CELEBRATING PROGRESS

50 YEARS

FIJI DEVELOPMENT BANK
2016 ANNUAL REPORT

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 be commercially viable and reduce reliance on government assistance.
2. To enhance our role as Fiji's only development Bank.
3. To inculcate an environment that values, empowers and rewards our employees.

OUR VALUES

Development
FDB continuously focuses on the economic development of our country that is why we exist! We believe in the development of Fiji and bringing success to its entire people.

Innovation
FDB continuously strives to exceed customer's expectations with products and services that would meet the changing needs of all customer's and also taking advantage of emerging opportunities before competitor's can.

Collaboration
FDB always works as one team and communicates one message for the development of Fiji and its people.

Integrity
FDB exhibits the highest level of objectivity, honesty, transparency, fairness and responsibility at all times.

Accountability
FDB acknowledges and assumes responsibility for its actions with the overarching obligation to report, explain and be answerable for resulting consequences.

> The Fiji Development Bank takes great pride in working with the Education Ministry to communicate to the children of Fiji the rewards that good and informed money management will bring in later life.

A BANK FOR FIJI AND HER PEOPLE

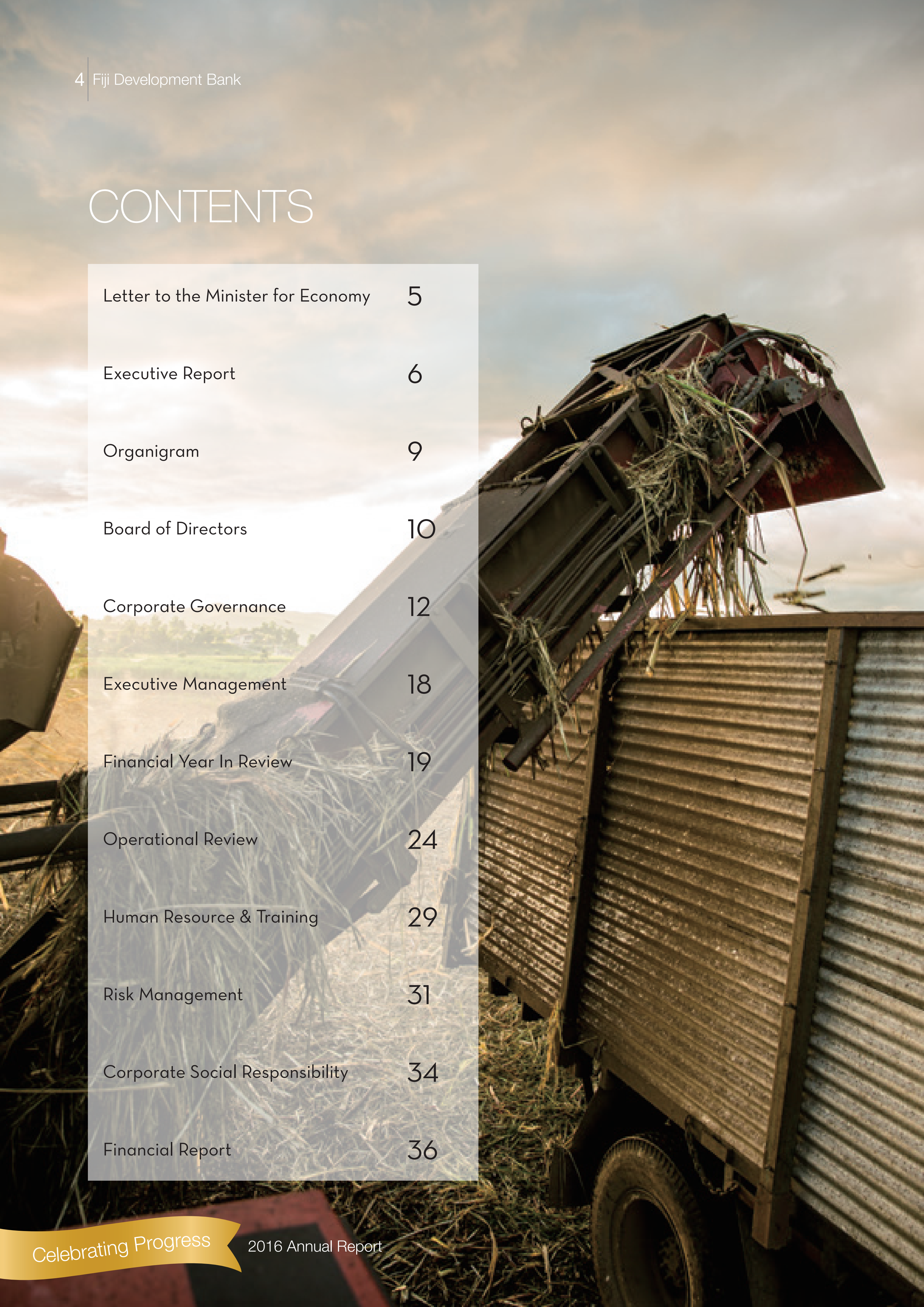
The Fiji Development Bank was established under the Fiji Development Bank Act (Cap 214) on 1 July, 1967. It is an autonomous statutory body, operations of which are controlled by a Board of Directors appointed by the Minister for Economy, (formerly termed Minister for Finance).

Under the Act, the Bank provides finance for projects that contribute to the development of Fiji's economy and that improve the quality of life for the country's people. Loan funds are made available for Agriculture, Corporate, as well as of a Small and Medium nature. Government uses FDB as a financial instrument in its own development projects, and in special assistance programmes that from time to time become necessary.

Over the years FDB has introduced a growing range of loan packages and services aligned with both its strategic objectives and customer demand, and designed with a full awareness of competing products promoted by the Banking and finance sector.

The Bank plays a very significant role in developing a spread of economic sectors, with a particular focus on Agriculture. FDB is at the same time proactive in addressing its corporate social responsibilities. It takes great pride in working with the Education Ministry to communicate to the children of Fiji the rewards that good and informed money management will bring in later life.

Another special focus for FDB is effective support and encouragement for entrepreneurs, and operators of small and medium business enterprises. To this end, the Bank continues to sponsor the hotly-contested annual Small Business Awards recently upgraded to the Small & Medium Enterprise Awards in 2015.



CONTENTS

CHAIRMAN'S LETTER

F·D·B
your partner in progress

Development Bank Centre
360 Victoria Parade
GPO Box 104
Suva, Fiji
Tel: 3314866
Fax: 3314886

8, February, 2017

Hon Aiyaz Sayed-Khaiyum,
Attorney-General and Minister for Economy, Public Enterprises, Public Service & Communications,
Suvavou House,
SUVA.

Dear Sir,

RE: 2016 ANNUAL REPORT

On behalf of the Board it is my pleasure to submit the Fiji Development Bank's Annual Report and accounts for the financial year ending 30 June, 2016.

It pleases me to inform you that the Bank was able to deliver a net profit of $7.31MM for the financial year, representing an increase of 18.98% on the corresponding 2015 figure. This impressive performance was achieved through the application of stringent cost control measures and an intensified focus on bad debt recovery.

The Bank's continued collaboration with Government and private sector stakeholders resulted in numerous high quality projects gaining approval. At 30th June, 2016 the Bank's portfolio stood at 4,608 accounts with loans totalling $375.52MM. This was an increase of 10% in size and 2% in value over 2015.

Just as we greatly appreciate the role Government continues to play in supporting our endeavours, the Board and I must similarly commend the contribution of the Bank's Executive Management and Staff to the many notable achievements of a highly satisfying financial year for FDB.

Yours sincerely,

Robert G. Lyon
CHAIRMAN

EXECUTIVE REPORT

Deve Toganivalu
Chief Executive Officer

"The number one contributor to the increased account numbers was Agriculture, our prime sector of interest, and the one most severely affected by Tropical Cyclone Winston."

The 2016 financial year is defined as July 1, 2015 to June 30, 2016. This period is referred to as 2016 throughout this document.

The Bank's performance for 2016 was commendable, and especially so given the social and economic chaos that our country faced in the wake of Tropical Cyclone Winston. Of necessity, this immediately and overwhelmingly became our prime focus, as we simultaneously strove to maintain the highest levels of service on the day-to-day business front.

We are proud to be playing a very significant role in the recovery of the businesses and livelihoods of large numbers of our customers following the catastrophic event, which saw the Reserve Bank's forecast of 3.5% economic growth for the year revised to 2.4%.

That FDB itself should emerge from such a grave situation fully intact and in enhanced financial health, speaks to the soundness of its core infrastructure, and the mettle of its people.

Increased assets, greater net profit, more accounts

An increase in total net assets from $361.83MM to $374.90MM was accomplished, with liquid assets, fixed assets and other receivables all showing gains on 2015.

At year's end, with total net profit of $7.31MM achieved, an improvement of 18.98% on 2015, the Bank's portfolio stood at 4,608 accounts with loans totalling $375.52MM, an increase of 10% in size and 2% in value.

The number one contributor to the increased account numbers was Agriculture, our prime sector of interest, and the one most severely affected by Tropical Cyclone Winston.

The value increase came largely from the Wholesale, Retail, and Hotels & Restaurants sectors, while Transport, Communication & Storage contributed to both areas of gain, with Taxi Business Loans specifically bringing in $5MM. This was due to the Bank's competitive edge in terms of interest rate and quality of service delivery.

Focus sectors accounted for 79% of the total portfolio by number, and 42% by value, with Agriculture the highest contributor, and Transport, Communication & Storage second highest. Notwithstanding the inherent risks, the Bank's commitment to the resource based sectors, in line with Government strategic objectives, remains firm. Loans to the focus sectors showed a 61% value increase, totalling $58MM for the year, from $36MM in 2015.

The non-focus sector makes up 21% of the total portfolio in account numbers and 58% of its value, up 2%, or $7MM on 2015, with Tourism being the top contributor.

Loan approvals and disbursements

Based on a positive economic outlook at the outset of 2016, and the Bank's own creditable performance for 2015, disbursement targets were set that were clearly unachievable post-Winston.

The situation was compounded by market forces that gave Commercial Banks an interest rate advantage over the Bank throughout the year.

As a consequence, loans totalling $19MM were refinanced elsewhere, and some loan approvals not taken up due to various reasons. The Bank was successful however, in the disbursement of loans totalling $29MM to key sectors Agriculture, Transport, Communication & Storage.

While Commercial Banks have the lion's share of Agriculture business at 47%, the Bank is within touching distance at 44%. It continues to dominate the Sugar sector convincingly, with its 96% share.

Levelling the playing field

In 2016, the Bank was severely disadvantaged by the fact that its cost of funds was far in excess of those of the Commercial Banks. While the FDB figure peaked in June, 2016 at 3.01%, the Commercial Banks enjoyed nominal rates of 0.5% to 2.0% over the course of the year.

An application by the Bank for a deposit-taking license, which is where the Commercial Banks now hold the upper hand, will put FDB on an equal footing in this regard.

Welcome relief

The Bank was quick to offer a Disaster Rehabilitation Package to hundreds of its customers who suffered potentially ruinous losses primarily from a single weather event: the most powerful and destructive cyclone to strike these islands in recorded history.

An initial assessment found that accounts constituting 23% of the Bank's portfolio were affected. Repayment moratoriums, temporary interest freezes and additional loans for rehabilitation assisted these customers as they took the first critical steps on the road to recovery.

Additional assistance through the PM's Appeal Fund

As is traditional, the Bank was able to assist a number of carefully selected worthy causes through its Donations and Sponsorships programme in 2016. Specific beneficiaries for the year ranged from St John Ambulance to Suva Special School.

Due to the unprecedented scale of destruction and disruption suffered nationwide in late February 2016, $50,000 of available funding was thought best diverted to a single recipient, the Prime Minister's Tropical Cyclone Winston Appeal Fund.

Sowing the seeds of a vibrant new growth

Organic farming, once a small niche industry, is fast becoming big business globally, as families become ever more health conscious, and increasingly reject the use of chemicals in the production of the fruits and vegetables they consume.

Here in Fiji as anywhere else, farmers have the opportunity to tap into this lucrative and fast expanding sub-sector. The Bank is developing special new lending policies to encourage the rapid adoption of organic farming methods, while markets await both at home and abroad.

Joining the push to turn the tide

Also on the drawing board are new products to promote sustainable energy enterprises, and other initiatives aimed at protecting the environment. Fiji has a special interest in pushing for the increased employment of green options worldwide, and along with the rest of the world, we need to change.

As the Prime Minister has made crystal clear to world leaders, coastal communities throughout these islands are already feeling the impact of rising sea levels brought about by global warming. Fiji can be, and should be, part of a global transition to sustainable energy and clean technologies that is gaining momentum by the day, and the Bank stands ready to support Fiji initiatives that see business opportunities here that will generate local jobs and incomes.

Changing lives through education and inspiration

The Bank continues to partner with the Education Ministry in empowering new generations of young Fijians with financial skills for life, through its innovative Money $mart and Invest $mart programmes.

It continues also to staunchly support small and medium enterprises, and to invite more loan applications from the sector. Through its sponsorship of the annual Small & Medium Enterprise Awards, FDB lends encouragement to the entrepreneurial spirit that burns within so many Fijians of all ages, and from all backgrounds.

We do this because we recognise the rewards that bright new business ideas may bring not only to the individuals responsible, but to whole communities, with potential benefits also for Fiji exports and the economy. I refer you to the article on a case in point, found on page 28 of this publication.

During the course of the year, the Bank worked with the Ministry of Industry, Trade and Tourism on the design and implementation of a Government Grant scheme encouraging entrepreneurial enterprise among young, and vulnerable, Fijians. An unexpectedly high number of applications caused logistical problems that we are now working to solve, so that we are better prepared in future.

The new look, new feel Bank

Board approval for the 2016 Bank Realignment Scheme has already seen some of the changes that will lead to enhanced portfolio quality and customer satisfaction, through improved service delivery.

Three Regional Managers have been appointed. The Head Office Corporate, Small & Medium Enterprises, and Agriculture centres have merged as Suva Branch. A service platform for high value clients is also to be established.

Over the course of coming months, management will work to engender a new sense of purpose and spirit throughout the entire organisation, fixing in place the cornerstones for a new, risk conscious corporate culture.

New compliance checks will be a very visible outward sign of this, and additional to the Bank's very extensive existing risk control structure.

Work is already underway to promote this new look, new feel Bank, with the simultaneous refurbishing of the Suva Head Office and the Nausori and Rakiraki branches.

Sink or swim for Fiji's sugar industry

While Tourism, one of the two great industries that underpin the Fiji economy, can look to a bright future, the other is about to confront the biggest challenge of its life. From a scheduled expiry in 2017, the E.U. preferential price agreement that has enabled our Sugar sector to keep its head above water will no longer be there to support it.

