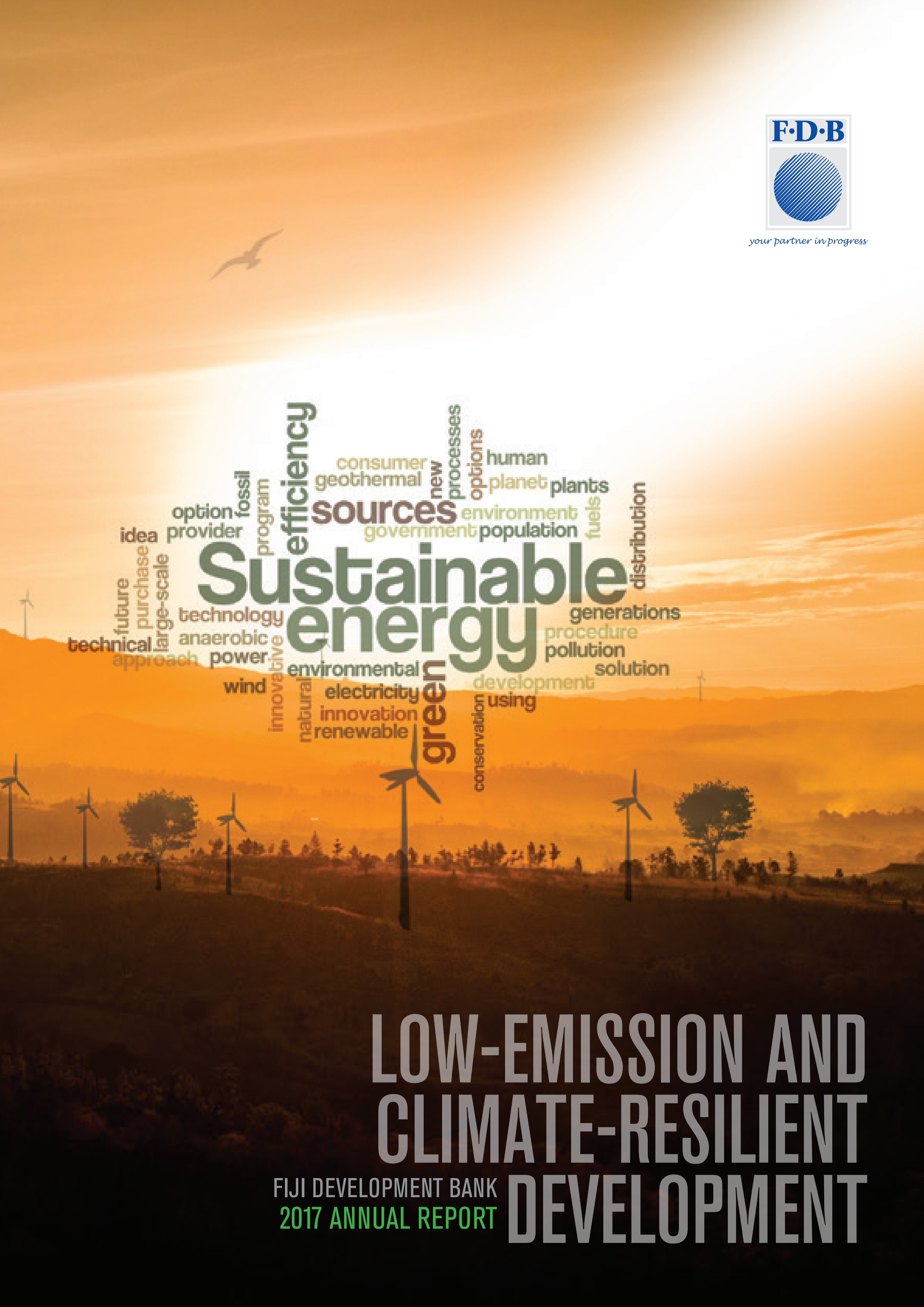


F·D·B

*your partner in progress*

# LOW-EMISSION AND CLIMATE-RESILIENT DEVELOPMENT

FIJI DEVELOPMENT BANK

2017 ANNUAL REPORT

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# 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.

# VISION

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

# STRATEGIC OBJECTIVES

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

# CORPORATE OBJECTIVE

To be a profitable and self-sustaining financial institution.

# 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 customers' expectations with products and services that would meet the changing needs of all customers and also taking advantage of emerging opportunities before competitors 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 levels 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.

# 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.

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, Small and Medium Enterprises, as well as Corporate loans. 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.

Another special focus for FDB is effective support and encouragement for entrepreneurs, and operators of small and medium business enterprises.

The Fiji Development Bank has made a commitment to deliver on the development of a clean and sustainable future for Fiji.

# CHAIRMAN'S LETTER

your partner in progress

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

**13 August 2018**

The Honourable Aiyaz Sayed-Khaiyum
Attorney-General and Minister for Economy,
Public Enterprises, Civil Service & Communications,
Level 7 Suvavou House, Victoria Parade,
SUVA.

Dear Sir,

**RE: 2017 ANNUAL REPORT**

On behalf of the Board, I have much pleasure in submitting the enclosed Fiji Development Bank's 2017 Annual Report and accounts for the financial year ending 30 June, 2017.

I am pleased to inform you that the Bank has sustained its growth trend from the previous years for its overall performance. A net profit of $8.15 million, reflecting an increase of 11.63% in comparison to the 2016 financial year, has been recorded for 2017.

The Bank achieved 87.25% of its set disbursement target, an aspiring $122.96 million in 2017, of which, $107.28 million was recorded for the year.

This contributed to the growth rate of 16.67% that was achieved against the target of 14.62%, with the total loan portfolio of the Bank increasing by $62.58 million for the 2017 financial year.

The Bank has had a remarkable journey towards its golden jubilee. More so, 2017 was an exciting year as we drew closer to our final submission for the Green Climate Fund accreditation.

The Board commends the executive management and staff for their efforts and commitments throughout the financial year, especially for their sustained commitment in taking the Bank forward following the retirement of the Chief Executive Officer in March 2017.

The Government's continued collaboration with FDB and the Bank's engagement with its stakeholders and the private sector has collectively contributed favourably with regard to the quality of projects financed during the year.

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

**Yours sincerely,**

**Robert G. Lyon**
**CHAIRPERSON**

# EXECUTIVE REPORT

**Mr. Nafitalai Cakacaka (L), Mr. Saiyad Hussain (R)**
Acting Chief Executive Officers

## The 2017 financial year is defined as July 1, 2016 to June 30, 2017.

The Fiji Development Bank's 2017 Financial Year performance was exemplary, once again demonstrating sustainability and resilience that constitute the FDB hallmark.

The year saw the completion of upgrades designed to enhance our capacity for dispensing development funding through a variety of short, medium and long-term mechanisms.

The Bank also implemented structural reforms and internal process re-engineering, under the 2015-2017 Strategic Plan, to improve on service delivery and turnaround times for core lending functions.

New strategies, again introduced under the 2015-2017 Strategic Plan, proved successful in achieving reductions in non-performing account numbers and cost of funding.

We expanded our portfolio and recorded increases in our profit margins in the 2017 Financial Year. New loan repayment platforms were introduced and revised policies relating to the acceptance of term deposits completed.

The Bank also moved closer to establishing a presence in the global arena through Green Climate Fund (GCF) accreditation application.

### Sustaining Revenue Growth and Productivity

As a Development Finance Institution (DFI) crucial to the national economy, the Bank's challenge is to finance higher risk projects while remaining self-sustaining. Our success is measured by our ability to contribute to national economic growth on a continuing basis.

The Reserve Bank of Fiji projected economic growth of 3.78% for 2017, taking into account both the long-lasting negative impact of Tropical Cyclone Winston of February 2016, and the extraordinary resilience of the Fijian economy historically.

The ability of FDB to maintain a sustainable financial position throughout the 2017 Financial Year is reflected in an increase in total assets from $374.91 million in the 2016 Financial Year to $402.06 million.

Despite Fiji's considerable socio-economic challenges, the Bank additionally achieved a record net profit for the year of $8.15 million, an increase of 11.63% on the figure for 2016. The implementation of stringent cost control measures played a significant role in this commendable performance.

In the 2017 Financial Year, the Bank achieved 87.25% of its disbursement target of $122.96 million. The $107.28 million recorded for the year contributed to a growth rate of 16.67%, surpassing the targeted 14.62% by a good margin.

The Bank's total loan portfolio increased by $62.58 million to $438.09 million in the 2017 Financial Year, an increase of 16.67% on the $375.51 million of 2016. A 7.27% increase in account numbers brought the total to 4,943 – up by 335 on the previous year.

While new project numbers decreased by 8.44%, the value of funding allocated increased by 20.63%. In total, the Bank funded 1,400 new projects valued at $145.31 million, compared to 1,529 projects worth $120.46 million in the previous financial year.

The Bank's total operating income for the 2017 Financial Year was $24.52 million, against total operating expenses of $12.36 million. Total allowance for credit impairment declined by $4.57 million compared to the preceding financial year, contributing significantly to the healthy profit recorded.

Close scrutiny of day-to-day expenses, combined with the implementation of stringent control measures, was generally successful in keeping these costs within, or close to, budgeted levels. There was, nevertheless, a slight increase of 0.60% over the year in total.

## Growing the Core Business

The impressive growth seen in the Bank's loan portfolio in the 2017 Financial Year was largely due to an increase in Focused Sector loans.

The Focused Sector continued to reflect the Bank's development architecture, with 45.17% of the total loan portfolio and a value of $197.89 million across 3,985 accounts.

Non Focused Sector had 19.38% of the total, with a value of $240.21 million across 958 accounts, as against $216.81 million across 964 accounts the preceding year. So while account numbers showed a slight decrease of 0.62%, their value showed a modest increase of 10.79%.

Of the 1,400 new approvals in its Focused Sectors, the Bank funded 1,251 projects valued at $87.79 million. This represented 60.43% of a total approvals tally of $145.31 million for the 2017 Financial Year. While accounts decreased by 7.06% in number, their value increased by 51%. The 149 new approvals in the Non Focused Sectors were valued at $57.51 million.

The Manufacturing sector recorded $42.47 million in approved loans for the 2017 Financial Year. This represented 29.23% of all approvals in the Bank's Focused Sector and led to the 20.63% increase in total loans approved therein. This 15.13% improvement over the 2016 Financial Year was firm evidence of the Bank's commitment to the growth of the Small and Medium Enterprises sector in support of the national agenda.

