*

Key management personnel

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

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

Name	Current title
Deve Toganivalu	Chief Executive Officer
Tevita Madigibuli	General Manager Relationship and Sales
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	
	2012 $	2011 $	2012 $	2011 $
Short-term employee benefits	469,769	459,369	469,769	459,369

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 $191,563 (2011: $262,592) to executives are included in loans advances (refer note 8). The loans were provided under normal terms and conditions.

Fiji Development Bank and its subsidiary company
Notes to and forming part of the financial statements
For the year ended 30 June, 2012. *(continued)*

25 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 organisation with the end-objective of ensuring a structured and disciplined approach in pursuing the targets mutually set by the board and management. The framework focuses on corporate mission, policies, procedures, people, skills, values, controls and portfolio balance exposures. It is supported by regular portfolio analysis and detailed underwriting evaluation that identifies risk areas/concentrations, with recommended risk remedies and monitoring procedures in order to avert any probable negative impact of the account and of the portfolio.

The authority to make credit decision is layered. The board subcommittee known as board credit committee retains the authority to approve loan amounts above a threshold that is set by the board. On the other hand, the management (EXCO) has authority and discretion to delegated defined approving limits to risk officers under certain conditions. The delegated credit decision authority, particularly below the threshold level is reviewed from time to time on the officer's performance, exercise of delegated authority and changes to bank's policy guidelines. Managers are also obliged to meet reporting and review requirements, to monitor credit risk exposure under their control and to report promptly any deteriorating situations that affect the bank.

The bank also ensures that all customers go through a comprehensive credit screening including Data Bureau check as well as credit rating with other institutions. The other component of the bank's new rating system for customers is a client quality rating (CQR). This rating represents the bank's view as to the "financial health" of the business during the past and in future. Furthermore, the bank uses credit risk rating (CRR) systems, 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 II), 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. FDB considers and consolidates all elements of credit risk exposure (such as individual default risk, country risk and sector risk).

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.

Fiji Development Bank and its subsidiary company
Notes to and forming part of the financial statements
For the year ended 30 June, 2012. *(continued)*

25 RISK MANAGEMENT POLICY *(continued)*

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	2012 $	2011 $
Agriculture	51,617,092	61,327,558
Building and construction	44,749,327	91,669,701
Manufacturing	59,262,957	39,409,580
Mining and quarrying	232,514	356,465
Private individuals	37,759,148	43,795,262
Professional and business services	23,500,352	2,572,808
Real estate	70,856,337	66,483,521
Transport, communication and storage	9,620,190	23,182,717
Wholesale, retail, hotels and restaurants	23,240,756	20,457,396
Others	3,675,347	324,868
Total	324,514,020	349,579,876

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. The bank's strong and effective liquidity risk management policy and framework ensures that the 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.

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.

Fiji Development Bank and its subsidiary company
Notes to and forming part of the financial statements
For the year ended 30 June, 2012. *(continued)*

25 RISK MANAGEMENT POLICY *(continued)*

Liquidity risk management *(continued)*

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 2012	**Increase in Lending Rate (+2.50%)**	**Decrease in Lending Rate (-2.50%)**
Weighted average borrowing cost (%)	4.45	6.95	1.95
Cost of borrowing ($)	10,953,789	17,107,603	4,799,975
Profit/(loss) ($)	2,857,586	(3,296,228)	9,011,400

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.

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.

Fiji Development Bank and its subsidiary company
Notes to and forming part of the financial statements
For the year ended 30 June, 2012. *(continued)*

25 RISK MANAGEMENT POLICY *(continued)*

Market risk *(continued)*

Anent the overall cost of borrowings, the bank recalibrates 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	As at June 2012	Increase in Lending Rate (+2.50%)	Decrease in Lending Rate (-2.50%)
Weighted average lending rate (%)	7.52	10.02	5.02
Interest income ($)	28,404,296	37,847,214	18,961,379
Profit/(loss) ($)	2,857,586	12,300,504	(6,585,331)

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 and risk services (BRS) division, through its policy and procedures unit develops the policies governing the operations of the bank. The internal audit department oversees the implementation of these policies and procedures across the organisation. A more recent development is the application of risk base audit in contrast with the traditional audit approach where compliance is the focus.

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

Fiji Development Bank and its subsidiary company
Notes to and forming part of the financial statements
For the year ended 30 June, 2012. *(continued)*

26 MATURITY ANALYSIS

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

2012				CONSOLIDATED			
	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	53,622	-	-	-	-	-	53,622
Loans	42,335	29,940	10,719	93,806	147,714	(21,444)	303,070
Total	**95,957**	**29,940**	**10,719**	**93,806**	**147,714**	**(21,444)**	**356,692**
Liabilities							
Borrowings	1068	29,472	63,486	106,852	3,000	-	203,878
Total	**1068**	**29,472**	**63,486**	**106,852**	**3,000**	**-**	**203,878**
2011							
Assets							
Cash	42,733	-	-	-	-	-	42,733
Loans	51,664	11,866	36,211	167,682	82,157	(25,553)	324,027
Total	**94,397**	**11,866**	**36,211**	**167,682**	**82,157**	**(25,553)**	**366,760**
Liabilities							
Borrowings	996	35,248	51,190	117,688	14,093	-	219,215
Total	**996**	**35,248**	**51,190**	**117,688**	**14,093**	**-**	**219,215**

Fiji Development Bank and its subsidiary company
Notes to and forming part of the financial statements
For the year ended 30 June, 2012. *(continued)*