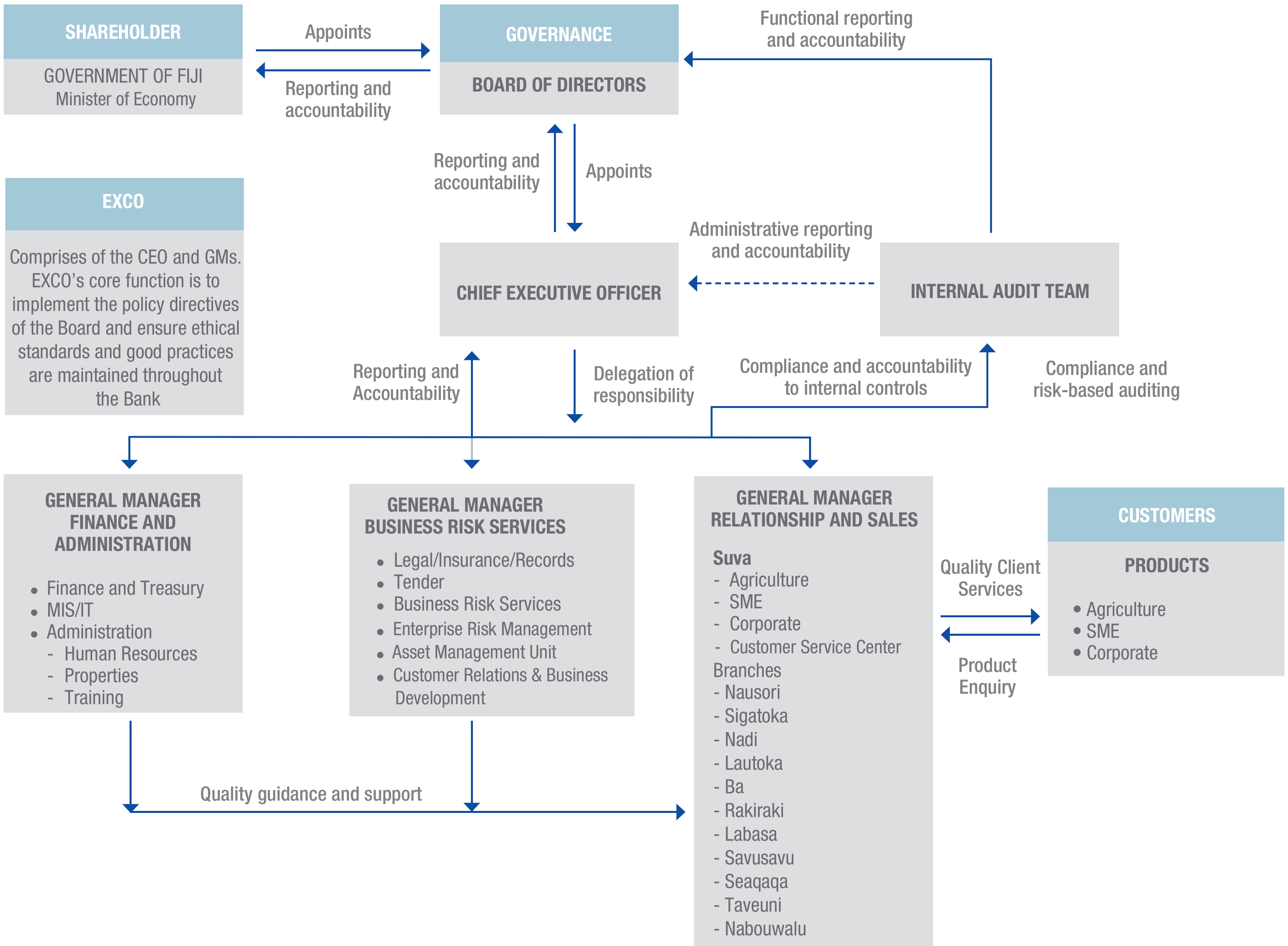
A positive outlook for 2017

Cementing of bonds between Fiji and the international community, and our increasing visibility on the world stage are all factors that have contributed to an impressive and still-increasing rise of investor interest and confidence in our resource rich country.

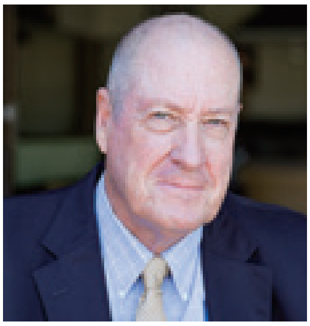
Government remains committed to the development of resource based sectors, and disaster recovery initiatives applied in those sectors can be seen to be achieving their purpose.

The Bank is firmly of the view therefore, that the outlook for 2017 is positive.

FIJI DEVELOPMENT BANK ORGANIGRAM



BOARD OF DIRECTORS



Mr. Robert G. Lyon
Chairman

(Appointed August 2010 – reappointed 30th September 2013)

Robert 'Bob' Lyon ranks among the South Pacific's most experienced and best-regarded business leaders. During his 43 years with ANZ, twelve of these as Managing Director Pacific, he had responsibility also for ANZ retail operations in Asia.

He has held numerous Board positions both in Fiji and overseas, including his past chairmanship of FINTEL/Kidanet and of Melbourne City Marketing. He has also served on the Boards of Melbourne Chamber of Commerce, Pacific Economic Bulletin, Australia Papua New Guinea Business Council and Australia Pacific Islands Business Council. He spent 14 years with the Australia Fiji Business Council, of which he was President for 5 years. In addition to being chair of the Fiji Development Bank, he currently chairs Foundation for Development Cooperation, Sunergise Group and Kula Fund Investment Board.

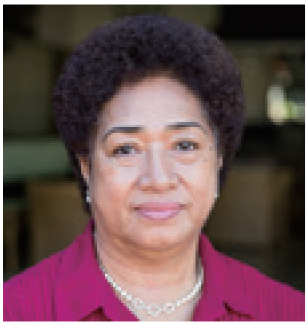
Mr Lyon holds a Graduate Diploma in Organisation Development from RMIT University. He is a Fellow of both the Australian Human Resources Institute and the Australian Institute of Company Directors and a Senior Fellow of the Financial Services Institute of Australasia.

In 2005 he was awarded the 30th Independence Anniversary Commemorative Medal by the PNG Government for services to the Banking industry. A Chiefly Samoan title is further evidence of the respect afforded him throughout the region.

Mr. Vadivelu Pillay a.k.a Wella Pillay
Deputy Chairman

(Appointed December 2015)

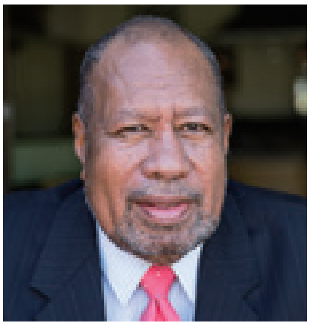
Mr Pillay is the Chief Executive Officer of Gecko Trucking (Fiji) Ltd, Construction Equipment Hire (Lautoka) Ltd and Wairiki Logging Ltd. Previously with the Sigatoka Branch of Bank of New Zealand he temporarily relocated to New Zealand before returning to Fiji to launch his current business ventures. In his private capacity Mr Pillay devotes time to community initiatives through TISI Global Sangam, and is a trustee for Friends of Fiji Heart Foundation.



Ms. Olivia Mavoa
Director

(Appointed January 2011 - reappointed 6th January 2014)

Ms Mavoa is the body corporate representative for Denarau Villas Ltd and has vast experience in the tourism industry. From 1994 to 2004 she served as Chief Executive Officer of the Fiji Hotel Association, following which she operated her own tourism and business consultancy for five years. She is also a past General Manager of Musket Cove Resort and Manager Northern for the Fiji Trade and Investment Board (now Investment Fiji). Ms Mavoa holds a Postgraduate Diploma in Business Administration from Central Queensland University.



Mr. Inia Naiyaga
Director

(Appointed December 2015)

Mr Naiyaga has a wealth of executive banking experience acquired over the course of 40 years in the field. Following a 3-year spell with Fiji Sugar Corporation, he launched his banking career in 1974 with a move to ANZ. In 2014 he retired from his pinnacle position as Deputy Governor of the Reserve Bank of Fiji, having by then served in the same capacity with the Reserve Bank of Tonga, and with RBF as General Manager (International) and Chief Manager Financial Institutions.

Mr Naiyaga is also the Chairman of Fijian Holding's Trustees Ltd, a member of the University of the South Pacific Finance & Investment Committee, a long-standing full member of the Fiji Institute of Accountants and a Fellow of Fiji Institute of Bankers. He holds a Bachelor of Arts Degree majoring in Accounting & Economics.

Mr. Rajesh Patel
Director

(Appointed December 2015)

Mr Patel is the Director for R.C. Manubhai Group of companies and the Director for Nando's Fiji. He holds a Diploma in Textile Engineering from M.S. University. He is also a Justice of Peace, Board of governance at Xavier College, Vice President at the Oceania Football Conference and President of the Fiji Football Association.

"The cementing of bonds between Fiji and the international community, and our increasing visibility on the world stage are all factors that have contributed to an impressive and still-increasing rise of investor interest and confidence in our resource rich country."

CORPORATE GOVERNANCE

As the body ultimately responsible for all decision-making, the Bank's Board of Directors recognises the critical importance of good governance at every level.

Its core objective is to effectively represent and promote the interests of shareholders while enhancing the Bank's performance and long-term value.

Beyond this, the Board believes that a solid governance framework is the key to building and maintaining a corporate culture of trust and transparency.

The Board is guided by a Charter that sets out its function, assigns responsibilities and regulates procedures.

It is the Board that determines the Bank's management structure, and in the interests of efficiency, it delegates some of its powers to purpose-appointed Committees. Some of its powers are entrusted to the Chief Executive Officer, who is additionally responsible for ensuring that the Bank's Executive Management executes its duties in accordance with the Board policy.

Board Composition

FDB Board members are appointed by the Minister for Economy (formerly termed Minister for Finance), and operate under the provisions of the FDB Act (Cap 214).

Both the Minister and the Bank will consider it essential to preserve a balance of skills, knowledge, experience and perspective in the composition of the FDB Board.

In carrying out their duties Board members are required to interact with customers across every sector of the Fiji economy, and are expected to have as deep an understanding of these sectors and the economic factors that influence them – both domestic and global – as the customers themselves.

Directors' Remuneration

FDB Directors receive a sitting allowance. If required to travel beyond their area of residence on Bank business, a travel allowance is also paid. Directors who serve on Board committees are paid an additional fee as appropriate.

Board Departures In 2016

The 2016 financial year saw some major changes in the FDB Board. In November 2015, having served three terms as Deputy Chairman, Mr Jitoko Tikolevu resigned in order to take up a position overseas. Mr Tikolevu was the longest serving member on the Bank's Board, being first appointed in 2010.

The following month the Board bid farewell also to Mr. Joseva Serulagilagi who has retired. Like Mr Tikolevu, Mr Serulagilagi was in his third term, having joined the Board in September 2014.

New Board Appointments In 2015

In December 2015 the Minister for Finance (now Minister for Economy) announced three new appointments to the FDB Board, one of them being Mr Inia Naiyaga, a former Deputy Governor of the Reserve Bank of Fiji who brings with him 40 years of Banking experience and expertise.

Mr Wella Pillay CEO of the Gecko Group of Companies was appointed FDB Deputy Chairman, while Mr Rajesh Patel, a Director of R C Manubhai was appointed as a Board member.

The three new Board members join incumbent FDB Chairman Mr Robert Lyon and Director Olivia Mavoa. They will serve for a period of two years and are eligible for re-appointment by the Minister for a further two terms.

Further information on all Board members is found on pages 10 and 11.

		Date of Appointment	Number of terms appointed
Mr. Bob Lyon	Chairman	29 September 2013	Second term
Mr. Wella Pillay	Deputy Chairman	December 2015	First term
Mr. Inia Naiyaga	Member	December 2015	First Term
Mr. Rajesh Kumar Patel	Member	December 2015	First Term
Ms. Olivia Pareti	Member	6 January 2014	Second Term

The FDB Chairman and Deputy Chairman are appointed by the Minister for Economy. The Chief Executive Officer is appointed by the Board.

The Chairman takes the lead role in maintaining a high standard of corporate governance, and has the full support of the Deputy Chairman, other Board colleagues and Senior Management.

The two key aspects of the management of the Bank are umbrella governance by the Chairman and Board, and day-to-day management by others in line with Board-approved strategic objectives, corporate plans, overall risk policy and risk management procedures.

The Role of the Chairman

The Chairman sets guidelines on the flow of information from Senior Management, and closely monitors it. This is to ensure that material facts are provided in a timely manner, allowing the Board to make informed and considered decisions.

He also encourages close and mutually supportive relations between the Board and Senior Management in order that information on issues concerning the Bank's progress, or any shortfall in meeting strategic business objectives or financial targets is routinely shared, together with any other information relevant to the Bank's operations and performance.

The Role of the Chief Executive Officer

The CEO, assisted by Senior Management, makes strategic proposals to the Board and implements its decisions concerning the management and development of the Bank's business. He is also required to serve on all Board Committees.

The Role of the Board Secretary

The Board Secretary schedules meetings and prepares agendas according to the flow of the Bank's operations. He also administers, attends and prepares minutes of Board proceedings and assists the Chairman in ensuring that Board procedures are adhered to.

He also assists the Chairman and the Board in implementing and strengthening corporate governance practices and processes, with a view to enhancing long-term shareholder value.

Board Access to Necessary Information and Advice

Board papers are distributed to the Directors at least five days before a Board meeting in order that they may fully acquaint themselves with facts and figures relevant to the issues to be discussed prior to the event, and are able to provide informed answers to any questions that the meeting may put to them. Where an issue is sensitive, it may be tabled at the meeting itself without notice.

Board Meetings

The Board meets six times a year and as warranted by particular circumstances, with Board Committee meetings held once per quarter. The number of Board and Board Committee meetings held over the course of the 2016 financial year are shown in the table below, together with the attendance figures.

A special Board meeting called during the period took the total to 7. While there were no meetings of the Credit Risk Committee for the year, a total of 20 Credit flying minutes were ratified in full Board meetings.

	Board Meeting	Board Committee Meeting		
		Audit	Human Resource	Credit Risk
Mr. R.G Lyon	7	2	2	
Mr. Jitoko Tikolevu	3	-	-	
Ms. Olivia Mavoa	7	1	2	
Mr. Josefa Serulagilagi	1	-	-	
Mr. Wella Pillay	4	-	-	
Mr. Rajesh Patel	3	1	1	
Mr. Inia Naiyaga	4	1	-	
Total number of meeting held in FY 2016	**7**	**2**	**2**	**0**

Board Committees

Three Board Committees assist the Board in monitoring key assets and operations. Each of these committees is led by a Director having expertise in the relevant area. All Board Committees include the CEO.

Board Audit Committee

The Board should demand integrity in financial reporting and in the timeliness and balance of corporate disclosures.

The Fiji Development Bank Board is committed to absolute transparency in the auditing and reporting of the Bank's financial performance, and has established a Board Audit Committee to play a central role in achieving that goal.

As at June 2016, this committee comprised of Mr. Inia Naiyaga, Mr. Robert Lyon and Chair Mr Rajesh Kumar Patel.

The main role of the Board Audit Committee is to act on behalf of the Board in overseeing all material aspects of FDB financial reporting and control audit functions, barring those for which another standing committee of the Board bears specific responsibility.

Additionally, this committee is required to focus on the qualitative aspects of financial reporting to the Government, and on the Bank's processes for the management of business/financial risk, and compliance with legal, ethical and regulatory requirements.

Human Resource Committee

The remuneration of directors, executives and employees should be transparent, fair and reasonable.

The principle function of the Human Resource Committee is to oversee Bank strategies and policies relating to organisational structure, culture, employee performance and development, succession planning, growth and remuneration.

As at June 2016, the committee comprised of Mr Rajesh Patel, Mr Robert Lyon and Chair Ms Olivia Mavoa.

Performance Management

Formal procedures are in place to evaluate the performance of the Bank's employees. This process is managed by the Manager Human Resource in liaison with the Chief Executive Officer. Evaluations of the Chief Executive Officer and the senior management team are based on a more involved set of criteria, including the performance of the business, the accomplishment of long term strategic objectives and other non-quantitative objectives. During the financial year, performance evaluations of the Chief Executive Officer and senior management team were completed as planned.

Credit Risk Subcommittee

Directors should have a sound understanding of the key risks faced by the business. The Board should regularly verify that the entity has appropriate processes that identify and manage potential and relevant risk.

The Credit Risk Committee assists the Board in the management of the credit risk policy and strategy of the Bank in achieving its corporate goals. The main role of this committee is to review and recommend credit risk management policies, including portfolio concentrations, lending limits, economic risk capital and any off-balance sheet activities (guarantees and indemnities) outside the normal course of business for Board approval.

As at June 2016, this committee comprised of Mr Inia Nayaga, Mr Wella Pillay and Chair Mr Robert Lyon.
Due to the urgency of decisions on some critical loans requiring Board intervention, instead of calling a meeting, flying papers are made. These papers are then ratified in the next full Board meeting. Board meetings are scheduled every second month.

Executive Management

The Board delegates aspects of its management function to the Executive Management, and gives clear directions as to the powers of the Executive Management as to the matters that must be approved by the Board before decisions are made on behalf of the Bank.

The overriding aim of Executive Management is to achieve the Government goal of maximising shareholder value without detriment to the interests of other stakeholders, and it operates within the boundaries and policy framework laid down by the Board. While the Board is responsible for ensuring that the principles of corporate governance are adhered to and enforced, the onus of implementation lies with Executive Management.

As at June 2016, the Bank's Executive Management comprised of General Manager Relationship and Sales, General Manager Business Risk Services and General Manager Finance and Administration. General Manager Human Resource and Training was part of the Bank's Executive team until March 2016 when he departed the Bank for greener pastures.

Audit and Regulatory Compliance

The Board should ensure the quality and independence of the external and internal audit process.

Internal Audit

The Bank has an independent internal audit division headed by the Manager Audit, who reports to the Board through the Board Audit Committee. The committee reviews and may approve the internal auditor's findings and recommendations concerning the Bank's internal financial, operational, compliance and information technology controls.

All such findings and recommendations for 2016 were presented to the Audit Committee and additionally discussed at an exit meeting attended by the CEO, line General Manager and Manager Audit.