Agriculture, together with another of the Bank's core focused area, Transport, Communication and Storage, continued to feature prominently, with the highest number of new approvals recorded for the year.

## Market Share

The Bank remained committed to supporting the Government's strategic focus on the Agriculture and Resource Based sectors, with a 47.05% market share of the business overall and 99.45% of the market share in the Sugar Cane sector alone. Recent growth in the latter sector was achieved through loans for mechanical cane harvesters under the Bank's Agricultural Services Loan facilities. To May 2017, the Bank provided financing to the value of $10.78 million to customers across the cane belt areas.

The Bank was a prominent contributor during the year to other key economic sectors such as Building and Construction, Manufacturing, Transport, Communication and Storage, and Professional Business Services. With growth anticipated in Fiji's Tourism and Infrastructure Development industries, the Bank is slowly gaining market share there also.

## Capacity Development through Realignment

With the conclusion of the 2015-2017 Strategic Plan, the Bank conducted a full-scale internal capacity assessment (SWOT analysis) to assist in establishing a fresh long-term direction.

Under the theme "Our Strength, Our People", strategies were devised for the transition to a new Strategic Plan with two key objectives. The first of these is to promote the Bank's corporate identity in the national, regional and international arenas. The second is to expand the Bank's engagement profile to include a wide network of development partners.

With the structural reforms and re-engineered processes driven by its 2016 Realignment process, the Bank has made strides towards improved service delivery and accelerated turnaround times for its core lending functions, as dictated by market trends and customer expectation.

The SWOT analysis of the 2015-2017 Strategic Plan has been carried forward to the new plan, under which the Bank will create a more dynamic and empowering team, a need identified by its strategic direction thus far. The Bank ended the 2017 Financial Year resolved to reinforce its standing as an initiator, a development catalyst and an advocate for development.

## Strengthening Customer Service Delivery

The Bank's core lending function has been realigned to inculcate a culture of seamless service delivery and the constant strengthening of customer relationships. To this end some important changes were made in the 2017 Financial Year.

One of these changes was the setting up of a Credit Administration Unit – to be fully operational by 2018 – comprising three specialist teams. One is to have specific responsibility for security documentation, and another, settlements. The third to focus exclusively on data entry and loan documentation, previously a function of the Bank's Relationship and Sales team. That team will now be free to give its undivided attention to its primary task.

During the course of 2017 the Bank also established a new branch specifically to provide all categories of loans to customers in and around Suva. It joins a network of eleven other FDB branches and sub-branches across Fiji, each providing development funding opportunities to small and medium entrepreneurs and rural-agricultural businesses in their vicinity. All twelve outlets will continue the FDB tradition in conducting greatly appreciated customer and grass roots community visits, a service that is to be stepped up as well.

Plans were also advanced in the 2017 Financial Year for the creation of a Prime Lending Centre at the Bank's Head Office. This will cater for high-end blue chip customers, and is forecast to make a sizable contribution to the Bank's development mandate and sustainability.

## Talent and Organisational Development

To reinforce its service delivery both internally and externally, the Bank is strengthening its capacity to create more dynamic and empowering teams. The Realignment, once fully implemented, will see the restructuring of the current Human Resources and Training department to become the Talent and Organisational Development. The re-engineered focus will be on promoting team building, career and personal development, coaching, innovation and leadership development and training.

The Human Resources and Training department will transition into the Talent and Organisational Development department, to nurture a culture change that will see its human capital expertise more energetically supporting the business divisions, and infrastructure functions, in order to deliver results. This will strengthen its role as a control function for human capital risks, and build the capabilities of our managers and staff.

Guided by its strategic goal of Strengthening the Culture of a Seamless Service, the Bank will strategise the *"Create a Dynamic and Empowering Team Concept"* to realise its goal of ensuring a better impetus for increased operational excellence, translating to higher customer satisfaction levels and improved overall financial performance.

## Liquidity Risk

Over the 6 months from January to June 2017, Fiji's liquidity soared from $412 million to $736 million. This was an indicator of intense competition amongst the financial institutions in terms of interest rates.

## Interest Rate Risk

As a development Bank, FDB has the challenging task of balancing low lending rates against a high cost of funds, an area where commercial banks have the upper hand.

At the end of July 2016, the cost of funds for the Bank was 3.05%, and by the end of June 2017, it had escalated to 3.27%. This worrying trend suggested further increases were to be expected in the latter part of 2017.

The Bank therefore continued lobbying the Reserve Bank, stressing our need of a Commercial Institution License allowing us to accept deposits from the public, thereby reducing our current high cost of funds, and making our facilities more compatible and competitive.

## Growth Forecast

With the Fijian economy predicted to expand by 3.78% in 2017, growth is evident. With an increase in development projects in recent years and boosted investor confidence, the Bank is hopeful that this trend continues.

Fiji's economic growth in 2017 can be attributed to the commencement of cane crushing in June, increases in vehicle sales and lending in the Real Estate, Wholesale, Retail, Hotels and Restaurants sectors, together with ongoing construction activity.

Labour markets appear buoyant with a high number of jobs advertised, and recruitment activity seen in the Wholesale, Retail, Hotels and Restaurants, Agriculture, Electricity, Gas and Water sectors.

## Progress Focus

Ongoing sustainability in our highly competitive environment is an enduring concern for the Bank. With lower interest rates, high liquidity and easy access to finance available from our competitors, we have much to do in maintaining a position as the bank of first choice for customers in the Agriculture and SME sectors and even corporate customers. We constantly strive to develop products that meet their ever-changing needs at the lowest interest rates possible.

## Community and Environment

The Bank once again stepped up as a good corporate citizen by lending its support to various initiatives fostering community and environmental development, through enhanced sponsorship programmes.

## Government Seed Grants

The Bank continued its collaboration with the Ministry of Industry, Trade and Tourism (MITT) in dispensing Micro and Small Business Grants throughout the 2017 Financial Year. The success of this Government initiative in empowering ordinary citizens to become entrepreneurs and in providing extra stimulus to the Fijian economy is widely acknowledged. The Bank looks favourably on recipients of these grants later seeking financing in expanding their businesses.

## A Revitalising Beef Industry

In a 2014 move to revitalise Fiji's once vibrant beef industry, the Bank signed a Memorandum of Understanding with 25 Nadroga cattle farmers and other stakeholders under the Tilivalevu Beef Scheme.

In June 2017, five of these farmers – financed by the Bank to a total value of $0.62 million in 2015 supplied their first load of high grade cattle to the Fiji Meat Industry Board.

## Recognition from the Bank's Regional Peers

The Bank is proud to have received an award from the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) for its role in creating a development impact. The presentation took place at an Outstanding Development Project Awards ceremony during the 40th ADFIAP Annual Meeting in Macao SAR, China. FDB emerged as the 2017 winner in the financial inclusion category.

Our winning submission highlighted how FDB, as Fiji's only national development financial institution, continued to support the country's largest microfinance body, South Pacific Business Development Microfinance Ltd (Fiji), and in doing so demonstrated strong and continuing commitment to projects contributing to poverty eradication and the economic empowerment of women and youths.

The Bank's legacy in financial inclusion for Fijian youths continued in 2017 with its $mart Series programmes' Money $mart™ being incorporated into the Fijian School Curriculum by the Ministry of Education.

## Farewell

In March 2017 the Bank bid farewell to its second longest serving Chief Executive Officer, Ratu Deve Toganivalu. Ratu Deve retired after serving in various roles over an uninterrupted period of 29 years. His responsibilities were taken up by the General Manager Business Risk Services, Mr. Nafitalai Cakacaka, and General Manager Finance and Administration, Mr. Saiyad Hussain, with oversight by the Executive Director, Mr. Inia Naiyaga.

## Climate Related Financing

Climate volatility is an inescapable reality in the Pacific region, and one that periodically has severe implications for the Fijian economy. Much emphasis has been placed on disaster risk management measures relating to the protection of infrastructure, and our especially vulnerable Agriculture sector. The Government is also strongly advocating to manage relief mechanisms and FDB assists its customers affected by natural disasters in mitigating their losses and rebuilding.

Work continued in the 2017 Financial Year on the final submission for the Green Climate Fund accreditation. If successful, this would make FDB the first development bank in the region to be accredited. It would give Fiji, through FDB, direct access to GCF adaptation and mitigation funds for disbursement in Fiji, and pave the way for possible expansion in the region.

It would be a major milestone. No other South Pacific country has achieved GCF Direct National Access Accreditation.

This initiative offers a magnificent opportunity to propel the Bank towards a new dimension in project lending and advocacy, where FDB climate mitigation and adaptation initiatives dovetail with Government plans for cushioning the negative impact of global climate phenomena, and achieving 90% renewables by 2030.

### Affordable Clean Energy

The Bank's Sustainable Energy Financing Facility (SEFF), introduced with the aim of scaling up renewable energy investment in Fiji, continued to encourage farmers and businesses to adopt green technology for the generation of electricity and reduced reliance on imported fossil fuels.

The World Bank supports this FDB Facility through partial guarantee of individual loans relating to the use of solar and hydro power, and coconut oil fuel for diesel generators. With the arrangement expiring on 31 December, 2017, we will revise our SEFF policy accordingly.

FDB will continue to progress private sector-led infrastructure development that supports clean and affordable energy. We will do this by making financing including working capital available to projects supporting climate change mitigation and adaptation through the use of hydro and solar power, coconut oil fuel, energy efficiency equipment and wind, biomass, biogas, wave, tide, and feasible geothermal systems.

### Infrastructure Financing

We are confident of further opportunities for infrastructure development, as part of the Government's plan for the Bank to be its conduit for accessing and deploying global funding. Such may be forthcoming from the GCF as well, to meet national development objectives.

Fiji's association with the Asian Infrastructure Investment Bank (AIIB) could expand the Government's funding resource base with large infrastructure projects that would stimulate economic growth. One of our key interests at this stage, with Fiji holding the Presidency of COP23, is to analyze the impact of AIIB's Articles of Agreement affecting Fiji's ability to source climate resilient infrastructure financing.

### Dawn of a New Era

As the Bank prepares to celebrate its 50th year of operations under the FDB banner following its transition from the Industrial Loans Board of 1951, a new strategic course will be set. It now stands ready to embark on perhaps the most exciting phase of the journey to date, at a time when momentous national and global challenge and change awaits.

We have a critical role to play in Fiji's transition to an environmentally aware and responsible nation, during which time we must succeed in achieving global goals, locally.

Plans are in place for revamping relevant stakeholder engagement initiatives, and addressing new corporate social responsibility objectives. We will continue to embrace and employ an inclusive approach in meeting environmental and community strategic goals.