	THE BANK 2012 $	2011 $
27 IMPAIRED AND PAST-DUE ASSETS		
Non-accrual loans without individual assessed allowance		
Gross	9,811,113	28,077,796
Less: suspended debt	(1,170,862)	(5,348,115)
Net non-accrual loans without individual assessed allowance	8,640,251	22,729,681
Non-accrual loans with individual assessed allowance		
Gross	57,814,554	62,285,080
Less: suspended debt	(16,502,177)	(14,958,222)
	41,312,377	47,326,858
Less: individual assessed allowance	(20,859,199)	(23,432,454)
Net non-accrual loans with individual assessed allowance	20,453,178	23,894,404
Restructured loans without individual assessed allowance		
Gross	154,941	240,730
Less: suspended debt	(27,980)	(30,254)
Net restructured loans without individual assessed allowance	126,961	210,476
Restructured loans with individual assessed allowance		
Gross	268,078	179,919
Less: suspended debt	(81,508)	(68,359)
	186,570	111,560
Less: individual assessed allowance	(90,900)	(77,963)
Net restructured loans with individual assessed allowance	95,670	33,597
Other impaired loans		
Gross	957,834	2,303,752
Less: suspended debt	(4,310)	(10,367)
Net other classified loans	953,524	2,293,385
Total impaired and past-due loans	30,269,585	49,161,543
Past-due loans		
Gross	52,172,543	30,960,605
Less: suspended debt	(15,954,201)	(274,331)
Total past-due loans	36,218,342	30,686,274

Fiji Development Bank and its subsidiary company
Notes to and forming part of the financial statements
For the year ended 30 June, 2012. *(continued)*

28 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		THE BANK	
	2012 $	2011 $	2012 $	2011 $
Cash	53,638,475	42,749,531	53,621,755	42,732,724

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

Operating profit after income tax	2,913,892	2,502,000	2,857,586	2,504,584
Add / (less) non-cash items:				
Amortisation of bond discounts	39,500	43,412	39,500	43,412
Depreciation & amortisation	778,184	833,736	778,184	833,736
Gain on disposal of fixed assets	(8,010)	80,328	(8,010)	80,328
Accrual for annual and long-service leave	(6,520)	269,269	(6,520)	269,269
Allowance for credit impairment	13,764,656	16,858,563	13,764,656	16,858,563
Provision for grant	459,645	-	459,645	-
Provision for tax	16,017	-	-	-
	17,957,365	20,587,308	17,885,041	20,589,892
Change in assets and liabilities:				
Increase in interest receivable	(1,925,915)	(4,275,662)	(1,925,915)	(4,275,661)
Decrease in deffered income	(200,179)	(230,659)	(200,179)	(230,659)
Increase in accounts receivable	10,657,687	43,206,338	10,657,687	43,206,338
Increase in grants and subsidies receivable	171,759	736,397	171,759	736,397
Decrease in interest payable	(2,705,747)	(214,618)	(2,532,291)	(214,138)
Increase/(Decrease) in other accruals	2,822,154	(613,027)	2,721,109	(616,773)
Net cash from operating activities	26,777,124	59,196,077	26,777,211	59,195,396

Fiji Development Bank and its subsidiary company
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For the year ended 30 June, 2012. *(continued)*

29 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.

30 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.

31 PRINCIPAL PLACE OF BUSINESS

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

BA BRANCH
Varoka, Ba, FIJI.
P.O Box 110, Ba, FIJI.
Ph: (679) 6674 211
Fax: (679) 6674 031

LABASA BRANCH
Nasekula Road, Labasa, FIJI.
P.O Box 41, Labasa, FIJI.
Ph: (679) 8811 944
Fax: (679) 8814 009

LAUTOKA BRANCH
38 Vitogo Parade, Lautoka, FIJI.
P.O Box 716, Lautoka, FIJI.
Ph: (679) 6660 639
Fax: (679) 6665 950

NABOUWALU BRANCH
Government Station Road,
Nabouwalu, FIJI.
P.O. Box 51, Nabouwalu, Bua, FIJI.
Ph: (679) 8280 400
Fax: (679) 8280 401

NADI BRANCH
Main Street, Nadi, FIJI.
P.O Box 1718, Nadi, FIJI.
Ph: (679) 6701 900
Fax: (679) 6703 552

NAUSORI BRANCH
60 Main Street, Nausori, FIJI.
P.O.Box 317, Nausori, FIJI.
Ph: (679) 3477 277
Fax: (679) 3400 484

SAVUSAVU BRANCH
Hugh Street, Savusavu, FIJI.
P.O Box 42, Savusavu, FIJI.
Ph: (679) 8850 055
Fax: (679) 8850 629

SEAQAQA BRANCH
Seaqaqa, FIJI.
P.O Box 62, Seaqaqa, FIJI.
Ph: (679) 8860 166
Fax: (679) 8860 168

SIGATOKA BRANCH
Vunasalu Road, Sigatoka, FIJI.
P.O Box 81, Sigatoka, FIJI.
Ph: (679) 6500 122
Fax: (679) 6520 399

RAKIRAKI BRANCH
Vaileka Parade, Rakiraki, FIJI.
P.O Box 82, Rakiraki, FIJI.
Ph: (679) 6694 088
Fax: (679) 6694 784

TAVEUNI BRANCH
MH Complex, Somosomo, Taveuni, FIJI.
P.O. Box 215, Taveuni, FIJI.
Ph: (679) 8880 084
Fax: (679) 8880 057

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your partner in progress

HEAD OFFICE
360 Victoria Parade, Suva, FIJI.
P.O. Box 104, Suva, FIJI.
PH: (679) 3314 866
FX: (679) 3314 886
Email: info@fdb.com.fj
www.fdb.com.fj
ID: Fiji Development Bank