External Audit

In accordance with the Financial Management Act (FMA) of 2004 under the Fiji Development Bank Act (Cap 214), and subsequent amendment promulgation (No 21) of 2007, the Bank's financials are independently audited annually by the Auditor General. The external audit provides an evaluation of the Bank's operation, governance, internal control and financial reporting. This is an independent and unbiased assessment of the Bank's governance and financial health.

Reserve Bank of Fiji Prudential Supervision

The Bank complies fully with the Banking and Supervision Guideline of the Reserve Bank of Fiji as part of RBF prudential supervision requirements. Reports are submitted to RBF on a monthly and quarterly basis, ensuring the transparency of information to the public.

Internal Control and Risk Management

A sound system of internal control contributes to safeguarding the stakeholder's investment and the Bank's assets.

The Bank ensures that effective internal and financial controls are in place and safeguarding the Bank from financial risks. Responsibility for the Bank's internal control and risk management systems lies with the Board and Senior Management.

The Board takes the following factors into consideration when deliberating on its internal control and risk management policies:

- The nature and extent of the risks faced by the Bank
- The extent and categories of risk which it regards as acceptable for the Bank to bear
- The likelihood of the risks concerned materialising
- The Bank's ability to reduce the incidence and impact on the Bank of risks that do materialise
- The cost of operating particular controls relative to the benefit thereby obtained in the management of related risks.

Stakeholder Interests

The Board respects the interests of all stakeholders taking into account the Bank's fundamental purpose.

Our employees

As with any other organisation of its size, the Bank routinely experiences a degree of staff turnover, and manages occasional staff losses without difficulty through good forward planning.

At the same time, it seeks to retain quality staff through the provision of a pleasant working environment, appropriate compensation and clear opportunities for career advancement. Team spirit is encouraged within a Bank culture promoting inclusivity.

The Bank recognises that professional development is essential to both its own success and that of its individual employees, and so schedules staff training exercises in-house, locally and internationally on an ongoing basis. The Fiji National University and the Government of India are among those who support us in these endeavors.

Our customers

Customer satisfaction is an uppermost priority for the Bank as we strive to establish life-long customer relationships. Our products are some of the most flexible available.

Close contact with our customers is maintained throughout Fiji, including the remote islands, by FDB Relationship and Sales Officers. Their visits enable them to gain a full understanding of grass roots customer needs.

The Bank offers customers a Complaints Management process whereby they can lodge any concerns directly with the Chief Executive Officer and have them promptly addressed. Complaints are normally resolved within five working days.

Customer confidentiality is maintained at all times.

Community

Corporate social responsibility is embedded in FDB core values, and guides us in the conduct of our business. It is a key factor in the development and delivery of our products and services.

EXECUTIVE MANAGEMENT

Mr Deve Toganivalu
Chief Executive Officer

Mr Toganivalu holds a Bachelor of Commerce from Australia's James Cook University. He has more than 30 years of Banking experience, having spent twelve years with the Bank of New Zealand prior to joining Fiji Development Bank in 1987. He has held numerous managerial positions with FDB 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 Fiji Sugar Corporation. Mr Toganivalu is also a member of the Fiji Institute of Bankers.

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 and a certificate in Master level from the USA's Pacific Coast Banking School. Prior to assuming his current position, he served as FDB Manager Risk (Corporate). Mr Cakacaka is also a member of the Fiji Institute of Bankers.

Mr Tevita Madigibuli
General Manager Relationship & Sales

Mr Madigibuli holds a Masters in Business Administration, a Bachelor of Arts in Business Studies and a Diploma in Tropical Agriculture from the University of the South Pacific. Prior to his current appointment, he headed the Bank's Asset Management Unit.

Mr Saiyad Hussain
General Manager Finance & Administration

Mr Hussain is a chartered accountant and holds a Postgraduate Diploma in Financial Management, a Bachelor of Arts Degree in Accounting and Financial Management and a Diploma in Economics from the University of the South Pacific. Prior to taking up his current position, he served as FDB Manager Finance.

Mr Uraia Rasake
General Manager Human Resource & Training

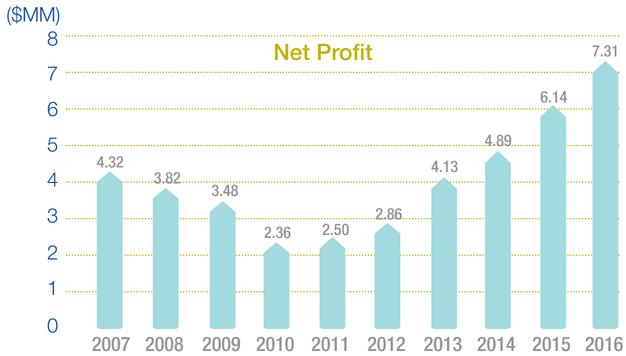
Mr Rasake is a certified Starwood Leadership, Service Culture and Brand Trainer, a qualification attained through Australia's Starwood Cares Leadership University. He also holds a Human Resource Advance Certificate from the Starwood Cares Leadership University USA, and an Occupational Health & Safety Certificate from Australia's Ballarat University. Prior to taking up this FDB appointment, he was Regional (Pacific) Human Resource Director with Warwick International Hotels and is an earlier Director of Human Resources at Sheraton and Westin Resorts, Fiji.

*Mr Rasake left us in March 2016 to concentrate on his consultancy business.

FINANCIAL YEAR IN REVIEW

Overview

The Bank continues to improve its financial performance despite intense competition in the market and the fallout from Tropical Cyclone Winston, which struck in the third quarter of the financial year. The cyclone had severe repercussions for most of the Bank's Western and Northern division customers and we were obliged to come to their assistance. Despite this, FDB recorded a net profit of $7.31M for 2016, an increase of 18.98% on the previous financial year. This was achieved through the stringent cost control measures set by Management and significant success in the area of bad debt recovery.



The Bank's total operating income for 2016 was $28.17MM, an increase of 9% compared to the same period the previous year, while its total expenses, including allowances for impaired assets, amounted to $20.86MM, an increase of 5.88%.

Income Statement ($MM)	2016	2015	2014	2013	2012	2011	2010
Net Interest income	17.330	18.865	19.208	18.651	21.943	17.830	12.166
Other operating income	10.842	6.982	6.813	9.187	13.053	12.029	6.897
Operating Income	28.172	25.847	26.021	27.838	34.996	29.859	19.063
Operating Expenses	12.289	11.904	10.548	9.831	10.659	10.496	10.113
Profit before Allowances	15.883	13.943	15.473	18.007	24.337	19.363	8.950
Total Allowances	8.578	7.803	10.586	13.873	21.479	16.859	6.592
Net Profit	7.305	6.140	4.887	4.134	2.858	2.504	2.358

Net Interest Income

The Bank's net interest income reduced by 8.14% in 2016 due to a decrease in market-weighted average interest rates, which led to a reduction of Bank's lending interest rate. The Bank's average interest-earning assets, however, showed growth.

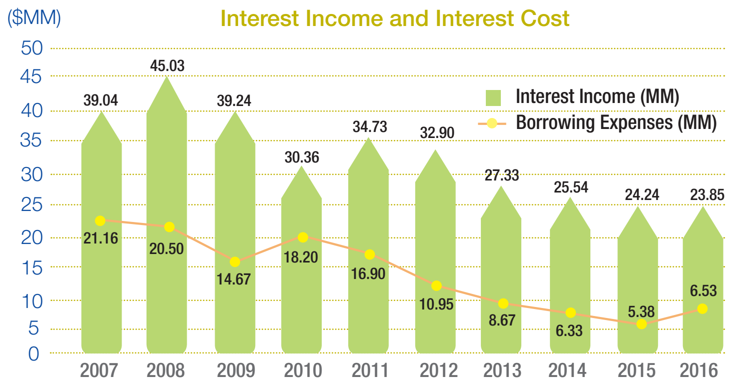
Other Operating Income

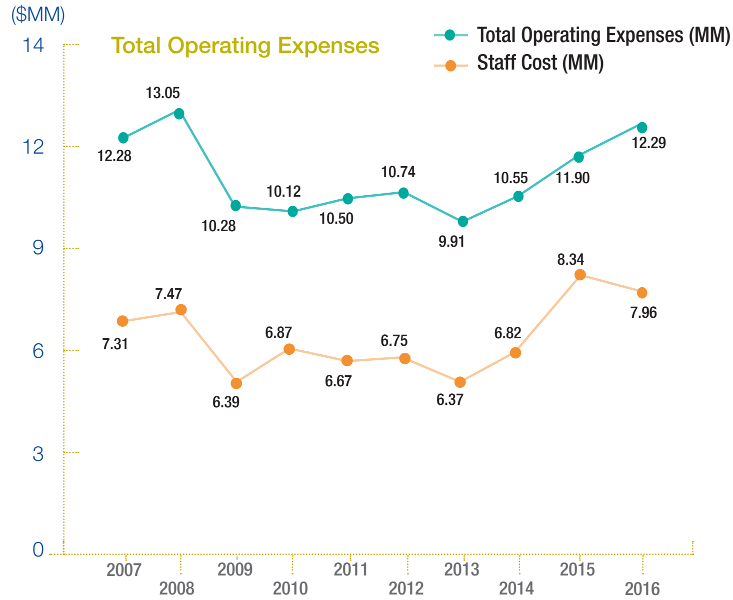
Other operating income increased by a noteworthy 55.29%, for 2016.

Bad debt recoveries were up by $3.59MM, largely attributable to collection from a single major customer. Rental income rose by $0.38MM as vacant properties were tenanted. A third significant contribution came from fees and charges which increased by $0.32MM due to volume growth achieved in the Bank's loans and advances portfolios.

Operating Expenses

Operating expenses grew by 3.23%, compared to 2015. These were mainly due to an increase in other expenses by $0.66MM of this resulted from impairment loss, primarily attributable to the non-renewal of land leases in the Western Division. Depreciation and amortisation increases accounted for a further $0.10MM of the total, as new Bank assets were purchased.





Allowance for Credit Impairment

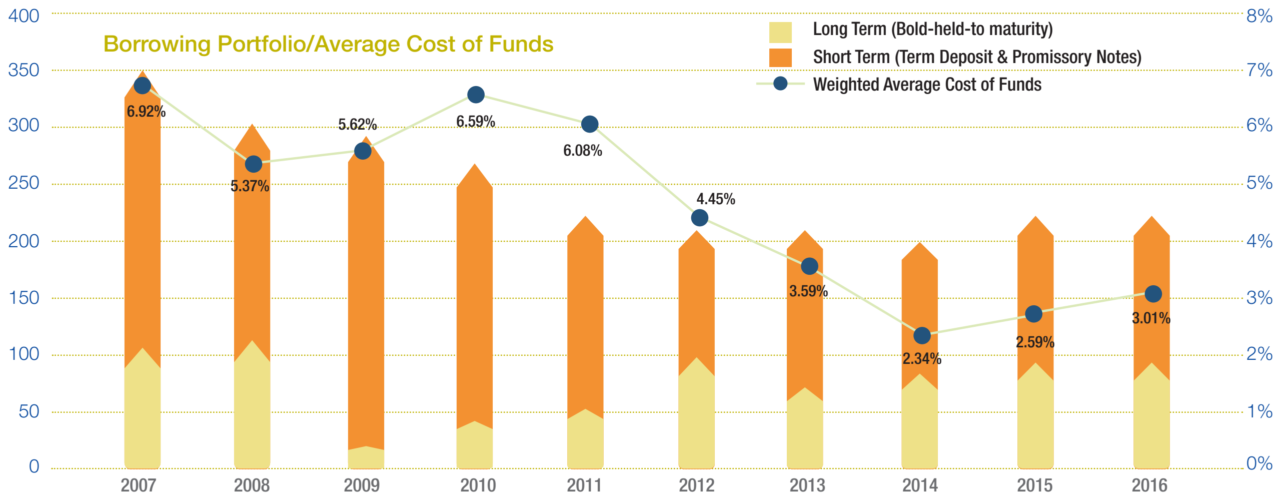
Total credit impairment charged relating to lending assets showed a slight increase of $0.77MM over the year due to many accounts adversely affected by Tropical Cyclone Winston.

Assets Structure

Balance Sheet Review ($MM)	2016	2015	2014	2013	2012	2011	2010
Liquid Assets	56.549	49.579	50.040	42.200	53.622	44.733	21.513
Investments	2.035	2.035	2.035	2.035	2.070	.070	0.070
Net loans and advances	294.845	291.629	265.205	276.946	258.662	272.142	325.211
Receivables	3.471	2.529	1.911	1.777	2.754	3.582	4.324
Land Held for Resale	-	-	-	0.043	0.737	9.716	12.171
Fixed Assets including intangibles	18.007	16.058	15.876	15.473	14.780	14.851	15.429
Total Assets	**374.907**	**361.830**	**335.067**	**338.474**	**332.625**	**345.094**	**378.718**
Liabilities							
Accounts payable and accruals	3.032	2.117	2.427	2.891	3.790	3.864	4.347
Short term borrowings	81.689	78.600	72.559	64.451	93.986	55.830	34.737
Other Liabilities	8.544	9.299	8.175	9.055	8.872	8.787	8.998
Bond- held to maturity	139.229	139.219	125.451	140.510	109.892	163.385	219.913
Total Liabilities	**232.494**	**229.235**	**208.612**	**216.907**	**216.540**	**231.866**	**267.995**
Total Equity	**142.413**	**132.595**	**126.455**	**121.567**	**116.085**	**113.228**	**110.723**
Total Liabilities and Equity	**374.907**	**361.830**	**335.067**	**338.474**	**332.625**	**345.094**	**378.718**

Liabilities Structure

Growth of 1.42%, was seen in the Bank's total liabilities for 2016. A favourable growth in the Bank's total loan portfolio was noted, collaborating with an increase in borrowings, while an increase of $3.08MM in short-term borrowings was recorded.



Other Finance and Adminstration Activites

1) Properties Administration Department

The Bank's Properties Department employs innovative skills and technology to provide a safe and comfortable environment for its staff, tenants and customers. During 2016 the Department managed the planning, programming, design and implementation of new construction and renovation projects adding value to the Bank.

A key project commenced in 2016 and currently in progress is a major facelift for the Bank's Head Office, to reflect and promote a new corporate image. In addition to the refurbishing of the building's exterior, the work includes improvements to staff recreational facilities and storage areas, and a re-designed executive garage. Related renovation work on the Bank's Nausori and Rakiraki branches was also initiated during the year.

Over the course of 2016, various feasibility analyses were conducted as part of the Bank's green energy drive. Subsequently, Seaqaqa branch was selected to initiate a new project. Other branches will later follow Seaqaqa's lead which is towards implementing solar panels for electricity supply.

2) ICT Operation

The ICT Department is an important support arm of the Bank, tasked with responsibility for the management and administration of information technology systems critical to every aspect of the Bank's operations and the attainment of its strategic objectives.

The Department supports the core business of the Bank by providing employees with tools to improve their effectiveness and productivity within a conducive and innovative work environment.

The year saw the commissioning of several key infrastructure capital projects initiated in 2015.

- Virtualisation of the Bank's Data Centre. A majority of the mission-critical business applications including Financial GL, BMS and the HRMS/Payroll System were migrated to the VMware virtualised environment.
- Offsite Disaster Recovery. The Bank's offsite DR is now real-time co-location and fully virtualised providing the Bank a truly redundant failover option.
- Wireless Networks. The Department is to install wireless networks at Head Office and all branches, bringing an end to legacy copper cabling expansion.
- Enhancing Storage Capacity. Additional SAN volumes will boost storage capacity.
- A major cable rehabilitation project involving the installation of fibre-optic backbones and new switches is underway at Head Office to address network performance, bottlenecks and latency. Similar upgrades within the branches will follow.
- The Bank collaborated with Home Finance Company on a reciprocal BCP arrangement MOU. In addressing business continuity at the gateway level the Bank implemented multiple/redundant ISP connectivity to minimize loss due to outage of external communication.

As part of its system and software development programme, the Department is working on replacing the current Banking system with an advanced system. This is expected to be completed within a two-year time frame. The project team will first conduct site visits to evaluate similar systems in order to establish a benchmark.

The Department continues to enjoy the collaboration of its Finance and Policy and Procedures department colleagues in the testing of various module development and enhancement equipment. This is of value in ensuring that change control requests are documented thoroughly and that turnaround time is reduced.