The annual Small and Medium Enterprise Awards, together with the Bank's signature financial literacy programmes Money $mart™ and Invest $mart™, will be remodelled to encompass Sustainable Development Goals and the Climate Change action framework, for a relaunch in the 2018 Financial Year. Another key focus will be the integration of climate resilience awareness into corporate social responsibility projects, as part of a wider financial inclusion agenda.

2017 once again saw the Bank making exhaustive efforts to identify the best possible financial products and services, in order to contribute significantly to the expansion of the Fijian economy, and an improved quality of life for every Fijian.

In keeping with its promise of *Your Partner in Progress*, the Bank will offer enhanced access to products providing funding for agricultural businesses, and new service providers, that will help maintain their cash flow. There will be products designed specifically to assist investors in meeting changing needs, and for sugarcane farmer cooperatives for the acquisition of mechanised farm implements.

The future for existing and potential FDB customer from all sectors is bright.

As the ocean and climate affect more and more Fijian land, the Fiji Development Bank is committed to providing funding as a development partner for those affected.

# THE BOARD OF DIRECTORS

**Mr. Robert Gordon Lyon**
**Chairman**

**Appointed August 2010**

Mr. Lyon is an experienced and one of the most respected business leaders in the South Pacific.

Mr. Lyon spent over 43 years with the Australia and New Zealand Banking Group and worked extensively in the Asia Pacific region, including 12 years as Managing Director Pacific, during which time he also looked after ANZ's retail operations in Asia.

His vibrant career has seen him serve on numerous boards, including as chairperson of FINTEL/Kidanet and Melbourne City Marketing, and board member of Melbourne Chamber of Commerce, Pacific Economic Bulletin, APNGBC and APIBC. Mr. Lyon also spent 14 years with the Australia Fiji Business Council and was President for 5 years.

Currently, he chairs the Fiji Development Bank, Foundation for Development Cooperation, Sunergise Group, Kula Fund Investment Board and FHL Investment & Strategy Committee. He sits on the board of Fijian Holdings Limited, Fiji Television Limited, and is Patron of the Australia Fiji Business Council.

He holds a Graduate Diploma in Organisation Development from RMIT University and is a Fellow of the Australian Human Resources Institute, Member of 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.

**Mr. Vadivelu (Wella) Pillay**
**Deputy Chairman**

**Appointed December 2015**

Mr. Pillay is a well-known and seasoned entrepreneur. After spending some time in New Zealand, he returned to Fiji to start up his business ventures in the Western Division of Fiji.

Mr. Pillay sits on FDB's Board Credit Risk Committee which is newly established to review, assess and monitor the implementation of the risk policy and plan.

Prior to his migration to New Zealand, he had worked at the Bank of New Zealand's Sigatoka branch.

Mr. Pillay, a golf enthusiast, invests his time in community work for TISI Global Sangam, and is a trustee for Friends of Fiji Heart Foundation.

He is the Director and Chief Executive Officer of Gecko Trucking (Fiji) Ltd, Construction Equipment Hire (Lautoka) Ltd and Wairiki Logging Ltd.

**Ms. Olivia Mavoa**
**Director**

**Appointed January 2011, Expired 5 January 2017**

Ms. Mavoa has vast and diverse experience in business development, industrial relations, trade and investment roles, and in the tourism and the sugar industries.

She has served on numerous boards in these industries over the years and has been a founding member of many, including being the founding Vice President of Fiji Human Resources Institute.

She holds a Postgraduate Diploma in Business Administration from the Central Queensland University and is the Body Corporate Representative for Denarau Villas in Nadi.

**Mr. Inia Naiyaga**
**Director**

**Appointed December 2015**

Mr. Naiyaga is a Chartered Accountant (CA), Life Member of the Fiji Institute of Accountants, Fellow of the Fiji Institute of Bankers FFIB (Hon) and was a Fellow of the Australian Institute of Directors (FAICD).

He was a career Central Banker for 40 years and retired as the Deputy Governor of the Reserve Bank of Fiji in May 2014.

Prior to that, he was the Deputy Governor of the National Reserve Bank of Tonga for 5 years.

Currently he serves as a Director on a number of other Governemnt and private sector Boards.

**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 chairs FDB's Board Audit Committee and sits on the Talent and Organisational Development Board Committee. He also sits on the FIFA Audit & Compliance Committee, representing Fiji.

He holds a Diploma in Textile Engineering from M.S. University.

He is the President of the Fiji Football Association and Vice President of the Oceania Football Confederation.

He is also a Justice of Peace, and PTFA President for the Board of governance at Xavier College.

The Board is ultimately responsible for all decision-making, with the core objective of adding long-term value to the Bank, while upholding the interests of its shareholders and stakeholders.

# CORPORATE GOVERNANCE

It maps out a pathway for the Bank by which to achieve its Mission, Vision, Corporate and Strategic Objectives, and is permanently open for review.

The Board, Executive Management and Staff of the Bank all recognise the critical importance of good corporate governance in maintaining performance levels and protecting the interests of stakeholders. The Chairman takes a leading role in achieving and maintaining a high standard of corporate governance, with the full support of the Directors and Management.

The Bank's Corporate Governance Framework encourages the efficient use of resources, and places accountability on their stewardship. It maps out a pathway for the Bank by which to achieve its Mission, Vision, Corporate and Strategic Objectives, and is permanently open for review.

The Bank's Code of Corporate Conduct has shaped a relationship between all stakeholders that adds value to the Bank's business and contributes significantly to economic growth and development.


## THE BOARD

Under the Fiji Development Bank Act, the Minister for Economy (formerly Minister for Finance) is responsible for the appointment of Board Directors for an initial period of 3 years, after which they become eligible for reappointment.

The Board is ultimately responsible for all decision-making, with the core objective of adding long-term value to the Bank, while upholding the interests of its shareholders and stakeholders.

The Board Charter details its roles and responsibilities and regulates its procedures.

### Delegation

The Board determines the Bank's management structure, establishes business and risk management policies, and ensures that the Executive Management carries out day-to-day activities in accordance with set policies.

In the interests of efficiency, the Board delegates certain of its powers to the Executive Management, and others to the Chief Executive Officer, the Executive Committee, Board Committees and General Managers.

### Composition of the Board

The Board is chaired by Mr. Robert Lyon, its longest serving member. Mr. Lyon joined the Board in 2010. In his capacity as Chairman he sees that the Bank's Vision, Mission, and Strategic and Operational Objectives are realised.

He is joined on the Board by Directors Mr. Wella Pillay (Deputy Chairman), Mr. Inia Naiyaga, Mr. Rajesh Patel and Ms. Olivia Mavoa.

Details of the Bank's Directors as at June 2017 are as follows:

| | | Appointment Date | Term of Appointment |
|---|---|---|---|
| Mr. Robert Lyon | Chairman | September 2016 | Third Term |
| Mr. Wella Pillay | Deputy Chairman | December 2015 | First Term |
| Mr. Inia Naiyaga | Member | December 2015 | First Term |
| Mr. Rajesh Patel | Member | December 2015 | First Term |
| Ms. Olivia Mavoa | Member | January 2014 | Second Term (Expired 5/1/2017) |

## Selection of Chairman, Deputy Chairman and Chief Executive Officer

The two key aspects to the management of the Bank are Governance by the Board, and the day-to-day management of the Bank's business in line with Board approved strategic objectives, corporate plans, overall risk policy and risk management procedures.

The Bank's Chairman and Deputy Chairman are appointed by the Minister for Economy under the FDB Act, whereas the CEO is appointed by the Board. Until retiring on 31 March, 2017, Mr. Deve Toganivalu was the CEO.

## Board Meetings

The Board Secretary, Mr. Saiyad Hussain, schedules Board meetings around the Bank's ongoing operations, and prepares their agendas. The Chairman sets guidelines and monitors the flow of information from the CEO and Management to the Board to ensure that this is provided in a timely manner. He also sees that a constructive relationship between the Board and the Management is maintained. The CEO has responsibility for implementing decisions made by the Board.

## Board Committees

To assist the Board in the discharge of its oversight function, three Board Committees have been constituted, each with its exclusive area of responsibility – Audit, Talent and Organisational Development and Credit Risk with clear written terms of reference. Each is headed by an independent Director with expertise in the relevant subject.

The CEO sits on all three Committees, which together play an important role in ensuring good corporate governance by the Bank.

## Directors' Remuneration

The Directors are paid fees as regulated by the Ministry of Economy. Should a Director be required to travel away from home to attend meetings, or events, or for any other purpose on behalf of the Bank, a travel allowance is paid.

Directors who perform additional services on Board Committees are paid sitting allowances.

## Board Access to Information and Advice

Board papers are distributed at least five days before any Board meeting so that the Directors may be fully conversant with the issues, and that discussion can focus on questions they might have. When necessary, emerging issues may also be tabled and discussed at the meeting itself at the discretion of the Chairman. Ensuring the accuracy of all information provided to a meeting is the responsibility of Management.

The Board Secretary administers, attends and prepares minutes of Board proceedings. He assists the Chairman in seeing that Board procedures are adhered to and regularly reviewed for effectiveness. He also assists both the Chairman and the Board in implementing and strengthening corporate governance practices and processes.

## Frequency of Meetings

The Board meets six times a year and as warranted by particular circumstances. Committee Meetings are held every quarter. Numbers and descriptions of meetings held in the 2017 Financial Year, together with attendance records, are shown in the following table.

| | Meetings | | | |
|---|---|---|---|---|
| | Board Meetings | Audit | Talent and Organisational Development | Credit Risk |
| Mr. Robert Lyon | 6 | 3 | 2 | 0 |
| Mr. Wella Pillay | 6 | 2 | 1 | 0 |
| Mr. Inia Naiyaga | 6 | 3 | 1 | 0 |
| Mr. Rajesh Patel | 6 | 3 | 2 | 0 |
| Ms. Olivia Mavoa | 5 | 1 | 2 | 0 |
| Total Meetings Held | 6 | 3 | 2 | 0 |

While there were no meetings of the Credit Risk Committee during the 2017 Financial Year, nine credit flying minutes approved by the Committee were ratified in full Board meetings.

## BOARD COMMITTEES

### Board Audit Committee

The Board is committed to a fully transparent system for the auditing and reporting of the Bank's overall performance, and has established an Audit Committee to play a central role in this. At June 2017, the Committee comprised the following directors:

| Members | Title |
|---|---|
| Mr. Rajesh Patel | Chairman |
| Mr. Inia Naiyaga | Member |
| Mr. Robert Lyon | Member |

Under its Charter, the main role of the Board Audit Committee is to act on behalf of the Board of Directors in overseeing all material aspects of the Bank's financial reporting and risk and control audit functions, other than those related to responsibilities assigned to another of the Board's standing committees.