Historical Performance	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Financial													
Net profit($MM)	0.45	1.91	5.35	4.32	3.82	3.48	2.36	2.50	2.86	4.13	4.89	6.14	7.31
Total Assets ($MM)	269.20	309.20	394.60	450.39	414.69	408.21	378.72	345.09	332.63	338.47	335.07	361.83	374.91
Total Assets / Equity (%)	3.28	3.68	4.41	4.72	4.17	3.77	3.42	3.05	2.87	2.78	2.65	2.73	2.63
Average Earning assets (AEA) ($MM)	282.70	302.90	359.80	421.10	446.24	438.97	435.61	381.55	330.70	351.22	342.99	371.81	381.03
Borrowing Cost(%)	4.88	4.01	3.92	6.92	5.37	5.62	6.59	6.08	3.31	2.47	1.85	1.45	1.71
Total Cost / AEA (%)	7.06	6.44	6.00	7.94	7.51	5.68	3.83	7.17	7.52	5.27	4.92	4.65	4.94
Profit (Loss) / Average Equity (%)	0.55	2.27	5.98	4.67	3.92	3.35	2.15	2.23	2.49	3.48	3.94	4.74	5.96
Long Term Debt : Equity	1.99:1	2.49:1	2.55:1	2.49:1	1.90:1	2.35:1	1.98:1	1.44:1	0.95:1	1.16:1	0.99:1	1.05:1	0.98:1
Interest Spread (%)	3.73	3.79	4.11	2.39	4.76	3.34	0.38	3.02	3.97	3.81	5.11	4.27	3.41
Earning Spread (%)	6.13	5.55	5.79	4.48	8.89	4.54	1.96	6.18	7.25	7.12	6.98	6.15	5.73
Operating Efficiency													
Staff Cost / AEA (%)	2.50	2.14	1.89	1.73	1.87	1.46	1.58	1.75	2.04	1.81	1.99	2.24	2.09
Total Income / AEA (%)	11.73	10.21	10.29	6.37	9.66	6.82	4.38	7.83	8.39	7.93	7.59	6.95	7.39
Lending													
Approvals (Number)	1,105	1,903	2,104	1,709	1,502	1,840	1,817	717	746	1,014	1,249	1,532	1,529
Approvals ($MM)	76.45	227.27	188.21	115.24	84.10	76.21	56.53	50.57	76.48	139.04	140.76	108.89	120.46
Loan Portfolio (Number)	4,372	5,588	5,888	5,251	5,989	5,987	6,435	5,258	4,536	4,071	3,843	4,189	4,608
Gross Loan Portfolio ($MM)	281.18	325.01	392.69	446.27	443.07	433.26	426.21	336.80	324.51	347.41	339.05	367.24	375.83
Growth in Loan Portfolio (%)	-0.46	15.59	20.79	13.64	-0.72	-2.21	1.63	-20.98	-3.65	7.05	-2.41	8.32	2.25
Arrears / Loan Portfolio (%)	7.42	4.32	1.32	1.20	2.54	6.88	19.41	15.24	12.98	12.40	12.90	12.02	14.34

FIJI DEVELOPMENT BANK'S MARKET SHARE

	FDB ($MM)	Commercial Banks ($MM)	Credit Institutions ($MM)	Fiji Total ($MM)	FDB as a % of Fiji Total
Agriculture	*72.8*	78.2	*14.0*	*165.0*	*44%*
Sugarcane Growing	14.7	0.2	0.4	15.3	*96%*
Forestry & Logging	5.1	34.6	7.4	47.1	*11%*
Others	53.0	43.4	6.2	102.6	*52%*
Mining & Quarrying	*0.6*	17.6	*2.5*	*20.7*	*3%*
Manufacturing	*20.9*	388.5	*11.9*	*421.3*	*5%*
Food, Beverages and Tobacco	14.8	59.6	0.4	74.8	*20%*
Textiles, Clothing and Footwear	0.8	78.1	3.3	82.2	*1%*
Metal Products and Machinery	0.1	32.4	2.5	35.0	*0%*
Others	5.3	218.4	5.6	229.3	*2%*
Building and Construction	*54.8*	532.3	*39.7*	*626.8*	*9%*
Real Estate (Development)	*70.4*	658.6	*1.5*	*730.5*	*10%*
Non-Bank Financial Institutions	*2.0*	5.0	0.0	*7.0*	*29%*
Public Enterprises	*16.7*	65.1	0.5	*82.3*	*20%*
Wholesale, Retail, Hotels and Restaurants	*57.5*	1,170.1	28.4	*1,255.9*	*5%*
Hotels and Restaurants	*43.4*	*443.3*	*3.5*	*490.3*	*9%*
Other Commercial Advances	14.0	726.7	24.9	765.7	*2%*
Transport, Communications and Storage	*31.9*	279.7	97.6	*409.2*	*8%*
Electricity, Gas & Water	*19.8*	220.3	0.3	240.4	*8%*
Professional Business Services	*2.3*	116.7	17.4	*136.4*	*2%*
Private Individuals	*20.9*	1,730.6	82.2	*1,833.7*	*1%*
Housing	17.4	1,186.0	0.0	1,203.4	*1%*
Car or Personal Individual Transport	0.4	122.6	0.0	123.0	*0%*
Others	3.1	422.0	0.0	425.1	*1%*
Central and Local Government	*0.0*	15.8	0.3	*16.1*	*0%*
Other Sectors	*5.0*	331.0	9.0	*345.0*	*1%*
TOTAL	**375.5**	**5,609.5**	**305.3**	**6,290.2**	**6%**

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 2016.

OPERATIONAL REVIEW

Overview

In the past three years, national economic growth has averaged 4.7%. According to the Reserve Bank of Fiji, this growth is supported by accommodative fiscal and monetary policies, improved investor confidence, an upward credit cycle and the re-engagement of development partners following Fiji's return to parliamentary democracy.

A growth forecast for 2016 of 3.5% was revised to 2.4% due to the devastating impact of Tropical Cyclones Winston and Zena in February and April 2016. Sectors most heavily affected by the two cyclones were Agriculture – Sugarcane and Forestry in particular – Manufacturing, Electricity and Water.

As a major financier of agricultural projects in the country, Fiji Development Bank stepped in immediately to offer various forms of financial assistance to those of its clients affected. This took the form of repayment moratoriums, temporary interest freezes and further loans for rehabilitation. An initial assessment found that 923 accounts representing 23% of the Bank's portfolio were affected, and an estimated cost of $4MM incurred.

The Bank's portfolio was projected to grow by 5.7% during the 2016 financial year, with a disbursement target of $120MM. In the circumstances it managed to disburse only $63MM however, representing 53% of its target, and to grow its portfolio by just 2%.

The Bank's Performing Loan Portfolio increased from $303MM in 2015 to $312MM for 2016, representing a 3% increase. Trouble & Impaired Assets decreased by 1%, from $64MM to $63MM.

There was a marked increase from 3,527 Performing Loan accounts in 2015 to 4,002 for 2016, while the number of Trouble & Impaired Assets accounts fell significantly, from 661 to 606.

With the ongoing implementation of post-disaster rehabilitation programmes and Government's continued focus on the development of resource based sectors, the Bank sees the outlook for 2017 as positive.

Review Of Lending Activity

Portfolio

The Bank's total portfolio at the close of the 2016 financial year was up by 2% in value and 10% in account numbers by comparison to 2015.

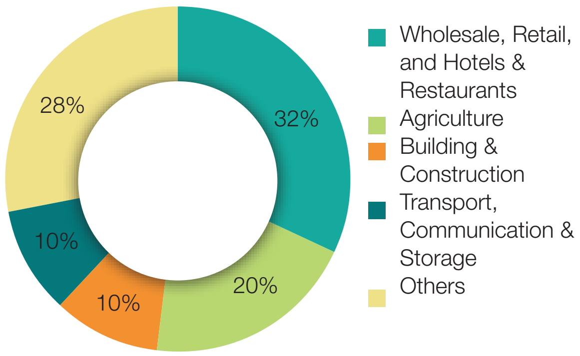
The main contributor to the increase in account numbers was Agriculture. The Wholesale, Retail, and Hotels & Restaurants sectors accounted for the slight increase in value. A notable increase in both account numbers and value was seen from the Transport, Communication & Storage sector during the year, largely due to the approval of 298 Taxi Business Loans valued at $5MM. This can be attributed to the Bank having a competitive edge in this field, with its minimal interest rate and superior service delivery.

Focus sectors accounted for 79% by number of the FDB portfolio for 2016, and 42% by value. The highest contribution came from Agriculture, followed by Transport, Communication & Storage. Despite the inherent risks, the Bank's commitment to its developmental role in assisting the resource based sectors and supporting related strategic objectives of Government remains firm. This was evident from loans totalling $58MM to the focus sector for 2016, an increase by 61% on the 2015 figure of $36MM.

The non-focus sector now makes up 21% of the total portfolio in account numbers and 58% of its value, an increase of 2%, or $7MM, on 2015. A Notable contribution to the increase in non-focus sector is from the Tourism portfolio with majority of the projects on progressive funding from 2015 FY loan approval. While recognising its obligation to support development within the non-focus sector, the Bank is acutely aware of the balancing act it has to play in order to remain sustainable.

Loan Approvals

During the year the Bank approved total lending of $120MM against a target of $167MM. The highest contribution of $39MM came from the Wholesale, Retail, and Hotels & Restaurants sectors. Hotel funding was especially prominent. Agriculture accounted for $24MM, with Building & Construction and Transport, Communication & Storage each contributing $12MM. Other sectors together accounted for a further $33MM.

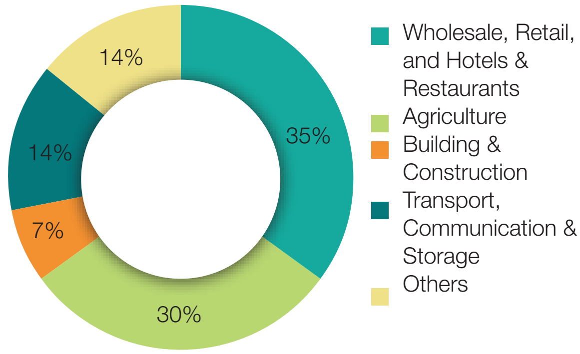


Loan Disbursement

The Bank had a projected $120MM disbursement target for 2016, up 26% on the 2015 figure of $95MM. The increase was based on 2015 performance and the positive economic outlook for 2016. Actual loan disbursement for 2016 was only $63MM, a sharp decrease of 34% on 2015, primarily due to the impact of Tropical Cyclone Winston.

A second significant factor was the high liquidity situation in the market, which enabled Commercial Banks to offer relatively low interest rates to potential and existing FDB clients. Loans totalling $19MM were refinanced by our commercial competitors, while a number of FDB loan approvals were not taken up. The Bank's policy guideline of lending up to 15% of its paid-up capital was a limitation for corporate clients wishing to source more significant loan funds.

On a positive note, the Bank's resolute efforts saw the successful disbursement of loans to key economic sectors such as Agriculture, at $20MM, and Transport, Communication & Storage at $9MM.



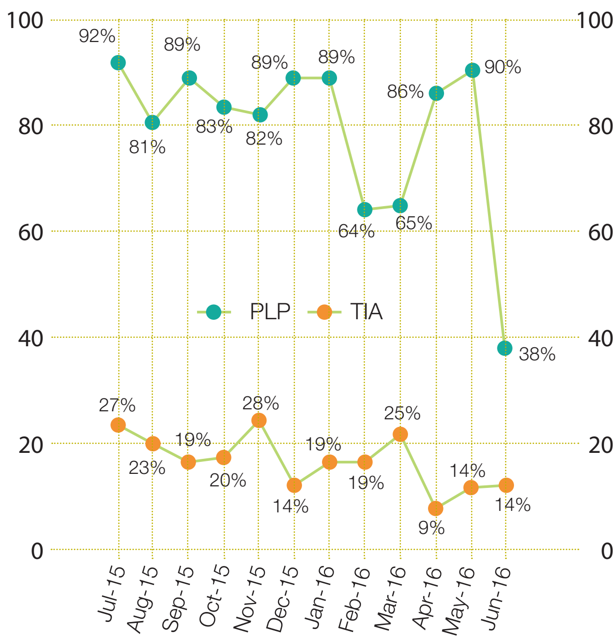
Portfolio Management

During the year, the Relationship and Sales team continued its task of implementing, disbursing and monitoring all loans approved by the appropriate discretionary levels. The team effectively addressed arrears through various recovery strategies, including working with clients to restructure loans. 283 accounts valued at $7MM were migrated from Performing Loan Portfolio (PLP) accounts to Trouble & Impaired Assets (TIA) accounts, while 100 accounts valued at $2MM made the reverse transition.

The collection rate during the year for PLP accounts averaged 80% against a target of 85%, while the collection rate for TIA accounts averaged 19% against a target of 50%.

A significant decline experienced in February and March 2016 was attributable to a number of accounts being approved for repayment moratoriums, in consideration of damage incurred during Tropical Cyclone Winston. A sharper decline seen in June resulted from non-payment by a major corporate client, whose monthly repayment contributed to 58% of the Bank's total monthly dues.

Collection Rate for PLP and TIA accounts – 2016 FY



Disaster Rehabilitation Package

On 23 February 2016, in response to the Reserve Bank of Fiji's Natural Disaster Rehabilitation Scheme, the Bank activated its Disaster Rehabilitation Package (DRP). It's primarily purpose is to support Government rehabilitation and reconstruction initiatives by assisting in the post-cyclone recovery of existing FDB customers, and offers repayment moratoriums, interest rate assistance, and rehabilitation loans. Availability is expected to continue into the first half of the New Year.

Market Share

At the end of June 2016 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 6%. The Bank continues to prioritise Agriculture in its lending activity. While Commercial Banks hold the highest share in Agriculture at 47%, FDB runs a close second with 44%. The Bank continues to dominate the Sugarcane portfolio at 96%.

Strengthening Outreach and Accessibility

The Bank has its Head Office in Suva and eleven strategically located branch offices. These are at Nausori, Rakiraki, Ba, Lautoka, Nadi, Sigatoka, Savusavu, and Labasa. Three sub-branches at Nabouwalu, Taveuni & Seaqaqa complete a nationwide network created to deliver FDB services to towns and communities throughout Fiji's three largest islands. Bank staff conduct regular client visits and marketing exercises in and around areas served by their workplaces, including outer islands.

Visitations by Management to the Northern and Western Branches are another key element of the Bank's outreach efforts. Their purpose is to update local staff on the Bank's strategic direction, and to make first hand assessments of existing and prospective progressive funding projects in those divisions.

Realignment of Relationship and Sales

On 30 June 2016, the Board approved the 2016 Bank Realignment scheme in line with the agreed 2015-2017 Strategic Plan. The scheme's end objective is to enhance portfolio quality and customer satisfaction through improved service delivery. Changes within the Relationship & Sales Division include the appointment of three Regional Managers tasked with driving sales, growing business and efficiently managing loan portfolios.

Other changes include the merging of the Head Office Corporate, Small & Medium Enterprises and Agriculture centers into Suva Branch.

These moves are seen as essential in addressing changing customer needs and boosting the Bank's competitiveness.

Going Forward

The Bank has identified a need to create a dynamic and empowering team concept in the coming year that will take the Bank forward, with the realignment process at the heart of it.

With the new changes, the Bank will continue to support Government strategies for the development of resource base commodities through sustainable lending. This sector remains a critical contributor to the Fiji economy, providing employment for thousands of Fijians nationwide. Value chain financing will become a more conspicuous component of the drive towards SME lending and increased utilisation of agricultural land aimed at boosting production for domestic and export markets.

The Bank is also developing new lending policies specifically designed to encourage and support organic farming. While in its infancy in Fiji, elsewhere in the world this niche sector has become big business. It has huge potential for farmers able to adapt to sustainable and environmentally friendly farming methods. Local and overseas market demand for healthy, organically-grown produce is very much evident, and on the rise.

New lending policies to grow other sector portfolios – tourism, sustainable energy and climate change mitigation and adaptation – will set new standards and dovetail with global benchmarks. The Bank's commitment to these sectors supports Government strategies for the creation of jobs, environment protection and enhanced foreign exchange performance.

2016 Financial Year Data Based On RBF Classification

Sector/RBF Major	Approvals			
	No.	Value	% by No.	% by Value
Focus	**1,346**	**58,126,978**	**88.0%**	**48.3%**
Agriculture	825	24,293,874	54.0%	20.2%
Electricity, Gas & Water	3	77,900	0.2%	0.1%
Manufacturing	15	16,961,791	1.0%	14.1%
Mining and Quarrying	3	790,922	0.2%	0.7%
Transport, Communication & Storage	364	11,806,555	23.8%	9.8%
Professional & Business Services	19	720,546	1.2%	0.6%
Wholesale, Retail, Hotel & Restaurants	117	3,475,390	7.7%	2.9%
Non-Focus	**183**	**62,331,737**	**12.0%**	**51.7%**
Building & Construction	12	12,740,105	0.8%	10.6%
Non- Bank Financial Institutions	0	0	0.0%	0.0%
Others	54	5,205,167	3.5%	4.3%
Private Individuals	105	781,985	6.9%	0.6%
Real Estate	9	8,079,588	0.6%	6.7%
Professional & Business Services	0	0	0.0%	0.0%
Wholesale, Retail, Hotels & Restaurants	3	35,524,892	0.2%	29.5%
Total	**1,529**	**120,458,714**		

Lending Activities During The Year

Sector/RBF Major	Portfolio			
	No.	Value	% by No.	% by Value
Focus	**3,644**	**158,706,194**	**79.08%**	**42.26%**
Agriculture	2,409	72,744,282	52.28%	19.37%
Electricity, Gas & Water	17	19,759,032	0.37%	5.26%
Manufacturing	41	20,935,888	0.89%	5.58%
Mining and Quarrying	6	557,715	0.13%	0.15%
Professional & Business Services	82	2,275,335	1.78%	0.61%
Transport, Communication & Storage	679	31,897,898	14.74%	8.49%
Wholesale, Retail, Hotel & Restaurants	410	10,536,044	8.90%	2.81%
Mining & Quarrying				
Non-Focus	**964**	**216,806,495**	**20.92%**	**57.74%**
Building & Construction	44	54,809,429	0.95%	14.60%
Non- Bank Financial Institutions	1	2,047,527	0.02%	0.55%
Others	128	5,027,950	2.78%	1.34%
Private Individuals	707	20,912,321	15.34%	5.57%
Professional & Business Services	0	0	0.00%	0.00%
Public Enterprises	1	16,680,611	0.02%	4.44%
Real Estate	70	70,397,894	1.52%	18.75%
Wholesale, Retail, Hotels & Restaurants	13	46,930,763	0.28%	12.50%
Total	**4,608**	**375,512,690**		

SHELVING A PhD TO EXPORT KAVA – THE ARUNESH CHAND STORY

When Arunesh Asis Chand left Fiji for Tuvalu and Kiribati to do his thesis, he had no idea the 2013 trip would inspire a family business venture that would swiftly go from strength to strength.

Today Arunesh is the managing director of A1 Kava & Spice Dealer, a company based in Bulileka, Labasa, exporting premium-quality kava and spices. Kava of course, botanical name piper methysicum, is a relaxant and social drink widely used throughout the Pacific.

"I travelled to Kiribati and Tuvalu to do my thesis on climate change, that is analysing Climate Change Vulnerable atoll nations, for my PhD. Whilst studying I found that the islanders drank a lot of kava, and that all this kava was imported because they couldn't grow it. So I thought, this is a business worth exploring, since Fiji has an abundance of kava," Arunesh said.

His first experimental consignment was sent to Tuvalu, but by the time it arrived, the goods had been damaged.

"It was a mess as I didn't know anything about exporting. The kava wasn't vacuum-packed and I was totally clueless about the proper process."

Armed with a better understanding of what was required he sent his second consignment to Kiribati.

Encouraged by worthwhile returns from his exports, Arunesh invested in a permanent warehouse and office. In August 2014, he approached his local FDB branch in Labasa for a loan to purchase kava stocks for export (along with spices) to Tuvalu, Kiribati and the U.S.

He then searched for more overseas markets, and in April 2015 A1 Kava & Spice won a contract to supply kava from Fiji to Royal Global Marketing & Distributors Ltd of New Zealand.

On the spices side, the Labasa company's two lead products are turmeric, or haldi, sourced from local farmers, and masala, a blend of ground spices that commonly features in Northern Indian and other South Asian cuisines. Ingredients include black peppercorns, mace, cinnamon, cloves, brown and green cardamom and nutmeg.

"We have grown very quickly and our products are making a name for themselves in the market. We already have plans to build a two-storey factory-warehouse with bulk storage space for seasonal raw materials, at a cost of around $25MM. Government is assisting us in this and we are now in talks with Fiji Development Bank for additional finances for this project.

"The first floor will be taken up by our sister company Sumati Apparels (Fiji) Ltd, for use as a garment factory employing thirty or more full-time workers. The ground floor will be entirely for the processing of kava and spices."

Arunesh highlights that the vision of the company is not only to supply its customers with the best product, but also to maximise returns to the growers.

"We buy direct from farmers around Vanua Levu at a higher price than middlemen pay. Our aim is to increase our export earnings while improving the lives of our farmers and providing others in our community with steady jobs and incomes."

Arunesh says the secret to the company's success is that they have the best products, the friendliest staff and the finest reputation with their customer base. He has learned firsthand what it takes to produce and export a product and is now reaping the rewards of an award-winning business.

A1 Kava & Spice came top of its category in the 2015 FDB Small & Medium Enterprise Awards.

HUMAN RESOURCE AND TRAINING

The Bank continues to invest in staff development both professional and personal, in order to position both the individual and the Bank for future success.

Skills and character development activities are aligned to three priorities: the building of leadership capabilities and development of future leaders; the fostering of an environment supporting sustainable performance; and the promotion of continual professional and personal development for every individual on our team, from those on the bottom rung of the ladder to others nearing the very top.

HUMAN RESOURCE & TRAINING STATISTICS				
Employee Training	**Year (31st December)**			
	2012/2013	**2013/2014**	**2014/2015**	**2015/2016**
Banking & Finance	72	68	77	8
Leadership (External)	51	107	40	26
Overseas Programs	2	16	9	23
FDB Sponsored Students, ie; USP	17	14	17	4
Source: FDB Training Department				

STAFF STATS	**FINANCIAL YEAR**			
	2013	**2014**	**2015**	**2016**
Total Staff	189	177	179	171
Average Years of Service	13.72 years	12.55 years	14.99 years	13.83 years
Annual Staff Turnover (%)	8%	15%	6%	7.0 %
Vacancy Rate	11%	13%	11%	19%
Retention Rate (%)	96%	93%	101%	94 %
Source: FDB HR Department				

THE 2015 STAFF SURVEY

In November 2015 the Bank conducted a staff survey aimed at giving management a detailed understanding of how each of its employees feels about the Bank and their immediate working environment, and how effectively they are able to engage with their managers and peers.

RISK MANAGEMENT

Risk Management Profile

Our Business Risk Services division ensures that all necessary assessments are completed and risk factors identified during the loan appraisal cycle. The assessment assists in risk mitigation and helps prevent or minimise the impact of any undesirable event that may occur.

Our Asset Management Unit is responsible for seeing that any necessary recovery operations are effective, and that a high rate of success is attained. In some cases recovery is achieved even after an account has moved into the bad debt book. With the exception of one major account, the efforts of the Unit have seen a decrease in non-performing portfolios to below the 10% target.

Risk Conscious Culture Creation

Under a new strategic plan, a fresh challenge has emerged. It is to create a risk conscious culture across the Bank through all its processes, systems and practices. This initiative is reflected in most of the strategic objectives set out under the various thematic areas in the plan, and will be evident in new compliance checks.

Corporate culture is one of the key driving forces in any successful institution today, and this dramatic new initiative is a major milestone for FDB.

Credit Risk Management

The Credit Risk function is pivotal to the Bank's entire operation. To ensure independence in the Bank's credit assessment process, separation is therefore maintained between the Sales team, which is spread across all branch offices, and the Credit Risk function, which is centralised, its team of six reporting direct to the General Manager Risk.

The second stream of assessment by the Credit Risk team provides a buffer against common errors and oversights from a risk standpoint, so that project and Bank risk is minimised.

The General Manager Business Risk has overall control of the Bank's risk management systems and process, as delegated by the Executive Management Committee, and monitors the performance of the delegated approval and control authority. The function includes the reviewing of relevant policies and guidelines in meeting the expectations without compromising standards and practices.

The next organisational layer comprises the implementing arms of subcommittees including the Credit Risk Board Committee, which consolidates the credit position and plans, directs and approves the Bank's risk appetite in focus and non-focus sectors.

Oversight

Regular internal oversight compliance checks are conducted to ensure that the Bank observes its own policies and guidelines. The hindsight team carries out regular reviews based on samples and spot checks for compliance purposes. The Bank responds to the external requirement under the Reserve Bank of Fiji's (RBF) banking supervision policies as part of its governance and management of portfolios. These supervision policies are guidelines for best practices in the financial sector and are at par with international supervisory standards. FDB was enacted through the Fiji Development Act (Cap 214) of 1967 and is primarily accountable to the Minister for Economy.

Given the vastness of the Banking environment, the Bank adheres to many other statutory and ethical policies in its normal course of business. These include Fiji Revenue and Customs Authority policies on requirements for business, the Consumer Credit Act, to remove any information gaps between a customer and the Bank regarding the lending activity, and the reporting of suspicious transactions requirement of the Financial Intelligence Unit of the Reserve Bank of Fiji. By encompassing these policies in our day-to-day business, the Bank works in the best interests of its customers and remains a credible financial institution.

Asset Quality Review

In addition to the established oversight systems, in May 2015 the Board commissioned an Australian based company (Credit Review Associates) to review the Bank's Credit systems and processors. The objective was to ascertain compliance with internationally recognised industry practices and to identify any shortcomings of the system tools. The consultant was able to confirm that the Client Quality Rating and Credit Risk Rating system used for evaluating credit risk in the FDB loan portfolio follows international practice. There was, however, room for improvement in the application of the system at account level.

Policy Directives

On 1 November 2013, at the direction of The Reserve Bank of Fiji, FDB reduced rates for RBF facilities facilitated by the Bank, e.g. Import Substitution and Export Finance Facility

(ISEFF), Sustainable Energy Financing Project (funded through ISEFF) and Natural Disaster Rehabilitation Facility (NDRF). Clients will continue to reap the benefits of the lower rates until at least the year 2018.

The Bank was heavily involved in the design and implementation of the Government grant scheme with the Ministry of Trade and Tourism found under the Community & Environment thematic area six of our strategic plan. Its purpose is to promote young and new entrepreneurship including among the more vulnerable sections of society, offering individuals who struggle to survive an opportunity to greatly improve their situation.

An overwhelming number of applications presented a major challenge to our human and monetary resources as we sought to balance promised assistance with the continuing delivery of quality service to existing customers. Based on the experience, the Bank will work with the Ministry on the improvement and streamlining of the processors for better and cost effective outcome for future programmes.

Competition and Competitive Strategies

Today's Banking and finance industry is fiercely competitive, with six Commercial Banks and various other credit institutions besides FDB constantly gunning for a greater market share. Other entities have recently succeeded in tapping into the Agriculture and SME sectors previously dominated by FDB.

The Bank, however, regards competition as healthy, fair and stimulating. It provides an impetus to further enhance our services and seek additional and new markets, especially in the unbanked sector. The FDB tradition of working closely with Government and other interested parties to understand the issues and develop financial solutions to promote growth and development that raises living standards for the people of Fiji will continue.

The Bank also continues to specialise in finance for the Agriculture and SME sectors. These focused sectors attract subsidised rates for loans under $50,000 and are vital to the national economy. In addition to generating valuable export income, they provide precious livelihoods for individuals and families throughout rural Fiji.

FDB's prime competitive strength lies in the quality of its customer service, delivered by staff proud to serve towns and communities from the bustling centres to remote outer islands. Its innovative products address core customer needs and the Bank's lending officers have an expert understanding of what these are. Taken as a package FDB has a winning combination and this is the key to its continuing success.

Liquidity Risk

At the close of December 2015, the Fiji economy liquidity level stood at $488MM and it fluctuated very little over the six months to mid-2016. At the end of June 2016, it stood at $499MM. This indicates that interest rates on loans and deposits remained steady during this period with high levels of competition from the different financial institutions.

Interest Rate Risk

The Bank's interest rates are arrived at through a process of calculations that includes taking the cost of funds to the Bank into account. Finding a balance between low interest rates and a high cost of funds is a challenging task.

The cost of funds for the Bank in 2016 was high; in July 2016, 2.62% compared to 2.48% in July 2015. In June 2016, it soared to 3.01%. The Bank's cost of funds was far higher than that of Commercial Bank competitors having a deposit-taking licence advantage, and paying nominal rates of just 0.5% to 2.0%. FDB is currently applying for a deposit-taking license in order to similarly cushion the cost of funds and allow the Bank to provide affordable products to its customers.

External factors affecting the cost of funds such as economic conditions, the political situation and RBF policies are beyond the Bank's control.

Other Risk Factors

The Fiji political environment is very stable currently, and providing a good foundation for investment. Relationships with overseas countries are flourishing, and, together with locals, foreign investors are showing confidence in Fiji. International investment is pouring into some sectors.

Reserve Bank of Fiji had estimated the Fiji economy to grow by 3.5% in 2016. This figure was revised downwards to 2.4% only after the devastation caused by Tropical Cyclone Winston, and later flooding. 2017 will see lower than expected activity in sectors such as Agriculture, Manufacturing, Finance, Insurance and ICT. Construction can be expected to spike however, as the post-Winston rebuilding of Fiji continues tourism remains a growing industry regardless.

Many of the Bank's clients in the Agriculture sector were very badly affected by weather-related events during the year, and the Bank's emergency mechanisms were there to assist them. Tropical Cyclone Winston rehabilitation packages were made available, providing repayment moratoriums, interest rate assistance and rehabilitation financing, to help customers rebuild their properties, businesses and lives following the category five event.

Provisions for Loan Impairment

The Bank adheres to standards stipulated by the Central Bank in preparing for potential future losses from its portfolios. Credit Accounts are assessed individually on an annual basis using processes of the Reserve Bank of Fiji, Individually Assessed Allowance (IAA) facility. The IAA identifies non-performing accounts or Troubled and Impaired Assets and assigns adequate provisions accordingly. As required by Reserve Bank of Fiji, over 70% of FDB loans and advances are assessed in this way. All provisions and allowances accounted for are compliant with International Financial Reporting Standards (IFRS) and Basel III.

The Bank kept a close watch on non-performing and potentially troublesome accounts during the year and experienced no major problems in this area

Future Outlook

For almost five decades, Fiji Development Bank has provided a range of financial services tailored to answer the diverse needs of Fiji business operators large and small. It has remained constant even in times of crisis, ever looking to its own sustainability and growth together with that of its customers, no matter the challenges of the day.

FDB continues to engage with the Ministry of Industry, Trade and Tourism in making the Micro and Small Business Grant available to worthy recipients. Past submission numbers have signalled keen competition for the grant, as more and more Fijians have come to understand the rewards of entrepreneurship and the breakthrough opportunities the award presents for accelerated success. Grant holders can expect a head start too when applying for FDB loans for the later expansion of their award-winning businesses.

The Fiji economy remains heavily dependent on the Sugar sector, constantly affected over the years by droughts and flooding, production costs, price issues and in recent times, the non-renewal of land leases, farmer retirements and devastating cyclones. The expiry of the historically critical preferential price agreement with the European Union in 2017 is a matter of tremendous concern, not least for the estimated 20% of the Fiji population who are either fully or partially reliant on the sugar industry. It is in all stakeholders' interests, including the Bank's, to work closely together in finding ways for this great Fiji industry not just to survive, but once again thrive.

The future for Fiji's tourism and construction industries is in little doubt. Both may be confident of further growth, and the Bank will continue to play its part in seeing them succeed.

The objectives and targets that are to translate into the Bank's own future success and prosperity are set out in its 2014 - 2017 Strategic Plan. An organisational realignment earmarked for 2017 will enable the Bank to operate more efficiently and effectively in providing customers with levels of value added service even higher than seen to date.

CORPORATE SOCIAL RESPONSIBILITY

The depth of Fiji Development Bank's commitment to its corporate social responsibility is clearly seen in its various community and financial literacy programmes, sponsorships and monetary donations.

Money $mart and Invest $mart

Ever since 1967, FDB has been creating opportunities for entrepreneurs through a variety of attractive and empowering loan facilities. And in 2007 the Bank took the further step of instilling the critical importance of financial knowledge in young people via the Money $mart and later Invest $mart programmes.

Operated in partnership with the Ministry of Education, Money $mart is designed to give school children an early appreciation of money and knowledge of how to manage it. There is a strong emphasis on budgeting, wise spending and the importance of saving. The programme's resource book is directly linked with course content specified in the Ministry of Education Commercial Studies syllabus.

Noting the improved attitudes of students towards saving brought about by the Money $mart programme, FDB then initiated a partner programme, Invest $mart, which teaches students how to profit from their savings. A number of these youngsters then opened Bank accounts, enrolled as voluntary members of the Fiji National Provident Fund or began investing through the Unit Trust of Fiji.

Small & Medium Enterprise Awards

In August 2015 FDB hosted its second Small & Medium Enterprise Awards, a progression from the former Small Business Awards first sponsored by the Bank in 2004. This increased inclusivity is in support of ongoing government efforts to eradicate poverty by encouraging the significant expansion of the SME sector.