It is additionally required to apply particular focus to the qualitative aspects of financial reporting to Government, and on FDB processes for the management of business/financial risk, and observance of significant applicable legal, ethical, regulatory and compliance requirements.

### Talent and Organisational Development Committee

The Board has a new Talent and Organisational Development Committee whose principal function is to oversee the Bank's strategies and policies relating to organisational structure, culture, employee performance and development, succession planning, growth and remuneration. The committee had the following Directors as at June 2017:

| Members | Title |
|---|---|
| Ms. Olivia Mavoa | Chairman |
| Mr. Rajesh Patel | Member |
| Mr. Robert Lyon | Member |

### Performance Management

Formal procedures were put in place in the 2017 Financial Year to evaluate the performance of the Bank's employees. The process is managed by the General Manager Talent and Organisational Development in liaison with the CEO. Evaluations were based on a set of criteria including the performance of the business, the accomplishment of long term strategic objectives and other non-quantitative goals.

### Credit Risk Committee

Another newcomer in the 2017 Financial Year was the Credit Risk Committee. This was established to review, assess and monitor the implementation of the risk policy and plan. It also ensured that an appropriate enterprise-wide risk management system was in place with adequate and effective process that includes strategies, ethics, operations, reporting, compliance, sustainability.

| Members | Title |
|---|---|
| Mr. Robert Lyon | Chairman |
| Mr. Inia Naiyaga | Member |
| Mr. Wella Pillay | Member |

Where decisions on critical loans require urgent board intervention, flying papers are made and later ratified in the next scheduled full Board meeting.

## EXECUTIVE MANAGEMENT

The overriding aim of the Bank's Management aligns with the Government's goal of maximising shareholder value without detriment to the interests of other stakeholders. The Management however, answers directly to the Bank's Board of Directors, and operates within the boundaries and the policy framework laid down by the Board.

While the Board is responsible for ensuring that the principles of good corporate governance are adhered to and enforced, the onus for their implementation lies with the Management.

As at June 2017, the Bank's Executive Management headed by the CEO included a General Manager Finance and Administration, General Manager Relationship and Sales, General Manager Business Risk Services and a vacant position of General Manager Talent and Organisational Development.

## CONFLICT OF INTEREST

The Bank practices a fair, transparent and prudent approach when addressing issues arising from any conflict of interest, and ensures that full disclosures are provided in a timely manner. It insists on its Directors, Executives, Staff and other stakeholders adhering to the Bank's Code of Conduct and Ethics at all times.

Bank information is kept strictly confidential within its premises and is not divulged to any third party without the consent of the owner of the material, unless required by law. Directors, Management and staff at every level are obliged to declare any conflict of interest and are to sign and abide by the Bank's Code of Conduct and Ethics.

## AUDIT AND REGULATORY COMPLIANCE

### Internal Audit

The Internal Audit department is responsible for monitoring the operations of the Bank and determining its compliance with the internal control systems and procedures in place. It works collaboratively with the external auditor to ensure that a comprehensive audit scope is mapped out.

The department is headed by the Manager Internal Audit, who reports directly to the Board Audit Committee and administratively to the CEO, thus ensuring the independence of the department.

Guided by the Internal Audit Charter, Internal Audit provides assurance that the design and operation of the risk and control framework across the Bank is effective.

### External Audit

In accordance with the FDB Act Cap 214, Section 35, the Bank shall keep accounts of its transactions and such accounts shall be audited by an auditor approved by the Minister.

Currently, the Bank's accounts are independently audited by the Auditor General, who evaluates the Bank's operation, governance, internal control and financial reporting and provides reasonable assurances based on that evaluation.

### Reserve Bank of Fiji Prudential Supervision

The Bank ensures compliance with the Banking and Supervision Act of the Reserve Bank of Fiji (RBF) as part of RBF's prudential supervision requirements. This includes analysis of prudential returns that are periodically submitted to the RBF.

The Bank submits reports to RBF on a monthly and quarterly basis as per its requirement, ensuring transparency of information to the public.

## INTERNAL CONTROL AND RISK MANAGEMENT

The Bank ensures that effective internal and financial controls are in place to guard against different types of risk. Responsibility for the composition of the Bank's internal control and risk management framework lies with the Board and Executive Management.


## STAKEHOLDER INTERESTS

### Employees

The Bank is committed to building a favourable working environment and culture, as well as offering career development options and appropriate compensation for staff. It readily acknowledges that professional training is essential to staff in developing and acquiring capabilities essential to both the individual's success, and that of the Bank.

As part of its professional development programme, the Bank provides regular staff training both in-house and externally – within Fiji and overseas. In the 2017 Financial Year this included courses provided by Fiji National University and the Government of India.

Like any organisation of its size, the Bank faces cyclical changes to staff availability. Such situations are managed through appropriate forward planning.

### Customers

Customer satisfaction is a major priority for the Bank, as we strive to build life-long relationships. Our financial products are some of the market's most flexible, and tailor-made to our customers' needs.

The Bank is able to maintain regular contact with its customers, no matter where in Fiji they might be. Our Relationship and Sales Officers routinely visit projects and businesses even in the outter islands. Such visits provide us with an accurate insight into our customers' perspective, from which we can learn, and further improve our products and services. Strict guidelines ensure that customer confidentiality is maintained at all times.

The Bank has a Complaints Management Policy whereby customer grievances are promptly dealt with at the highest level. Where a customer feels they have not been fairly treated they can lodge a written complaint directly with the Office of the CEO.

### Community

Being a strong, ethical and responsible business is fundamental to the Bank's success, and that of its shareholders and customers. The Bank's corporate governance practices are evidence of its commitment in this regard.

Corporate social responsibility is embedded in our values. It dictates the way we conduct ourselves as we go about the business of delivering the products and services that enable others to achieve their own goals.

Harnessing clean energy from natural elements is helping reduce reliance on fossil fuels. The Fiji Development Bank has been financing renewable energy projects diligently.

# EXECUTIVE MANAGEMENT

**Mr. Deve Toganivalu**
**Chief Executive Officer (Retired March, 2017)**

Ratu Deve has extensive commercial and development banking experience.

Ratu Deve retired in March 2017 following a noteworthy banking career spanning more than forty years, very nearly thirty of these with the Fiji Development Bank.

Prior to joining FDB he served 12 years with the Bank of New Zealand.

He held a number of General Manager positions with FDB, capably heading at various times the Operations, Agriculture Development Finance, New Business and Business Risk Services departments. He also has the distinction of being the second longest serving Chief Executive Officer, having been appointed to the position in 2008.

Ratu Deve remains a Board member of the Fiji Sugar Corporation Limited and is a member of the Fiji Institute of Bankers. He holds a Bachelor of Commerce from Australia's James Cook University.

**Mr. Nafitalai Cakacaka**
**General Manager Business Risk Services**

Mr. Nafitalai Cakacaka is the Fiji Development Bank's General Manager Business Risk Services. He is also the key liaison personnel with the Green Climate Fund Secretariat for Fiji's accreditation through FDB.

Mr. Cakacaka has over thirty years of experience in development banking and strategic risk management. He is involved in various capacities in stakeholder engagements, promoting sustainable development of projects in Fiji's rural agro-based sectors, as well as infrastructure, clean energy and small and medium enterprises.

He is a Member of Fiji's National Financial Inclusion Taskforce and serves as Chairman of the Inclusive Products & Services Working Group. He is also a member of the Fiji Institute of Bankers. Nafitalai holds a Bachelor of Arts in Business Management from the University of the South Pacific and a Certificate Masters-level in Banking from the Pacific Bankers Management Institute, Pacific Coast Banking School, USA.

**Mr. Tevita Madigibuli**
**General Manager Relationship & Sales**

Mr. Tevita Madigibuli is the Fiji Development Bank's General Manager Relationship and Sales. He leads the Bank's nine divisional and three sub-branches' Relationship and Sales teams across Fiji.

Mr. Madigibuli has over thirty years of experience in development banking, predominantly focusing on relationship and sales with customers.

Before been appointed to the GM Relationship and Sales role, Tevita served in various managerial positions within the Bank, since joining in 1982.

He is an Associate Member of NZIML (Institute of Managers and Leaders) and a Member of Fiji Institute of Bankers.

He holds a Master of Business Administration from the University of the South Pacific and a Bachelor of Arts Degree in Business Studies.

He has a Diploma in Tropical Agriculture, with agriculture being one of the focus sectors of the Bank's lending functionality.

**Mr. Saiyad Hussain**
**General Manager Finance & Administration**

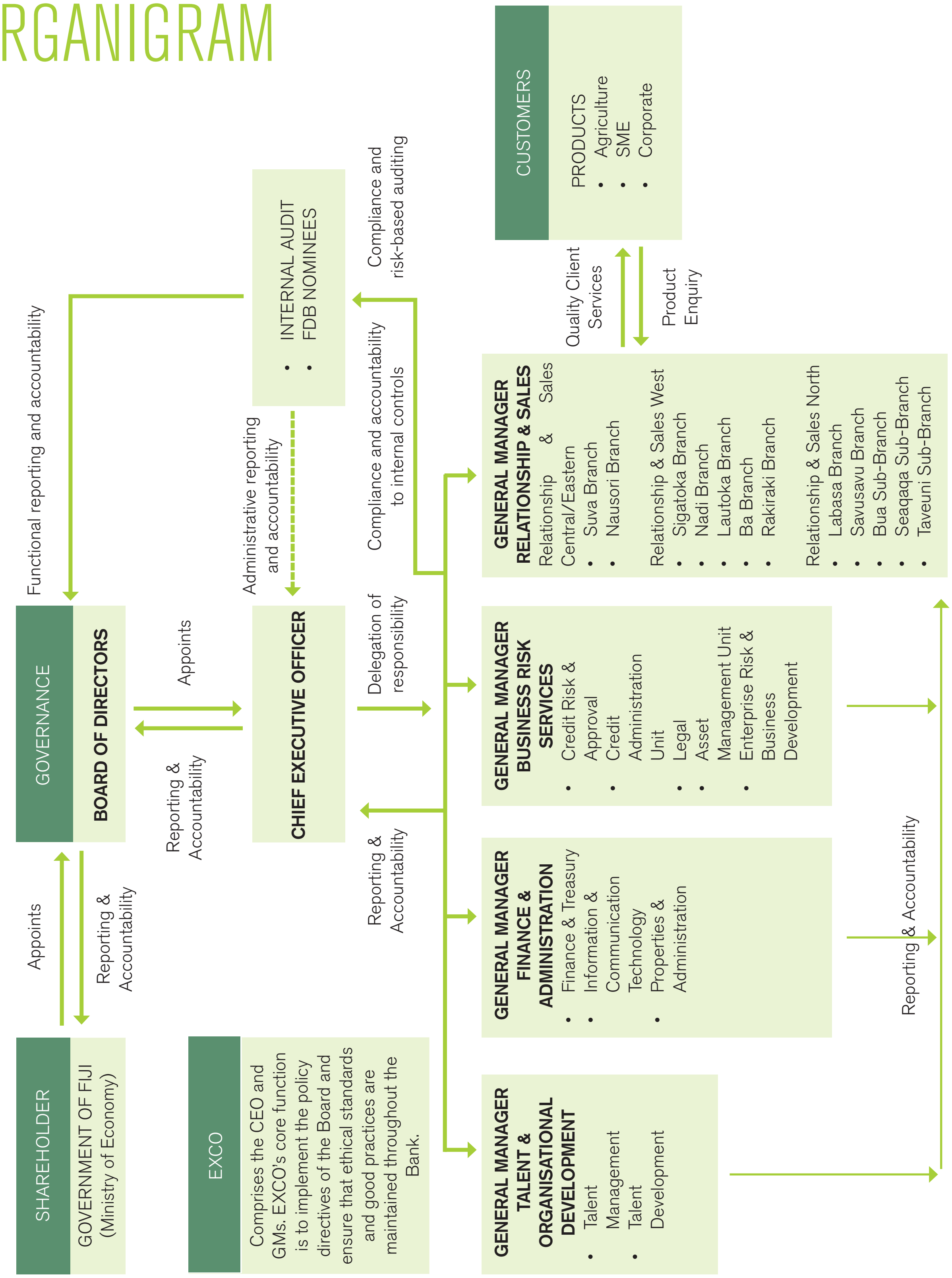
Mr. Saiyad Hussain is the Fiji Development Bank's General Manager Finance and Administration. He also serves as the Company Secretary for the Bank.

Mr. Hussain has been with the development Bank for over 27 years in various roles. He was appointed to the GM Finance and Administration role in 2010. He manages FDB's Finance and Treasury, Properties, Information and Communication Technology Departments.

He is a Chartered Accountant by profession and a Board Director of the South Pacific Stock Exchange and a Member of the Fiji Institute of Bankers as well.

He has a Postgraduate Diploma in Banking and Financial Management. He also holds a Bachelor of Arts Degree in Accounting and Financial Management, Economics and Public Administration & Management from the University of the South Pacific.

# FIJI DEVELOPMENT BANK ORGANIGRAM

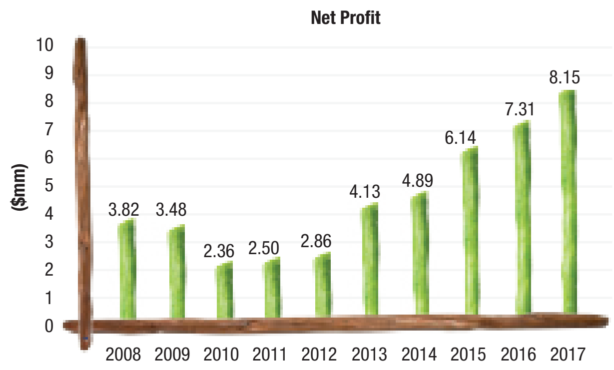


# REVIEW OF FINANCE AND ADMINISTRATION

## OVERVIEW

With the close of the 2017 Financial Year, the Bank prepared to embark upon its 50th year of operations, and it did so with confidence. It had overcome the considerable market challenges of 2017 to end the year with a record net profit of $8.15 million, an 11.63% improvement against 2016 Financial Year.

The impressive performance was largely attributable to a combination of strict cost controls, stringent credit appraisals and a reduced level of allowance for credit impairment.

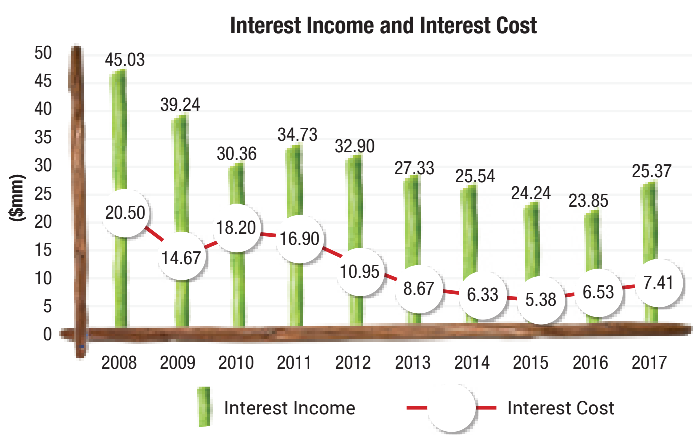



The Bank's total operating income was $24.52 million against total operating expenses of $12.36 million. Total allowance for credit impairment declined by $4.57 million when compared to the same period last year, consequently contributing to the healthy profit recorded.

| Income Statement ($MM) | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|---|---|
| Net Interest Income | 17.958 | 17.330 | 18.865 | 19.208 | 18.651 | 21.943 | 17.830 |
| Other Operating Income | 6.564 | 10.842 | 6.982 | 6.813 | 9.187 | 13.053 | 12.029 |
| **Total Operating Income** | **24.522** | **28.172** | **25.847** | **26.021** | **27.838** | **34.996** | **29.859** |
| Operating Expenses | 12.363 | 12.289 | 11.904 | 10.548 | 9.831 | 10.659 | 10.496 |
| **Profit before Allowances** | **12.159** | **15.883** | **13.943** | **15.473** | **18.007** | **24.337** | **19.363** |
| Total Allowances | 4.004 | 8.578 | 7.803 | 10.586 | 13.873 | 21.479 | 16.859 |
| **Net Profit** | **8.155** | **7.305** | **6.140** | **4.887** | **4.134** | **2.858** | **2.504** |

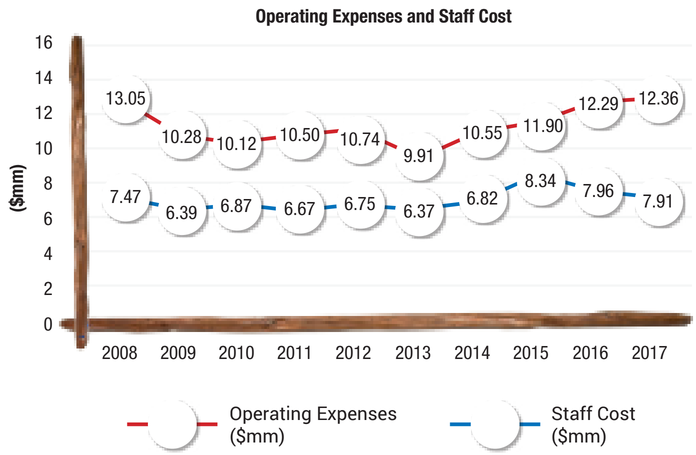
## TOTAL OPERATING INCOME

The Bank's main income stream – interest earnings – rose from $23.85 million to $25.37 million over the year. Correspondingly, net interest income increased by $0.63 million, despite higher borrowing costs. The Bank's total 2017 Financial Year operating income, however, declined by 12.96% compared to 2016, due to lower bad debt recoveries, during this period.



## OPERATING EXPENSES

A slight increase of 0.60% was seen in the Bank's total operating expenses over the 2017 Financial Year. Staff costs represented the largest individual component, and the Bank was successful in reducing these somewhat, for the third successive year. Close monitoring, coupled with stringent control measures, enabled the Bank to manage day-to-day expenses within budgeted levels.




## ASSETS STRUCTURE

| Balance Sheet Review | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|---|---|
| Liquid Assets | 24.550 | 56.549 | 49.579 | 50.040 | 42.200 | 53.622 | 44.733 |
| Investments | 2.035 | 2.035 | 2.035 | 2.035 | 2.035 | 2.070 | 2.070 |
| Net Loans and Advances | 354.820 | 294.845 | 291.629 | 265.205 | 276.946 | 258.662 | 272.142 |
| Receivables | 2.837 | 3.471 | 2.529 | 1.911 | 1.777 | 2.754 | 3.582 |
| Land Held for Resale | - | - | - | - | 0.043 | 0.737 | 9.716 |
| Fixed Assets with Intangibles | 17.818 | 18.007 | 16.058 | 15.876 | 15.473 | 14.780 | 14.851 |
| **Total Assets** | **402.060** | **374.907** | **361.830** | **335.067** | **338.474** | **332.625** | **345.094** |

| **Liabilities** | | | | | | | |
|---|---|---|---|---|---|---|---|
| Accounts Payable & Accruals | 6.072 | 3.032 | 2.117 | 2.427 | 2.891 | 3.790 | 3.864 |
| Short Term Borrowings | 94.187 | 81.689 | 78.600 | 72.559 | 64.451 | 93.986 | 55.830 |
| Other Liabilities | 8.243 | 8.544 | 9.299 | 8.175 | 9.055 | 8.872 | 8.787 |
| Bond-Held to Maturity | 142.990 | 139.229 | 139.219 | 125.451 | 140.510 | 109.892 | 163.385 |
| **Total Liabilities** | **251.492** | **232.494** | **229.235** | **208.612** | **216.907** | **216.540** | **231.866** |
| **Total Equity** | **150.568** | **142.413** | **132.595** | **126.455** | **121.567** | **116.085** | **113.228** |
| **Total Liabilities and Equity** | **402.060** | **374.907** | **361.830** | **335.067** | **338.474** | **332.625** | **345.094** |