The awards now accommodate businesses that are 100% locally owned and with gross annual sales of $30,000 to $500,000 per annum. The FDB policy here, as elsewhere, is one of continuing improvement and for 2015 a 'Rookie Entrepreneur of the Year' category was introduced to lend encouragement to those just starting off in self-created businesses.

Winners of the SME Awards for 2015:

- **AGRICULTURE** (Mixed Farming) - Mr Balbir Singh of Subrans Farm.
- **AGRICULTURE** (Livestock/Aquaculture) - Mr Penioni & Senivalati of Vueti Au Cooperative.
- **WHOLESALE/RETAIL** (Sole Trader) - Mr Arunesh Chand of A1 Kava & Spice.
- **WHOLESALE/RETAIL** (Partnership) - Mr & Mrs Ali of Chicken Bites.
- **MANUFACTURING** (Sole Trader) - Mrs Mala Chawda of Coconut Kids Fiji.
- **MANUFACTURING** (Partnership) - Mr Jeffery John & Ms Moira Solvalu of 8 Mountains.
- **TOURISM** (Sole Trader) - Mrs Alice Hill of Hot Glass Fiji.
- **TOURISM** (Partnership) - Mr & Mrs Arvind Kumar of Taveuni Handicraft & Souvenirs.
- **PROFESSIONAL BUSINESS SERVICES** (Sole Trader) - Ms Ana Tuiketei of AP Legal.
- **PROFESSIONAL BUSINESS SERVICES** (Partnership) - Mr & Mrs Pillay of Nadroga Car & Rentals.
- **BEST BUSINESS PRACTICE** - Mr Uday Singh of Bilo Café.
- **BEST RISK MANAGEMENT AWARD** - Mr Uday Singh of Bilo Café.
- **GREEN CONSCIOUS AWARD** - Mrs Alice Hill of Hot Glass Fiji.
- **ROOKIE ENTREPRENEUR AWARD** - Mr Rajneil Sharma of Broadway Fiji.
- **SME OF THE YEAR AWARD** - Mrs Mala Chawda of Coconut Kids Fiji.

Donations and Sponsorship

The Bank's Donations and Sponsorship Programme operates under strictly enforced guidelines designed to ensure that entities receiving funds are deserving of assistance. All civil society and non-government organisations seeking donations are required to register with the Bank on an official form, and to provide evidence of their legal status.

Successful applicants will be credible, educational, non-profit organisations or charities having strong and sustainable community based service delivery programmes of their own. Under the donations component of the guidelines, entities eligible for funding must be welfare and/or humanitarian related and inclusive of minorities in the provision of their services. Assistance cannot be used for the funding of capital and upgrading works, administrative costs, medical treatments and evacuations, workshops or entertainment events.

During the 2016 financial year the Bank gave $63,975 in sponsorships and donations to fifteen good causes. In the prevailing desperate and unprecedented circumstances, the bulk of this – $50,000 – went to the Prime Ministers Tropical Cyclone Winston Appeal Fund. Among other beneficiaries were Saint John's Ambulance, Fiji Association of the Deaf, Red Cross, and Suva Special School.

Expos and Road Shows

Despite the nationwide havoc inflicted by Tropical Cyclone Winston compounded by the arrival of Tropical Zena weeks later, the Bank's traditional schedule of participation in annual community based expositions and road shows was sluggish during the second half of the financial year. During the year FDB participated in events organised by the Ministry of Agriculture in Labasa, Savusavu, Nasinu, Seaqaqa and Ba, and, as always, set up its always popular microfinance village at the Suva Hibiscus Festival.

Such events again provided the platform for the Bank to meet with the grassroots community in a fully relaxed and informal manner and discuss the Bank's financial and advisory services with interested members of the public one on one.

WINNERS OF THE 2015 SME AWARDS

Winner Agriculture Category (Mixed Farming)
Mr. Balbir Singh of Subrans Farm.

Winner Agriculture Category (Livestock/Aquaculture)
Penioni & Senivalati of Vuetiau Cooperative.

Winner Wholesale/Retail Category (Partnership)
Mr. & Mrs. Ali of Chicken Bites.

Winner Wholesale/Retail Category (Sole Trader)
Mr. Arunesh Chand of A1 Kava & Spice.

Winner Manufacturing Category (Sole Trader) & SME of the year award
Mrs. Mala Chawda of Coconut Kids Fiji.

Winner Manufacturing Category (Partnership)
Mr. Jeffery John & Moira Solvalu of 8 Mountains.

Winner Tourism Category (Partnership)
Mr. & Mrs. Arvind Kumar of Taveuni Handicraft & Souvenirs.

Winner Tourism Category (Sole Trader) & Green Conscious Award,
Mr. & Mrs. Hill of Hotglass Fiji.

Winner Professional Business Services (Sole Trader),
Ms. Ana Tuiketei of AP Legal.

Winner Best Business Practice & Best Risk Management
Mr. Uday Singh of Bilo Café.

Winner Rookie Entrepreneur of the year,
Mr. Rajneil Sharma of Broadway Fiji.

Winner Professional Business Services Category (Partnership),
Mr. & Mrs. Pillay of Nadroga Car & Rentals.

FINANCIAL REPORT

FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2016

In accordance with the resolution of the board of directors, the directors herewith submit the statements of financial position of the Fiji Development Bank (the Bank) and of the Group, being the Bank and its subsidiary as at 30 June 2016, the related statements of profit and loss and other comprehensive income, statements of cash flows and statements 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; reappointed on 30/09/2013
Mr	Vadivelu Pillay a.k.a Wella Pillay	-	Deputy Chairperson; appointed on 23/12/2015
Mr	Inia Rokotui Naiyaga	-	Appointed on 23/12/2015
Mr	Rajesh Patel	-	Appointed on 23/12/2015
Ms	Olivia Mavoa	-	Reappointed on 06/01/2014

Former Director

Mr	Jitoko Tikolevu	-	Resigned on 21/12/2015
Mr	Joseva Serulagilagi	-	Resigned on 26/11/2015

PRINCIPAL ACTIVITIES
The principal business activities of the Group 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 Group during the year.

RESULTS
The consolidated profit for the year ended 30 June 2016 was $7,303,944 (2015 – $6,089,619). The profit for the Bank for the year was $7,305,292 (2015 - $6,139,906).

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

BAD AND DOUBTFUL DEBTS
Prior to the completion of the 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 recorded by the Group. 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 Group inadequate to any substantial extent.

UNUSUAL TRANSACTIONS
Apart from those matters and other matters specifically referred to in the financial statements, in the opinion of the directors, the results of the operations of the Group 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 Group in the current financial year.

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 realized in the ordinary course of the business compared to the values as recorded in the accounting records of the Bank and its subsidiary. 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 financial statements to be misleading.

FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY
STATEMENT BY DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2016

SIGNIFICANT EVENTS
There were no significant changes in the state of affairs of the Bank or its subsidiary 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, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect significantly the operations of the Group, the results of those operations or the state of affairs of the Bank in subsequent financial years.

OTHER CIRCUMSTANCES
As at the date of this report:

(i) no charge on the assets of the Bank or its subsidiary have 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 and its subsidiary could become liable; and

(iii) no contingent liabilities or other liabilities of the Bank or its subsidiary have become or is likely to become enforceable within the year of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the Bank and the subsidiary company to meet its obligations as and when they fall due.

As at the date of this report, the directors are not aware of any circumstances that have arisen, not otherwise dealt with in this report or the financial statements, which would make adherence to the existing method of valuation of assets or liabilities of the Bank or its subsidiaries 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 26th day of October 2016.

Director

Director

FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY
STATEMENT BY DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2016

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 statements of profit and loss and other comprehensive income are drawn up so as to give a true and fair view of the results of the Bank and the Group for the year ended 30 June 2016;

(ii) the accompanying statements of changes in equity are drawn up so as to give a true and fair view of the changes in equity of the Bank and the Group for the year ended 30 June 2016;

(iii) the accompanying statements of financial position are drawn up so as to give a true and fair view of the state of affairs of the Bank and the Group as at 30 June 2016;

(iv) the accompanying statements of cash flows are drawn up so as to give a true and fair view of the cash flows of the Bank and the Group for the year ended 30 June 2016;

(v) at the date of these statements there are reasonable grounds to believe the Bank and the Group will be able to pay their debts as and when they fall due; and

(vi) all related party transactions have been adequately recorded in the books of the Bank and of the Group.

Signed on behalf of the board of directors in accordance with a resolution of the directors this 26th day of October 2016.

Director

Director

OFFICE OF THE AUDITOR GENERAL

Excellence in Public Sector Auditing

6-8[TH] Floor, Ratu Sukuna House
2-10 McArthur St
P.O.Box 2214, Government Buildings
Suva, Fiji

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

INDEPENDENT AUDITOR'S REPORT

To the members of Fiji Development Bank and its Subsidiary Company

I have audited the accompanying financial statements of Fiji Development Bank and its subsidiary (Bank) which comprise the statement of financial position as at 30 June 2016, statements of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out in Notes 1 to 28.

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 International Financial Reporting Standards 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 financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making 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 International Standards on Auditing. Those standards require that I comply with 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 judgment, 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 considers internal control 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 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 Financial Reporting Standards:

i) are in agreement with the books of account; and

ii) to the best of my information and according to the explanations given to me:

(a) give a true and fair view of the state of affairs of the Bank and of the Subsidiary as at 30 June 2016 and of the results, changes in equity and its cash flows for the year ended on that date; and

(b) give the information required by the Fiji Development Bank Act (Cap 214) in the manner so required.

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

Atunaisa Nadakuitavuki
for **AUDITOR GENERAL**

Suva, Republic of Fiji
1 November, 2016

FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	Notes	CONSOLIDATED		THE BANK	
		2016	2015	2016	2015
		$	$	$	$
Assets					
Cash and cash equivalents	7	56,566,428	49,596,669	56,549,281	49,579,398
Investments held to maturity	8	2,030,650	2,029,850	2,000,000	2,000,000
Loans and advances	9	294,844,851	291,628,618	294,844,851	291,628,618
Receivable due from subsidiary	10	-	-	404,820	401,359
Other receivables	11	3,440,924	2,504,217	3,065,409	2,127,543
Investment in subsidiary	12	-	-	20,000	20,000
Investments	13	15,001	15,001	15,001	15,001
Property and equipment	15	17,795,839	16,011,849	17,795,839	16,011,849
Computer software - intangibles	16	211,438	45,949	211,438	45,949
TOTAL ASSETS		374,905,131	361,832,153	374,906,639	361,829,717
Liabilities					
Accounts payable and accruals	18	3,037,338	2,124,833	3,032,339	2,117,238
Debt securities	19	220,918,643	217,818,631	220,918,643	217,818,631
Other liabilities	20	4,656,379	5,474,755	4,656,379	5,474,755
Employee entitlements	21	1,471,177	1,810,117	1,471,177	1,810,117
Deferred income		2,415,103	2,014,487	2,415,103	2,014,487
TOTAL LIABILITIES		232,498,640	229,242,823	232,493,641	229,235,228
Equity					
Capital	22	56,050,636	56,050,636	56,050,636	56,050,636
Reserves		15,048,508	12,535,291	15,048,508	12,535,291
Accumulated profits		71,307,347	64,003,403	71,313,854	64,008,562
TOTAL EQUITY		142,406,491	132,589,330	142,412,998	132,594,489
TOTAL LIABILITIES AND EQUITY		374,905,131	361,832,153	374,906,639	361,829,717

On behalf of the Board

Director

Director

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

FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016

	Notes	CONSOLIDATED		THE BANK	
		2016	2015	**2016**	2015
		$	$	**$**	$
INCOME					
Interest income	3	23,854,646	24,241,576	23,854,646	24,241,082
Interest expense		(6,525,024)	(5,376,158)	(6,525,024)	(5,376,158)
Net interest income		17,329,622	18,865,418	17,329,622	18,864,924
Fee income	4	3,576,481	3,280,088	3,576,481	3,280,088
Other income	5	7,267,062	3,728,066	7,266,238	3,702,170
OPERATING INCOME		28,173,165	25,873,572	28,172,341	25,847,182
OPERATING EXPENSES	6	(12,291,253)	(11,980,752)	(12,289,081)	(11,904,075)
OPERATING PROFIT BEFORE ALLOWANCES		15,881,912	13,892,820	15,883,260	13,943,107
Allowance for credit impairment	9	(6,929,397)	(5,815,476)	(6,929,397)	(5,815,476)
Allowance for Interest & Fees		(1,648,571)	(1,987,725)	(1,648,571)	(1,987,725)
PROFIT BEFORE TAX		7,303,944	6,089,619	7,305,292	6,139,906
Tax expense	1(q)	-	-	-	-
PROFIT FOR THE YEAR		7,303,944	6,089,619	7,305,292	6,139,906
OTHER COMPREHENSIVE INCOME					
Items that will not be re-classified to profit or loss					
Revaluation of property and equipment		2,513,217	-	2,513,217	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		9,817,161	6,089,619	9,818,509	6,139,906

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

FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016

		CONSOLIDATED		THE BANK	
		2016	2015	2016	2015
		$	$	$	$
		Inflows	Inflows	Inflows	Inflows
	Notes	(Outflows)	(Outflows)	(Outflows)	(Outflows)
OPERATING ACTIVITIES					
Interest and subsidy received		23,233,005	24,240,198	23,233,129	24,241,082
Interest and other costs of borrowing paid		(6,367,833)	(5,270,648)	(6,367,833)	(5,270,648)
Customer loans granted		(63,363,904)	(95,489,516)	(63,363,904)	(95,489,516)
Customer loans repaid		57,612,777	61,262,552	57,612,777	61,262,552
Fees received		3,977,097	4,004,791	3,977,097	4,004,791
Cash paid to suppliers and employees		(11,513,090)	(11,247,926)	(11,513,090)	(11,222,830)
Other receipts		1,183,180	3,094,304	1,183,180	3,068,408
Net cash provided/ (used in) by operating activities		4,761,232	(19,406,245)	4,761,356	(19,406,161)
INVESTING ACTIVITIES					
Proceeds from the insurance claim		-	72,187	-	72,187
Proceeds from the sale of property and equipment		-	85,000	-	85,000
Payments for property and equipment		(867,670)	(991,213)	(867,670)	(991,213)
Net cash (used in) investing activities		(867,670)	(834,026)	(867,670)	(834,026)
FINANCING ACTIVITIES					
Proceeds from long-term borrowings		40,000,000	97,671,600	40,000,000	97,671,600
Repayment of long-term borrowings		(25,013,227)	(77,891,567)	(25,013,227)	(77,891,567)
Proceeds from short-term borrowings		46,734,000	18,500,000	46,734,000	18,500,000
Repayment of short-term borrowings		(58,644,576)	(18,500,000)	(58,644,576)	(18,500,000)
Net cash provided by financing activities		3,076,197	19,780,033	3,076,197	19,780,033
Net increase/(decrease) in cash and cash equivalents		6,969,759	(460,238)	6,969,883	(460,154)
Cash and cash equivalents at the beginning of the financial year		49,596,669	50,056,907	49,579,398	50,039,552
Cash and cash equivalents at the end of the financial year	26	56,566,428	49,596,669	56,549,281	49,579,398

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

FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016

		CONSOLIDATED				
	Notes	Capital $	General reserve $	Revaluation reserve $	Accumulated profits $	Total $
Balance at 30 June 2014	22	56,050,636	8,064,000	4,471,291	57,913,784	126,499,711
Total other comprehensive income		-	-	-	-	-
Net profit for the 2015 year		-	-	-	6,089,619	6,089,619
Balance at 30 June, 2015		56,050,636	8,064,000	4,471,291	64,003,403	132,589,330
Total other comprehensive income		-	-	2,513,217	-	2,513,217
Net profit for the 2016 year		-	-	-	7,303,944	7,303,944
Balance at 30 June 2016		56,050,636	8,064,000	6,984,508	71,307,347	142,406,491

		THE BANK				
		Capital $	General reserve $	Revaluation reserve $	Accumulated profits $	Total $
Balance at 30 June 2014	22	56,050,636	8,064,000	4,471,291	57,868,656	126,454,583
Total other comprehensive income		-	-	-	-	-
Net profit for the 2015 year		-	-	-	6,139,906	6,139,906
Balance at 30 June, 2015		56,050,636	8,064,000	4,471,291	64,008,562	132,594,489
Total other comprehensive income		-		2,513,217	-	2,513,217
Net profit for the 2016 year		-	-	-	7,305,292	7,305,292
Balance at 30 June 2016		56,050,636	8,064,000	6,984,508	71,313,854	142,412,998

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

FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Fiji Development Bank (The Bank) is a fully owned Government of Fiji ("Government") entity domiciled in Fiji. The address of the registered office is 360 Victoria Parade, Suva, Fiji. The consolidated financial statements of the Bank for the year ended 30 June 2016 comprise the Bank and its subsidiary company (The Group). 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 26th October, 2016.

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 consolidated financial statements have been drawn up in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board 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 of financial assets and financial instruments held at fair value through profit or loss. In addition, land and buildings are carried at re-valued amount.

(c) Accounting standards not yet effective

The following accounting standards are available for early adoption but have not been applied by the Bank in these financial statements:

IFRS 9 Financial Instruments

The IASB issued the final version of IFRS 9 in 2014. IFRS 9 is not mandatorily effective for the Bank until 1 July 2018. When operative, this standard will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 addresses recognition and measurement requirements for financial assets and financial liabilities, impairment requirements that introduce an expected credit loss impairment model and general hedge accounting requirements which more closely align with risk management activities undertaken when hedging financial and non-financial risks. The Bank is not yet able to reasonably estimate the impact on its financial statements on applying these changes.

IFRS 15 Revenue from Contracts with Customers

The IASB issued IFRS 15 in 2014. The standard is not mandatorily effective for the Bank until 1 July 2018. IFRS 15 contains new requirements for the recognition of revenue and additional disclosures about revenue. It is expected that a significant proportion of the Bank's revenue will be outside the scope of IFRS 15. However, the Bank is still in the process of determining the impact of the applying these changes.

IFRS 16 Leases

The IASB issued IFRS 16 in 2016. The standard is not mandatorily effective for the Bank until 1 July 2019. The standard removes the classification of leases as either operating or finance lease for leases, effectively treating all leases as finance leases. The Bank is not yet able to reasonably estimate the impact on its financial statements on applying these changes.

(d) Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.
In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in the following notes:

- Note 1(i) and Note 8– Allowance for credit impairment
- Note 14 – Valuation of land and buildings

(e) Principles of consolidation

Subsidiary

The consolidated financial statements of the group include the financial statements of the Bank and its wholly owned subsidiary as disclosed in Note 12. Control exists when the Bank 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 statements of the subsidiary are included in the consolidated financial statements from the date that control commences until the date that controls ceases.

FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The investment in subsidiary is measured at cost less impairment loss in the financial statements of the Bank.

Transactions eliminated on consolidation

The balances and effects of transactions between the Bank and the controlled entity have been eliminated in the consolidated financial statements.

(f) 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, fees and charges.

Interest income

Interest income on investments, loans and advances is recognised in profit or loss using the effective interest method.

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 in profit or loss using the effective interest rate method.

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 term of the loan using the effective interest 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 profit or loss over the period that the service is provided to the customer.

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

(g) Debt securities issued

FDB registered bonds and promissory notes are measured at fair value on initial recognition. Subsequent to initial recognition they are measured at amortised cost. Any discount on these bonds is amortized to interest expense on a straight-line basis over the term of the bond to which it relates.

(h) Property and equipment

Items of equipment are measured at cost less accumulated depreciation and impairment loss. Items purchased at less than $500 are expensed.

Land & buildings are measured at revalued amounts being the fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. Revaluations reflect independent assessments of the fair market value of land and buildings based on existing use. Revaluation increments are credited directly to the revaluation reserve in equity. Revaluation decrements are debited directly to equity to the extent they reverse a previous revaluation surplus. Any remaining decrease is debited to profit or loss.

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

Depreciation

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

Buildings and improvements	1-2%
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 (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Property and equipment (Continued)

The carrying values of property 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 and equipment is the higher of fair value less costs to sell and value in use. 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 profit and loss and other comprehensive income.

(i) Intangible assets

The Bank recognises 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 amortised on straight line basis at 20% per annum.

(j) 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 amortised cost using effective interest method plus outstanding 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 recognised in the statement of profit or loss and other 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.

(k) Loans and advances – Impairment allowance

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

Individually assessed allowances

Individually assessed allowance is maintained to cover identified impairment. The individually assessed allowance requirement (representing new and increased individually assessed allowances less individually assessed releases) is recorded in profit or loss.

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 profit or loss.

FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Loans and advances – Impairment allowance (continued)

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.

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

Bad debts written off / recovered

Bad debts are written off against the allowance in the year in which the debt is recognised as being irrecoverable. Where not previously included in the allowance, bad debts are written off directly to profit or loss. Debts previously written off and subsequently recovered are credited to profit or loss 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.

(l) Investments

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

(m) Land held for resale

The cane estate and other land held for subdivision and resale are carried at the lower of their carrying amount and fair value less cost to sell.

(n) Cash and cash equivalents

Cash and cash equivalents includes cash on hand and at Bank and highly liquid financial assets with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short- term commitments.

(o) Other debtors

Other receivables are stated at amortised cost less impairment losses.

(p) Accounts payable and accruals

Accounts payable and accruals are stated at amortised 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.

FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Employee entitlements

Annual leave

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

Long service leave

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

Gratuity

The accrual for gratuity represents amounts payable to employees who have achieved in excess of the minimum ten years of service on retirement, and is based on current wage and salary rates.

Triennial leave

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

Number of employees

The number of employees as at 30 June 2016 was 172 (2015: 180).

(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 is shown in note 23.

(t) Deferred income

Deferred income represents establishment fees charged and is deferred and amortised using the effective interest rates over the term of the loan.

(u) Deposits and other borrowings

Deposits and other borrowings include certificates of deposits, interest bearing deposits and other related interest bearing financial instruments. They are measured at amortised cost. The interest expense is recognised using the effective interest method.

FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016

2. FAIR VALUE ESTIMATION

"Fair value" is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of relevant observable inputs and maximising the use of unobservable inputs.

The different levels have been defined as follows:

- Level 1 fair value measurement are those instruments valued based on quoted prices (unadjusted) in active markets for identical assets and liabilities.

- Level 2 fair value measurements are those instruments valued based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e as prices) or indirectly (i.e derived from prices).

- Level 3 fair value measurements are those instruments valued based on inputs for the asset or liability that are not based on observable market data (unobservable) inputs.

The following table analyses the financial instruments measured at fair value at the reporting date by level in the fair value hierarchy into which the fair value measurement is categorised. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount			Fair value			
	Held to maturity	Other Financial Liabilities	Total	Level 1	Level 2	Level 3	Total
Assets							
Investments held to maturity	2,000,000	-	2,000,000	-	2,744,981	-	2,744,981
	2,000,000	-	2,000,000	-	2,744,981	-	2,744,981
Liabilities							
Bonds	-	139,200,000	139,200,000	-	139,293,106	-	139,293,106
Promissory notes	-	37,500,000	37,500,000	-	37,064,429	-	37,064,429
		176,700,000	176,700,000	-	176,357,535	-	176,357,535

FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016

	CONSOLIDATED		THE BANK	
	2016	2015	**2016**	2015
	$	$	**$**	$
3 INTEREST INCOME				
Included in interest income are interest subsidies received / receivable from the Government for:				
- Agricultural loans	1,834,823	1,366,742	1,834,823	1,366,742
- Commercial Loans to Fijians scheme	174,671	269,498	174,671	269,498
- Economic Rehabilitation Package Scheme	1,038	932	1,038	932
- Small Business Scheme	738,465	489,582	738,465	489,582
- Northern Rehabilitation Package	121,938	160,486	121,938	160,486
	2,870,935	2,287,240	2,870,935	2,287,240
4 FEE INCOME				
Application fees	150,555	160,155	150,555	160,155
Establishment fees	407,505	288,675	407,505	288,675
Commitment fees	346,691	213,851	346,691	213,851
Bank Service fees	1,684,913	1,612,110	1,684,913	1,612,110
Arrears fees	117,857	113,055	117,857	113,055
Legal fees	868,340	891,527	868,340	891,527
Other fee income	620	715	620	715
	3,576,481	3,280,088	3,576,481	3,280,088
5 OTHER INCOME				
The following items are included in other income:				
Gain on sale of property, plant and equipment	55,000	125,197	55,000	125,197
Bad debts recovered	5,548,291	1,955,132	5,548,291	1,955,132
Insurance commission	117,009	126,615	117,009	126,615
Rental income	888,079	570,951	888,079	570,951
Other Income	658,683	950,171	657,859	924,275
	7,267,062	3,728,066	7,266,238	3,702,170
6 OPERATING EXPENSES				
Items included in administrative expenses:				
Amortisation of bond discounts	115	26	115	26
Auditors' remuneration	39,996	39,996	39,996	39,996
Directors' fees	83,973	87,815	83,973	87,815
Depreciation and amortisation	963,501	860,184	963,501	860,184
Employee costs	7,961,332	8,342,518	7,961,332	8,342,518
Other Expenses	3,242,336	2,650,213	3,240,164	2,573,536
	12,291,253	11,980,752	12,289,081	11,904,075

FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016

7 CASH & CASH EQUIVALENTS

	CONSOLIDATED		THE BANK	
	2016 $	2015 $	2016 $	2015 $
Petty cash	1,900	2,600	1,900	2,600
Overdraft facility	15,000	15,000	15,000	15,000
Western Union facility	12,000	12,000	12,000	12,000
Deposit accounts -Branches	11,517,534	7,133,811	11,500,387	7,116,540
Bank of South Pacific- Call account	220,593	1,420,050	220,593	1,420,050
Bank of Baroda- Head Office	29,736,202	37,006,425	29,736,202	37,006,425
HFC Bank - Head office	15,063,199	4,006,783	15,063,199	4,006,783
	56,566,428	49,596,669	56,549,281	49,579,398

The Bank maintains an overdraft facility of $15,000 to cater for staff withdrawals based on their eligibility level and also maintains $12,000 for Western Union money transfer facility. Deposit accounts are maintained for the Bank's daily transactions with it's clients and the accounts earn interest at floating rates based on daily rates.

8 INVESTMENTS HELD TO MATURITY

	CONSOLIDATED		THE BANK	
	2016 $	2015 $	2016 $	2015 $
Investment In bonds	2,030,650	2,029,850	2,000,000	2,000,000

Investment in bonds relates to $2,000,000 of Investments with the Reserve Bank of Fiji at 12.31%, with maturity year being 2022 and $30,650 of investment by FDB Nominees Limited held in Home Finance Corporation at 3.50% and 4.00% for a term of 12 months respectively.

FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016

	CONSOLIDATED		THE BANK	
	2016	2015	**2016**	2015
9 LOANS AND ADVANCES	**$**	$	**$**	$
Loans and advances	375,521,302	367,242,048	375,521,302	367,242,048
Allowance for Interest and fees suspended	(15,939,012)	(16,208,684)	(15,939,012)	(16,208,684)
	359,582,290	351,033,364	359,582,290	351,033,364
Allowance for credit impairment	(64,737,439)	(59,404,746)	(64,737,439)	(59,404,746)
Total loans and advances	294,844,851	291,628,618	294,844,851	291,628,618

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

Allowance for credit impairment is represented as follows:

	CONSOLIDATED 2016 $	CONSOLIDATED 2015 $	THE BANK 2016 $	THE BANK 2015 $
Individually assessed allowance				
Balance at the beginning of the year	52,735,790	50,819,837	52,735,790	50,819,837
Charge to the profit or loss	6,596,365	4,536,390	6,596,365	4,536,390
Transfer from collective provision	55,263	724,756	55,263	724,756
	59,387,418	56,080,983	59,387,418	56,080,983
Bad debts written off against allowance for credit impairment	(1,596,704)	(3,345,193)	(1,596,704)	(3,345,193)
Balance at the end of the year	57,790,714	52,735,790	57,790,714	52,735,790
Collectively assessed allowance				
Balance at the beginning of the year	6,668,956	6,114,627	6,668,956	6,114,627
Charge to the profit or loss	333,032	1,279,085	333,032	1,279,085
Transfer from collective provision	(55,263)	(724,756)	(55,263)	(724,756)
	6,946,725	6,668,956	6,946,725	6,668,956
Total allowance for credit impairment	64,737,439	59,404,746	64,737,439	59,404,746

FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016

10 RECEIVABLE FROM SUBSIDIARY

	CONSOLIDATED		THE BANK	
	2016	2015	2016	2015
	$	$	$	$
FDB Nominees Limited	-	-	404,820	401,359

11 OTHER RECEIVABLES

Government guarantees & grants	5,499,216	5,499,216	5,499,216	5,499,216
Impairement loss - government guarantee & grants	(5,499,216)	(5,499,216)	(5,499,216)	(5,499,216)
	-	-	-	-
Government interest subsidies	2,115,371	1,493,854	2,115,371	1,493,854
Other	1,325,553	1,010,363	950,038	633,689
	3,440,924	2,504,217	3,065,409	2,127,543
Impairement loss is represented as follows:				
Total Impairement at the beginning of the year	5,499,216	5,499,216	5,499,216	5,499,216
Charge to profit or loss	-	-	-	-
Total Impairement at the end of the year	5,499,216	5,499,216	5,499,216	5,499,216

12 INVESTMENT IN SUBSIDIARY

	CONSOLIDATED		THE BANK	
	2016	2015	2016	2015
	$	$	$	$
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.

13 INVESTMENTS

Shares in companies - at cost	3,334,291	6,599,291	3,334,291	6,599,291
Impairment	(3,319,290)	(6,584,290)	(3,319,290)	(6,584,290)
	15,001	15,001	15,001	15,001

FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016

14 LAND HELD FOR RESALE	CONSOLIDATED 2016 $	CONSOLIDATED 2015 $	THE BANK 2016 $	THE BANK 2015 $
Nasarawaqa Estate	99,426	99,426	99,426	99,426
Cost	(94,531)	(94,531)	(94,531)	(94,531)
Impairment	4,895	4,895	4,895	4,895
Contributions to project	(4,895)	(4,895)	(4,895)	(4,895)
	-	-	-	-

CONSOLIDATED AND THE BANK

15 PROPERTY, PLANT AND EQUIPMENT	Land and buildings $	Equipment $	Fixtures and fittings $	Work in progress $	Total $
Cost or valuation					
Balance at 1 July 2014	13,730,816	6,947,792	132,093	121,212	20,931,913
Acquisitions during the year	1,515	855,764	-	345,847	1,203,126
Transfer in /(out)	106,312	14,900	-	(121,212)	-
Disposals	(100,969)	(1,462,218)	(1,454)	-	(1,564,641)
Balance at 1 July 2015	**13,737,674**	**6,356,238**	**130,639**	**345,847**	**20,570,398**
Acquisitions during the year	-	467,546	1,379	217,905	686,830
Revaluation	1,898,020	-	-	-	1,898,020
Transfer in /(out)	-	345,847	-	(345,847)	-
Disposals	-	(388,683)	(12,043)	-	(400,726)
Impairment	(494,782)	-	-	-	(494,782)
Balance at 30 June 2016	**15,140,912**	**6,780,948**	**119,975**	**217,905**	**22,259,740**
Accumulated Depreciation					
Balance at 1 July 2014	371,622	4,633,351	114,457	-	5,119,430
Depreciation charge for the year	167,552	662,974	6,168	-	836,694
Disposals	(8,621)	(1,387,828)	(1,126)	-	(1,397,575)
Balance at 1 July 2015	530,553	3,908,497	119,499	-	4,558,549
Depreciation charge for the year	172,438	743,133	5,679	-	921,250
Revaluation	(615,197)	-	-	-	(615,197)
Disposals	-	(388,658)	(12,043)	-	(400,701)
Balance at 30 June 2016	**87,794**	**4,262,972**	**113,135**	**-**	**4,463,901**
Carrying amount					
Balance at 1 July 2014	13,359,194	2,314,441	17,636	121,212	15,812,483
Balance at 30 June 2015	13,207,121	2,447,741	11,140	345,847	16,011,849
Balance at 30 June 2016	**15,053,118**	**2,517,976**	**6,840**	**217,905**	**17,795,839**

The Directors have adopted a policy of obtaining regular independent valuations for all of the Bank's properties on an existing use basis of valuation. The land and buildings were re-valued by Rolle Associates and these valuations were adopted by the Bank within the financial year. The Bank's Nadi property lease which expired on 30th June 2016 will not be renewed. Hence, impairment loss has been recognised for this property at the end of the financial year.

FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016

	CONSOLIDATED		THE BANK	
	2016	2015	2016	2015
	$	$	$	$
16 COMPUTER SOFTWARE - INTANGIBLES				
Balance at the end of the year	133,833	128,284	133,833	128,284
Acqusitions during the year	197,058	5,549	197,058	5,549
Work in Progress	10,682	-	10,682	-
Balance at the end of the year	341,573	133,833	341,573	133,833
Accumulated Amortisation				
Balance at the end of the year	87,884	64,394	87,884	64,394
Amortisation charge for the year	42,251	23,490	42,251	23,490
Balance at the end of the year	**130,135**	**87,884**	**130,135**	**87,884**
Carrying amount				
Balance at the end of the year	45,949	63,890	45,949	63,890
Balance at the end of the year	**211,438**	**45,949**	**211,438**	**45,949**

17 OPERATING LEASE

Leases as Lessee

Minimum lease payments under non-cancellable operating leases are payable as follows:

Not Later than one year	52,007	54,480	52,007	54,480
Between one and five years	208,027	217,920	208,027	217,920
More than 5 years	2,076,265	2,238,783	2,076,265	2,238,783
	2,336,299	2,511,183	2,336,299	2,511,183

The above operating Lease Rentals relate to TLTB and Government of Fiji lease payments the Bank is required to make anually.

18 ACCOUNTS PAYABLE AND ACCRUALS

Interest accruals	901,627	768,251	901,627	768,251
Others	2,135,711	1,356,582	2,130,712	1,348,987
	3,037,338	2,124,833	3,032,339	2,117,238

19 DEBT SECURITIES

Short term borrowings				
Term deposits	5,434,000	18,700,000	5,434,000	18,700,000
Promissory Notes	37,500,000	25,000,000	37,500,000	25,000,000
RBF Export Facility	2,755,424	14,400,000	2,755,424	14,400,000
FDB Registered bonds - face value	36,000,000	20,500,000	36,000,000	20,500,000
Short term borrowings	81,689,424	78,600,000	81,689,424	78,600,000
Non-current - Bonds				
Term deposits	-	2,700,000	-	2,700,000
RBF Export Facility	36,005,404	37,290,608	36,005,404	37,290,608
FDB Registered bonds - face value	103,200,000	99,200,000	103,200,000	99,200,000
Unamortised discount	23,815	28,023	23,815	28,023
Long term borrowings	139,229,219	139,218,631	139,229,219	139,218,631
	220,918,643	217,818,631	220,918,643	217,818,631

The above short term borrowings have a repayment term of less than 1 year and have been guaranteed by The Government of Fiji. The interest rate for the short term borrowing ranges from 1.70% to 4.00% (2015: 0.25% to 5.12%). The borrowings under RBF Export Facility has term of 2 to 5 years. The FDB registered bonds have a repayment term varying between 1 to 15 years and have been guaranteed by Government of Fiji.

FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016

20 OTHER LIABILITIES

	CONSOLIDATED		THE BANK	
	2016	2015	2016	2015
	$	$	$	$
Non-current				
Seed Capital Fund	2,471,498	2,563,631	2,471,498	2,563,631
Staff Savings account	1,124,763	1,301,006	1,124,763	1,301,006
Export Facility	950,000	1,500,000	950,000	1,500,000
Farmers Assistance Scheme	110,118	110,118	110,118	110,118
	4,656,379	5,474,755	4,656,379	5,474,755

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 amortised cost and are repayable on demand at an average interest rate of 2.5% per annum.

21 EMPLOYEE ENTITLEMENTS

At 1 July 2015	1,810,117	1,065,998	1,810,117	1,065,998
Utilised during the year	(774,734)	(210,037)	(774,734)	(210,037)
Arising during the year	435,794	954,156	435,794	954,156
At 30 June 2016	1,471,177	1,810,117	1,471,177	1,810,117

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.

23 COMMITMENTS AND CONTINGENT LIABILITIES

	2016	2015
	$	$
(a) Commitments		
(i) Loans approved but not disbursed	98,585,439	75,154,472
(b) Capital Commitments		
(i) Work In Progress	320,188	858,482
(c) Contingent liabilities		
(i) Guarantees	2,079,521	950,000
(i) Litigation	-	780,000

There are number of cases that are subject to legal proceedings. At year end, management have not provided for these claims on the basis that it is not considered probable that the claims will be successful.

FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016

24 RELATED PARTY TRANSACTIONS

Directors
The following were directors of the Bank during the financial year ended 30 June 2016:

Current directors

Mr Robert G. Lyon	Reappointed on 30/09/2013 as chairperson
Mr Vadivelu Pillay a.k.a Wella Pillay	Deputy chairperson; appointed on 23/12/2015
Mr Rajesh Patel	Appointed on 23/12/2015
Mr Inia Rokotui Naiyaga	Appointed on 23/12/2015
Ms Olivia Mavoa	Reappointed on 06/01/2014

Former directors

Mr Jitoko Tikolevu	Resigned on 21/12/2015
Mr Joseva Serulagilagi	Resigned on 26/11/2015

	CONSOLIDATED		THE BANK	
	2016	2015	2016	2015
	$	$	$	$
Directors' fees	83,973	87,815	83,973	87,815

Loans amounting to $3,898,481 (2015:$3,888,424) were advanced to a Company where a Director has a related party interest and are included in "Loans and Advances" (refer note 8). The loans were provided under normal terms and conditions.

Key Management Personnel

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

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

Name	Current title
Deve Toganivalu	Chief Executive Officer
Tevita Madigibuli	General Manager Relationship & Sales
Saiyad Hussain	General Manager Finance and Administration
Nafitalai Cakacaka	General Manager Business Risk Services
Uraia Rasake	General Manager Human Resource and Training -Resigned on 04/03/2016

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

	CONSOLIDATED		THE BANK	
	2016	2015	2016	2015
	$	$	$	$
Short-term benefits	824,979	829,241	824,979	829,241

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

Loans amounting to $339,268/(2015: $247,215) to executives are included in "Loans and 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 (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016

25 RISK MANAGEMENT POLICY

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from loans and advances. The credit risk framework is in place across the organization with the end-objective of ensuring a structured and disciplined approach in pursuing the targets mutually set by the board and management. The framework focuses on corporate mission, policies, procedures, people, skills, values, controls and portfolio balance exposures. It is supported by regular portfolio analysis and detailed underwriting evaluation that identifies risk areas / concentrations, with recommended risk remedies and monitoring procedures in order to avert any probable negative impact of the account and of the portfolio.

The authority to make credit decision is layered. The board subcommittee known as board credit committee retains the authority to approve loan amounts above a threshold that is set by the board. On the other hand, the management (EXCO) has authority and discretion to delegate 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 check as well as credit rating with other institutions. The other component of the Bank's 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 2), industry/sectoral outlook, customer's liquidity to meet his contractual obligation and the probable loss in the event of default, a factor of the security value taken to support the facility. The credit risk grading system is robust and consistently applied on all borrowing customers. Any exceptions or variations on the risk grading for specific borrower is brought to EXCO or Board for final approval. The Bank 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.

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	2016	2015
	$	$
Agriculture	72,746,312	65,528,534
Building and construction	54,809,429	51,506,424
Manufacturing	20,935,888	28,571,749
Mining and quarrying	557,715	329,765
Private individuals	20,903,175	24,517,925
Professional and business services	2,275,335	2,235,342
Real estate	70,397,894	71,213,945
Transport, communication and storage	31,897,898	27,687,633
Wholesale, retail, hotels and restaurants	57,466,808	47,552,363
Others	43,530,848	48,098,368
Total gross loans and advances	375,521,302	367,242,048

FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016

25 RISK MANAGEMENT POLICY (continued)

	THE BANK	
	2016	2015
	$	$
Impaired and Past-Due Assets		
Non-accrual loans without individual assessed allowance		
Gross	9,574,510	5,789,455
Less: Interest and Fees suspended	(2,018,693)	(822,098)
Net non-accrual loans without individual assessed allowance	7,555,817	4,967,357
Non-accrual loans with individual assessed allowance		
Gross	53,370,860	57,793,125
Less: Interest and Fees suspended	(13,877,451)	(15,346,710)
	39,493,409	42,446,415
Less: individual assessed allowance	(35,693,523)	(22,280,263)
Net non-accrual loans with individual assessed allowance	3,799,886	20,166,152
Restructured loans without individual assessed allowance		
Gross	-	95,396
Less: Interest and Fees suspended	-	(1,703)
Net restructured loans without individual assessed allowance	-	93,693
Restructured loans with individual assessed allowance		
Gross	106,387	117,234
Less: Interest and Fees suspended	(28,597)	(23,485)
	77,790	93,749
Less: individual assessed allowance	(43,202)	(100,160)
Net restructured loans with individual assessed allowance	34,588	(6,411)
Other impaired loans		
Gross	394,705	188,707
Less: Interest and Fees suspended	-	-
Net other classified loans	394,705	188,707
Total impaired and past-due loans	11,784,996	25,409,498
Past-due loans		
Gross	55,379,292	47,496,385
Less: Interest and Fees suspended	(15,243,284)	(14,939,664)
Total past-due loans	40,136,008	32,556,721

FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016

25 RISK MANAGEMENT POLICY (continued)

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. The Bank 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 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. The Bank performs a daily cash forecast for the next three months (one quarter) to identify any probable liquidity stress points. In addition to this, the Bank performs a stress-test on its cost of funds twice a month 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.

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.

All of the Bank's borrowings are at interest rates that are fixed for the timing of the borrowing. Therefore, there is no material sensitivity to changes in interest rates.

FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016

25 RISK MANAGEMENT POLICY (continued)
Liquidity risk management (continued)

Maturity Analysis

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

2016

	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
Investments held to maturity	2,000	61	185	985	193	-	3,424
Loans and advances	16,849	10,296	98,382	184,074	65,920	(32,809)	342,712
Total	18,849	10,357	98,567	185,059	66,113	(32,809)	346,136
Liabilities							
Other Liabilities	8,543	-	-	-	-	-	8,543
Accounts Payables	3,032	-	-	-	-	-	3,032
Borrowings	-	21,234	60,456	139,205	24	-	220,919
Total	11,575	21,234	60,456	139,205	24	-	232,494

2015

	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							
Investments held to maturity	2,000	61	185	985	440	-	3,671
Loans	13,101	5,355	81,490	203,373	63,923	(22,492)	344,750
Total	15,101	5,416	81,675	204,358	64,363	(22,492)	348,421
Liabilities							
Other Liabilities	9,299	-	-	-	-	-	9,299
Accounts Payables	2,117	-	-	-	-	-	2,117
Borrowings	-	20,950	57,650	139,191	28	-	217,819
Total	11,416	20,950	57,650	139,191	28	-	229,235

FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016

25 RISK MANAGEMENT POLICY (continued)

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 the Bank 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. In line with 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 Bank determines a benchmark on its weighted average cost of funds and stresses this benchmark by simulating different rate levels which the market may tender, when the Bank makes its offering.

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

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

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

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

Sensitivity Analysis

Market Risk			
Market risk sensitivity due to ± 2.50% fluctuation in weighted average lending rate			
	As at June 2016	**Increase in Lending Rate (+2.50%)**	**Decrease in Lending Rate (-2.50%)**
Weighted Average Lending Rate (%)	5.25	7.75	**2.75**
Interest Income ($)	23,854,646	9,388,033	**(9,388,033)**
Impact on profit or loss ($)	8,226,679	9,388,033	**(9,388,033)**

FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016

25 RISK MANAGEMENT POLICY (continued)

OPERATIONAL RISK

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

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

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

26 NOTES TO THE STATEMENT OF CASH FLOWS

For the purpose of the statement of cash flows, cash includes cash at bank and on hand and highly liquid financial assets with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in fair value, and are used by the Group in the management of its short-term commitments.

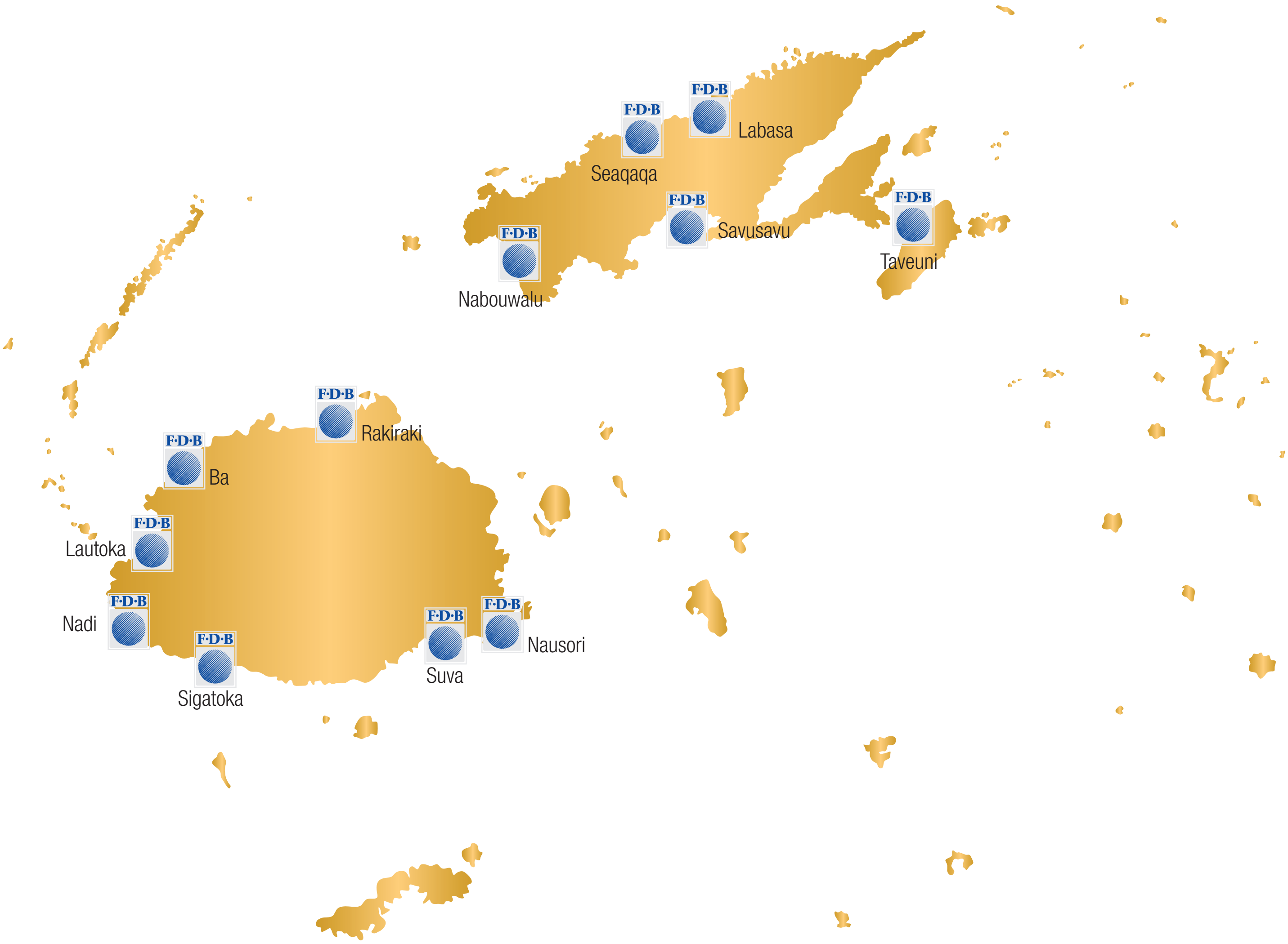
	CONSOLIDATED		THE BANK	
	2016	2015	**2016**	2015
	$	$	**$**	$
Cash	56,566,428	49,596,669	56,549,281	49,579,398

27 COMPARATIVES

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures

28 SUBSEQUENT EVENTS

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the management, to affect significantly the operations of the Group or the Bank, the results of those operations, or the state of affairs of the Group or the Bank in subsequent financial years.



Suva Branch
360 Victoria Parade,
G.P.O Box 104, Suva.
Ph: (679) 3314 866
Fax: (679) 3314 886

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

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

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

Nabouwalu Branch
Nabouwalu,
P.O. Box 51, Bua.
Ph: (679) 8280 400
Fax: (679) 8280 401

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

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

Savusavu Branch
Hugh Street, Verevere
P.O Box 42, Savusavu.
Ph: (679) 8850 055
Fax: (679) 8850 629

Seaqaqa Branch
Seaqaqa Township,
P.O Box 62, Seaqaqa.
Ph: (679) 8860 166
Fax: (679) 8860 168

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

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

Taveuni Branch
Somosomo,
P.O. Box 215, Waiyevo, Taveuni.
Ph: (679) 8880 084
Fax: (679) 8880 057

HEAD OFFICE:

360 Victoria Parade, Suva, Fiji.
G.P.O. Box 104, Suva, Fiji.
Ph: (679) 3314 866
Fax: (679) 3314 886
Website: www.fdb.com.fj
Fiji Development Bank