## FIJI DEVELOPMENT BANK'S MARKET SHARE

| | FDB ($mm) | Commercial Banks ($mm) | Credit Institutions ($mm) | Fiji Total ($mm) | FDB as a % of Fiji Total |
|---|---|---|---|---|---|
| **Agriculture** | **76.76** | **69.20** | **17.20** | **163.16** | **47.05** |
| Sugarcane Growing | 18.22 | 0.10 | - | 18.32 | 99.45 |
| Forestry & Logging | 4.67 | 32.70 | 7.90 | 45.27 | 10.32 |
| Fisheries | 3.57 | 12.80 | 1.80 | 18.17 | 19.64 |
| Others | 50.30 | 23.60 | 7.50 | 81.40 | 61.79 |
| **Mining & Quarrying** | **1.02** | **21.50** | **4.70** | **27.22** | **3.75** |
| **Manufacturing** | **55.32** | **465.40** | **11.20** | **531.92** | **10.40** |
| Food, Beverages and Tobacco | 35.36 | 98.60 | 0.30 | 134.26 | 26.33 |
| Textiles, Clothing and Footwear | 0.98 | 82.20 | 1.10 | 84.28 | 1.16 |
| Metal Products and Machinery | 0.36 | 37.60 | 3.40 | 41.36 | 0.87 |
| Others | 18.62 | 247.00 | 6.40 | 272.02 | 6.85 |
| **Building and Construction** | **114.61** | **638.50** | **57.40** | **810.51** | **14.14** |
| **Real Estate (Development)** | **75.41** | **807.30** | **1.80** | **884.51** | **8.53** |
| **Non-Bank Financial Institutions** | **-** | **5.30** | **-** | **5.30** | **-** |
| **Public Enterprises** | **-** | **50.10** | **1.30** | **51.40** | **-** |
| **Wholesale, Retail, Hotels and Restaurants** | **36.42** | **1,252.10** | **34.10** | **1,322.62** | **2.75** |
| Hotels and Restaurants | 17.94 | 398.90 | 3.90 | 420.74 | 4.26 |
| Other Commercial Advances | 18.47 | 853.20 | 30.20 | 901.87 | 2.05 |
| **Transport, Communications and Storage** | **35.92** | **293.50** | **117.80** | **447.22** | **8.03** |
| **Electricity, Gas and Water** | **-** | **210.70** | **0.20** | **210.90** | **-** |
| **Professional Business Services** | **19.09** | **131.70** | **21.80** | **172.59** | **11.06** |
| **Private Individuals** | **19.20** | **1,844.30** | **116.40** | **1,979.90** | **0.97** |
| Housing | 14.71 | 1,327.80 | - | 1,342.51 | 1.10 |
| Car or Personal Individual Transport | 0.39 | 137.20 | - | 137.59 | 0.29 |
| Others | 4.10 | 379.30 | - | 383.40 | 1.07 |
| **Central and Local Government** | **-** | **14.50** | **0.40** | **14.90** | **-** |
| **Other Sectors** | **4.36** | **385.00** | **6.00** | **395.36** | **1.10** |
| **TOTAL** | **438.09** | **6,189.10** | **390.30** | **7,017.49** | **6.24** |

The Bank's financial position strengthened during the 2017 Financial Year with an increase in total assets from $374.91 million to $402.06 million. The gross loan portfolio stood at $438.09 million, showing growth by $62.58 million or 16.67% in comparison to the preceding year.

Contributing factors included disbursements of $107.28 million, improved marketing, the use of efficient lending methods and effective customer relationship management.

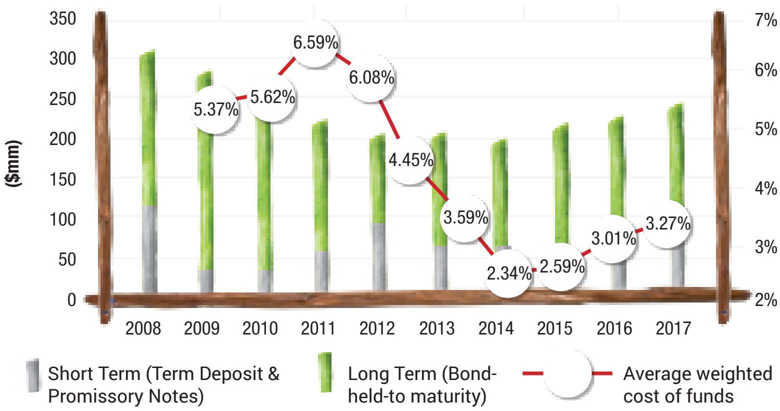
The Bank's liquid assets, fixed assets and other receivables recorded a decrease against the 2016 Financial Year figures.

## LIABILITIES STRUCTURE

The Bank's total liabilities rose by 8.17% in the 2017 Financial Year. Consequent to the favourable growth in the Bank's total loan portfolio, an increase of $16.26 million was noted in borrowings to accommodate new disbursements.

Due to increases in both borrowings and market interest rates, the Bank's weighted average cost of funds rose by 26 basis points over the year.

**Borrowings Portfolio/Average Cost of Fund**




## OTHER FINANCE AND ADMINISTRATIVE ACTIVITIES

### 1) Properties Administration Department

The Bank's Properties Department employs innovative skills and technology to provide a safe and comfortable environment for staff, tenants and customers. The Department is responsible for the management and upkeep of all the Bank's properties around Fiji, including office space leased out to other parties. The task requires frequent liaison with stakeholders to manage relationships and facilitate timely deliverables by contractors, architects, engineers, consultants, other service providers, tenants, regulatory and compliance authorities.

The 2017 Financial Year has been a demanding but rewarding one for the Properties team, with major progress made on one of its biggest projects in recent years. The exterior refurbishment of the Head Office building will make it one of the more modern looking buildings in the Suva CBD, enhancing both the Bank's corporate image and the building's corporate tenancy profile. The work is scheduled for completion in early 2018.

The Head Office refurbishment is part of a wider initiative that also includes some branches. External and internal makeovers and design changes are giving a more vigorous and contemporary look to FDB workplaces elsewhere in Fiji, reflecting and promoting the Bank's increasingly dynamic culture, in a style that's consistent across the country.

This ongoing project brings with it considerable logistical challenges with regards to the repositioning of manpower and equipment to new locations, and completing the work phase by phase, within set timelines, and in consultation with contractors and other departments, to ensure that the next stage can begin as scheduled.

Increasing costs and a limited skill set within the local construction industry also test the Properties Department as it strives to create a quality environment for staff, customers and tenants across Fiji, within available budgets.

### 2) Information and Communications Technology Department

The Bank's ICT Department comprises of two specialist teams: Systems Support and Development, and Network and Infrastructure Support. Each is responsible, within its remit for the planning, development and implementation of cost effective operational information systems to meet the current and future needs of their users.

The end objective of the Department is to support the core business of the Bank by empowering its employees to perform their duties and serve their customers more efficiently – through the provision of the finest information and communications technology tools within its power to provide.

Exciting times lie ahead as the ICT team begins its biggest project to date: a full upgrade of the Bank's Core Banking System. Preliminary work on the tender process is underway. It is anticipated that the new software will be up and running in 2019, bringing with it a major improvement in loan appraisal and approval turnaround times.

Other notable software development projects undertaken during the 2017 Financial Year included making online statements available to customers, an online portal to conduct the Bank's Human Resources Employee Engagement Survey, and a major revamp of the ICT Online Help Desk.

Enhancements under Network and Infrastructure Support included a critical capacity upgrade for the Bank's Disaster Recovery (DR) link, to preserve all of its essential data by means of a new backup infrastructure.

The Team upgraded the Desktop Environment with Windows 10 and Office 2016 at Head Office, with other branches to follow suit in the 2018 Financial Year. It also strengthened the Bank's network security. Improvements included an upgrade of the core switch at Head Office, wireless integration with MS Radius for a unified single login authentication, and VLAN sub-netting to enable network segmentation/segregation as an additional safeguard.

Collaboration with all Divisions of the Bank, and other stakeholders, on enhanced levels of service delivery to FDB customers is ongoing.

| Historical Performance | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Financial | | | | | |
| Net Profit ($mm) | 4.13 | 4.89 | 6.14 | 7.31 | 8.15 |
| Total Assets ($mm) | 338.47 | 335.07 | 361.83 | 374.91 | 402.06 |
| Total Assets / Equity (%) | 2.78 | 2.65 | 2.73 | 2.63 | 2.67 |
| Average Earning Assets (AEA) ($mm) | 351.22 | 342.99 | 371.81 | 381.03 | 442.98 |
| Borrowing Cost/Average Earning Assets (%) | 2.47 | 1.85 | 1.45 | 1.71 | 1.67 |
| Total Cost / AEA (%) | 5.27 | 4.92 | 4.65 | 4.94 | 4.46 |
| Profit (Loss) / Average Equity (%) | 3.48 | 3.94 | 4.74 | 5.96 | 5.57 |
| Long Term Debt : Equity | 1.16:1 | 0.99:1 | 1.05:1 | 0.98:1 | 0.95:1 |
| Interest Spread (%) | 3.81 | 5.11 | 4.27 | 3.41 | 2.97 |
| Earning Spread (%) | 7.12 | 6.98 | 6.15 | 5.73 | 4.48 |

| Operating Efficiency | | | | | |
|---|---|---|---|---|---|
| Staff Cost / AEA (%) | 1.81 | 1.99 | 2.24 | 2.09 | 1.79 |
| Total Income / AEA (%) | 7.93 | 7.59 | 6.95 | 7.39 | 5.54 |

| Lending | | | | | |
|---|---|---|---|---|---|
| Approvals (Number) | 1,014 | 1,249 | 1,532 | 1,529 | 1,400 |
| Approvals ($mm) | 139.04 | 140.76 | 108.89 | 120.46 | 145.31 |
| Loan Portfolio (Number) | 4,071 | 3,843 | 4,189 | 4,608 | 4,943 |
| Gross Loan Portfolio ($mm) | 347.41 | 339.05 | 367.24 | 375.51 | 438.09 |
| Growth in Loan Portfolio (%) | 7.05 | -2.41 | 8.32 | 2.25 | 16.67 |
| Arrears / Loan Portfolio (%) | 12.40 | 12.90 | 12.02 | 14.34 | 13.40 |

# REVIEW OF RELATIONSHIP AND SALES

As the Bank draws closer to its 50th anniversary in July 2017, it continues to demonstrate its support, through the commitment of substantial lending, for Government's strategic focus on the Agriculture and Resource Based sectors, recording a 47.05% share of the market for the 2017 Financial Year.

The 2017 Financial Year was again a challenging one for the Bank, as it continued to fund worthwhile development projects considered outside the risk appetite of the commercial banks. At the same time, it faced increased competition from other financial institutions.

Despite this, moderate growth was achieved.

This sits well with the projected 3.78% national economic growth announced by the Reserve Bank of Fiji, in spite of the adverse impact of cyclone Winston in February 2016, and profoundly attesting to the resilience of both the Fijian economy and the people of this country.

As the Bank draws closer to its 50th anniversary in July 2017, it continues to demonstrate its support, through the commitment of substantial lending for Government's strategic focus on the Agriculture and Resource Based sectors, recording a 47.05% share of the market for the 2017 Financial Year.

In the Sugarcane sector alone, the Bank holds 99.45% of the market. Its contribution to other key sectors of the economy such as Building and Construction, Manufacturing, Transport, Communication and Storage, and Professional Business Services has also been significant during the year.

The Bank had set a bold disbursement target of $122.96 million for 2017 of which $107.28 million, representing 87.25% of that target, was achieved. This contributed to an actual growth rate overall of 16.67% against the lesser target of 14.62%.

### Review of Lending Activity

At the close of the 2017 Financial Year, the Bank's total loan portfolio stood at $438.09 million by value and 4,944 by number. This depicts an increase of $62.58 million, or 16.67%, as against $375.51 million in June 2016, and an increase in the number of accounts by 335, or 7.27%, on the 4,608 of 2016.

During the 2017 Financial Year, the Bank funded 1,400 projects valued at $145.31 million, compared to 1,529 projects worth $120.46 million in the previous financial year. This represents an increase of 20.63% by value and a decrease of 8.44% by number.

The focused sectors continue to reflect the Bank's development architecture, with 3,985 accounts worth $197.88 million, representing 45.17%, compared to 3,644 accounts valued at $158.70 million the previous year. In the same period, the non focused sectors comprised 958 accounts valued at $240.21 million, representing 19.38%, with a slight decrease of 0.62% in number, from 964 accounts, but a modest increase in value of 10.79%, from $216.81 million.

### Market Share

The consistent positive trend in national economic growth over past years was reflected in loan and lease advances recorded in the 2017 Financial Year by all commercial banks and other licensed credit institutions totalling an unprecedented $7,017.50 million. This represents an increase of 11.56% from $6,290.20 million the previous year.

The Bank's share stood at 6.24% overall compared to 5.97% in the previous financial year. Its 47.05% market share in the Agriculture sector was the largest held by any single financial entity, underscoring once again the Bank's role as the primary Government vehicle for funding ongoing development of the primary and resource based sectors.

### Focused Sector Loans

In the 2017 Financial Year the Bank funded 1,251 projects valued at $87.79 million, representing 60.43% of an overall approvals total of $145.31 million. This was an increase of 51% in value and a decrease of 7.06% by number in comparison to 2016.

The Agriculture sector continued to feature prominently in the 2017 Financial Year, with 831 approvals. It was followed by Transport, Communication and Storage at 233 and Wholesale, Retail, Hotels and Restaurants at 105.

In value terms, Manufacturing recorded $42.47 million, representing 29.23%, an improvement of 15.13% over 2016, and an indication of the Bank's staunch commitment to one of the vital sub-sectors. By helping establish and grow Small and Medium Enterprises, the Bank spurs economic growth and creates many employment opportunities at a grass roots level. Agriculture accounted for $28.66 million of total disbursements, an improvement of 17.99%. Transport, Communication and Storage recorded $9.17 million representing 6.31%, a disappointing reduction of 22.35% from the previous year.

### Non Focus Sector Loans

A total of 149 applications worth $57.51 million were approved for this sector, a reduction by 18.58% by number and 7.73% in value respectively, in comparison to the previous year.

The Bank continues to recognise the immense contribution of Tourism, both as a catalyst for economic growth and as a continuous source of foreign exchange. During the 2017 Financial Year, the Wholesale, Retail, Hotels and Restaurants sectors contributed 59.34% valued at $34.12 million, a reduction of 4.02% from $35.52 million in the previous financial year.

This was followed by Real Estate, valued at $8.97 million, an increase of 11.15% from $8.07 million for 2016, and Building and Construction at $6.50 million, a very significant reduction of 48.97% from the $12.74 million recorded in the 2016 Financial Year.

### Realignment of Relationship and Sales

With the establishment of a Credit Administration Unit (CAU) under the Bank's quality growth strategy, changes to FDB's internal processes, aimed at raising our competitiveness in an increasingly difficult market environment, were progressively put into effect.

A prime example was the unit taking up certain tasks previously the responsibility of the Bank's Relationship and Sales Officers – a move designed to speed the delivery of security documentation and providing on time delivery in post loan approvals to the lending centres.

Full implementation of the initiative is expected to be completed in the 2018 Financial Year, once CAU is fully resourced to support all the lending centres across FDB's 12 Branches.

### Strengthening Outreach and Presence

The Bank plans to reach out to other remote rural areas with potential for economic growth, primarily in the Agriculture and SME sectors. This is likely to see new agencies established in Naitasiri, Korovou, Navua, Kadavu and Ovalau in the near future. New lending policies to support the changing needs of customers in relation to value chain financing and organic farming are an integral component of this programme.

### 50th Year Anniversary

From day one, July 1st 1967, the Bank has consistently proven itself an effective and efficient Government vehicle for economic development, contributing immensely and continuously to the benefit of all economic sectors and numerous Fijian communities. Appropriate celebrations on July 1st 2017 will mark the start of our landmark fiftieth year.

### Going Forward

As FDB prepares to implement its Strategic Plan for 2018 – 2020 there is a renewed sense within the organisation of energy and shared purpose. Again the Bank has set itself ambitious targets in terms of loan disbursement and portfolio growth, supported this time by newly strengthened inter-departmental relationships and support systems, and a freshly invigorated Relationship and Sales team.

The prospect of the Bank winning accreditation with the Green Climate Fund gives particular cause for optimism. Acting as the Fijian Government's conduit in accessing and dispensing GCF funding will propel the Bank into a new dimension of lending.

It will pave the way to unprecedented international support for climate mitigation and adaptation projects central to Government strategies to limit the impact of the biggest threat to our way of life we are ever likely to confront.

## 2017 FINANCIAL YEAR DATA BASED ON RBF CLASSIFICATION

| Approvals for Financial Year 2016-2017 | | | | |
|---|---|---|---|---|
| | No. | % by No. | Value ($) | % by Value |
| **Focused Sector** | **1,251** | **89.4%** | **87,794,968** | **60.4%** |
| Agriculture | 831 | 59.4% | 28,667,427 | 19.7% |
| Electricity, Gas & Water | 3 | 0.2% | 594,438 | 0.4% |
| Manufacturing | 20 | 1.4% | 42,478,461 | 29.23% |
| Mining & Quarrying | 2 | 0.1% | 77,500 | 0.1% |
| Professional & Business Services | 57 | 4.1% | 3,107,272 | 2.1% |
| Public Enterprises | 0 | 0% | 0 | 0.0% |
| Transport, Communication & Storage | 233 | 16.6% | 9,175,707 | 6.31% |
| Wholesale, Retail, Hotels & Restaurants | 105 | 7.5% | 3,694,162 | 2.5% |

| | No. | % by No. | Value ($) | % by Value |
|---|---|---|---|---|
| **Non Focused Sector** | **149** | **10.6%** | **57,511,541** | **39.6%** |
| Building & Construction | 6 | 0.4% | 6,504,820 | 4.5% |
| Non-Bank Financial Institutions | 1 | 0.1% | 2,755,820 | 1.9% |
| Others | 16 | 1.1% | 406,207 | 0.3% |
| Private Individuals | 100 | 7.1% | 465,808 | 0.3% |
| Professional & Business Services | 3 | 0.2% | 4,280,000 | 2.9% |
| Real Estate | 18 | 1.3% | 8,973,706 | 6.2% |
| Wholesale, Retail, Hotels & Restaurants | 5 | 0.4% | 34,125,180 | 23.5% |
| **TOTAL PORTFOLIO** | **1,400** | **100%** | **145,306,508** | **100%** |

## LENDING ACTIVITIES DURING THE YEAR

| | Portfolio as at 30th June 2017 | | | |
|---|---|---|---|---|
| | **No.** | **% by No.** | **Value ($)** | **% by Value** |
| **Focused Sector** | **3,985** | **80.6%** | **197,887,542** | **45.2%** |
| Agriculture | 2,635 | 53.3% | 86,153,419 | 19.7% |
| Electricity, Gas & Water | 13 | 0.3% | 16,874,971 | 3.9% |
| Manufacturing | 47 | 1.0% | 28,422,252 | 6.5% |
| Mining & Quarrying | 5 | 0.1% | 847,274 | 0.2% |
| Professional & Business Services | 82 | 1.7% | 3,369,432 | 0.8% |
| Public Enterprises | 1 | 0.0% | 14,803,844 | 3.4% |
| Transport, Communication & Storage | 814 | 16.5% | 36,640,070 | 8.4% |
| Wholesale, Retail, Hotels & Restaurants | 388 | 7.8% | 10,776,280 | 2.5% |
| | | | | |
| **Non Focused Sector** | **958** | **19.48%** | **240,209,259** | **54.8%** |
| Building & Construction | 48 | 1.0% | 54,600,299 | 12.5% |
| Non-Bank Financial Institutions | 1 | 0.0% | 2,045,797 | 0.5% |
| Others | 150 | 3.0% | 6,781,058 | 1.5% |
| Private Individuals | 677 | 13.7% | 18,852,721 | 4.3% |
| Real Estate | 67 | 1.4% | 60,576,977 | 13.8% |
| Wholesale, Retail, Hotels & Restaurants | 15 | 0.3% | 97,352,406 | 22.2% |
| **TOTAL PORTFOLIO** | **4,943** | **100%** | **438,096,800** | **100%** |

# REVIEW OF BUSINESS RISK

A new External Relations Unit has now been created to harness greater collaboration between the Bank and its stakeholders.

With the close of the 2017 Financial Year, FDB completed 49 eventful years of uninterrupted involvement in the Fiji banking industry. Meeting the growing demands of customers against competition from equally committed competitors has been an ongoing challenge throughout. The revamped Planning Unit is now tasked to strengthen and encompass product and policy development and marketing processes and take the Bank forward.

The key to the Bank's positive outcomes has been an emphasis on innovation and customer satisfaction. Today, more than ever, the Bank is supremely conscious of the importance of relationships, both internal and external, and of the quality of service delivery and technological advancement necessary to remain competitive and achieve ambitious goals. Profit aside, the Bank's performance is measured in social and other economic deliverables, notably an improved standard of living for the people of Fiji, specifically including those at the grass roots.

As a development bank, FDB is expected to take on higher risk projects in promoting growth for the country. Providing the catalyst to create demand and generate economic impacts in rural communities demands not only innovation, but oversight without compromise. The Bank's Risk Management model stretches over the entire loan cycle, from loan origination to recovery, and detecting and mitigating any issues that may arise.

## Centralised Control and Management

In the course of the 2017 Financial Year the Bank undertook a realignment placing a heightened emphasis on the centralised control and management of the loan system and processes. The establishment of the Credit Administration Unit enabled the formalisation of decisions and data entry under one entity. Besides relieving the branches of much administrative activity, the realignment is designed to enhance quality, service delivery, checks and controls.

As well as being acutely focused on the recovery of Non-Performing Loans, management of the Non-Performing Loan portfolio through the Bank's Asset Management Unit is very focused on recovery effort and assisting customers where symptoms of loan deterioration is evident in early stages. To sustain quality of loan performance, an intensive risk assesment exercise is undertaken to identify associated risk at inital stages of appraisal process and also during the term of loan.

## Oversight and Accountability

The Bank is primarily accountable to the Minister for Economy, under the FDB Act Cap 214. Its legitimacy and ethical standing is further reinforced through full compliance with regulations and requirements of other relevant authorities. It fully complies with the Reserve Bank's Banking & Supervision Act; directives of the RBF Financial Intelligence Unit on the reporting of suspicious transactions; the Customer Credit Act, which requires the Bank to inform potential customers about its facilities in detail before any engagement and business and tax law requirements of the Fiji Revenue and Customs Service.

As it now embraces the demanding compliance framework necessary to meet the Green Climate Fund accreditation requirements, FDB has begun up scaling its compliance standards yet further, to international levels.

## Policy Directives

The Government, through the line Ministry, has the ability to direct the Bank towards priorities based on the long term National Development Plan. A prime example of this is the Government's nomination of FDB as Fiji's accredited Direct National Access Entity for the Green Climate Fund. The Bank continues dialogue with the Government and other agencies in establishing the platform for this enormously important move.

Negotiation with the Reserve Bank regarding low cost funding facilities continues to be an annual activity for the Bank. RBF facilities offer reduced rates with increased allocations e.g. Import Substitution and Export Finance Facility (ISEFF), Natural Disaster Rehabilitation Facility (NDRF) and Sustainable Energy Financing Facility (SEFF), funded through ISEFF. These low cost facilities came into effect from November 2013. Customers are able to take advantage of this initiative for its five-year term.

The partnership with the Ministry of Industry, Trade and Tourism (MITT) in a Government initiative to assist new entrepreneurs progressed into its third year. The Micro Small Business Grant assists those who have entrepreneurial aspirations, but lack the necessary funds, to take promising projects to fruition. The scheme, provides another opportunity for the Bank to assist recipients migrate from Micro to Small and Medium Enterprises.

## Competition and Competitive Strategies

A proliferation of new financiers tapping into the SME and Agriculture sectors offering competitive interest rates, wider considerations still give the Bank the edge by far. By continuing to provide customers in these key focus areas with premium customer service coupled with funding solutions built on unmatched experience, FDB is fully confident of holding and growing its market share.

The importance that the Government attaches to the SME and Agriculture sectors is reflected in the Government subsidised interest rates the Bank is able to offer borrowers in both sectors, on loans up to $50,000. The Bank is equally committed, and is especially proactive in the area of stakeholder consultations on how the two sectors can be further developed. The presence of fully trained, well-informed staff across the 9 branches and 3 sub-branches is critical to this.

SME and Agriculture loans to new entrants are recognised as being in the high risk category. In the interests of both the Bank and its customers, FDB support includes the application of appropriate risk management strategies throughout the life of the loan.

### Liquidity Risk

Over the first half of 2017, Fiji's liquidity level soared. An increase from $412 million at the end of December 2016 to $736 million at the close of June 2017.

The Bank's Treasury Unit practices prudent risk management, investing responsibly in order to maintain a healthy liquidity position. In expanding its Term Deposit portfolio in the 2018 Financial Year, the Bank will comply fully with RBF standards to ensure that new risks are identified and mitigated.

An increase in Term Deposits would ease the high cost of funds for the Bank and make its facilities more competitive.

### Interest Rate Risk

In making essential development loans available to Fiji's various economic sectors, the Bank is exposed to a high degree of risk, accompanied by higher cost of funds. The task of managing lower lending rates with a higher cost of doing business is an ongoing challenge.

At the end of July 2016, the cost of funds for the Bank was 3.05%. By the end of June 2017 it had risen to 3.27%, with the trend expected to escalate in the second half of 2017. Factors determining cost of funds are beyond the control of the Bank; for example economic conditions, but managing internal operational cost complements its contribution margin.

### Political and Other Risk Factors

Fiji has experienced a significant increase in development in recent years, and with investment confidence rising, there is no doubt that it will continue to increase. The Government has devised effective incentives to encourage investment in Fiji by both local and overseas interests, thereby creating new employment opportunities for the people of the country.

The Reserve Bank's predicted 3.78% expansion of the Fijian economy in 2017 appears to be on track. This growth can be attributed to the commencement of the cane crushing season in June, the rise in vehicle sales, and lending in the Real Estate, Wholesale, Retail, Hotels and Restaurants sectors, and ongoing construction activities in Fiji. Labour markets look encouraging, with an increase in the number of jobs advertised, and recruitment across the Wholesale, Retail, Hotels and Restaurants, Agriculture, Electricity, Gas and Water sectors.

Climate volatility is a fact of life in the Pacific region, and as we know all too well, this can have severe implications on the Fijian economy. Fiji is no stranger to tropical cyclones and floods, and in recent times fast rising sea levels have considerably added to the threat, putting the vital food resources of many coastal villages in particular jeopardy.

Government has made climate change issues a priority for action, and a heightened emphasis has been applied to disaster management plans to protect infrastructure and the Agriculture sector. Accordingly, the Bank has relief mechanisms in place to help customers affected by natural disasters to mitigate their losses, rebuild and recover.

### Provisions for Non-Performing Loans

The Bank follows guidelines prescribed by the RBF to manage potential risk of loss, with individual accounts assessed on an ongoing basis. Individually Assessed Allowance (IAA) identifies the Non-Performing Loans and allocates appropriate provision for them. The Bank's allowances for losses are in accordance with International Financial Reporting Standards (IFRS), BASEL III and the RBF Guidelines.

A new IFRS 9 provisioning framework will apply in the 2018 Financial Year, and the Bank will consider a review of its procedures as necessary.

### Future Focus

The Bank continues to develop solution based products and services matched to the economic environment and changing financing needs of the market.

Meanwhile, hopes and expectations are building as we get closer to our final submission for Green Climate Fund Accreditation. Success will give FDB direct access to GCF adaptation and mitigation funds to address climate change action within Fiji. This will be a major achievement for FDB in expanding its lending operation into a totally new development sphere of climate financing.

With the EEC preferential sugar price agreement reaching expiry at the end of 2017, there is much concern about the future of the Fiji sugar industry. There have been indications however, that our sugar earnings may not be adversely affected as new market opportunities arise. The industry is getting back on track as mechanical harvesters are brought into play, greatly improving efficiency and eliminating the issue of labour shortages.

Tourism and infrastructure development are both expected to grow, and the Bank is slowly gaining market share in these two sectors.

The Bank's new 2018 – 2020 Strategic Plan is close to completion in readiness for its official unveiling at the Bank's 50th Anniversary Launch function, together with a logo to mark the beginning of FDB's 50th proud year of support for Fiji, and for a customer base that contributes so significantly to continuing national economic and social advances.

# REVIEW OF TALENT AND ORGANISATIONAL DEVELOPMENT

The Bank views its employees as its prime asset and seeks to ensure staff satisfaction.

Talent and Organisational Development (TOD) plays an essential role in ensuring the Bank's future success. The Department is driven by its vision of working in partnership with others to create an environment where employees thrive, and are encouraged to continuously deliver sustainable, quality organisational performance.

Three specific longer-term strategic priorities have been established for the Department.

They are to:
- apply its human capital expertise more assertively to support the business divisions and infrastructure functions in delivering results;
- strengthen its role as a control function for the Bank for human capital risks; and
- build the capabilities of managers and staff.

## Talent (Human Resources) Management

Towards the end of the 2017 Financial Year, the Bank committed to a realignment of its structure in accordance with its *"Create a Dynamic and Empowering Team"* concept. The move is directed at achieving operational excellence throughout the organisation, ultimately translating to higher levels of customer satisfaction and improved financial performance.

The Bank views its employees as its prime asset, and seeks to ensure staff satisfaction also. A review of the Bank's labour needs, conducted by the Department to examine resource capacities and capabilities to support the realigned structure, highlighted some critical issues.

The 2017 Financial Year saw an increase in the number of staff departures. While this was partially accounted for by retirements, terminations, and in one case further education, the majority of these losses were due to staff securing better paid employment.

Together with vacancies put on hold as part of the Bank's Realignment Project, the departures contributed to a 17% vacancy rate, as well as a reduction in the staff retention rate, which fell to 85.71%, from the 94% of 2016.

| | 2014 Financial Year | 2015 Financial Year | 2016 Financial Year | 2017 Financial Year |
|---|---|---|---|---|
| Total Staff | 177 | 179 | 171 | 175 |
| Average Years of Service | 12.55 years | 14.99 years | 13.83 years | 12.03 years |
| Annual Staff Turnover | 15% | 6% | 7% | 14% |
| Vacancy Rate | 13% | 11% | 19% | 17% |
| Retention Rate | 93% | 101% | 94% | 86% |

## Talent Development (Training)

The commitment of the Talent Development Unit (TDU) to building proficiency across the network has been made very clear. During the 2017 Financial Year a dramatic increase was recorded in the numbers of staff undergoing critical banking and finance related training.

A shift of focus from the overseas training prevalent during the 2016 Financial Year, to in-house and local external alternatives, was equally evident. The new FDB engineered programmes were designed taking into account global best practice and learning outcomes from case studies.

| Training Areas | 2014 Financial Year | 2015 Financial Year | 2016 Financial Year | 2017 Financial Year |
|---|---|---|---|---|
| Banking & Finance | 68 | 77 | 8 | 106 |
| Leadership (External) | 107 | 40 | 26 | 20 |
| Overseas Programme | 16 | 9 | 23 | 3 |
| Student Sponsorship | 14 | 17 | 4 | 5 |

# CORPORATE SOCIAL RESPONSIBILITY

The Bank is proud to have received an award from the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP) for its role in creating a development impact. The presentation took place at an Outstanding Development Project Awards ceremony during the 40th ADFIAP Annual Meeting in Macao SAR, China. FDB emerged as the 2017 winner in the financial inclusion category.

### The FDB Small and Medium Enterprise Awards

- In 2004, the Bank inaugurated the FDB Small Business Awards, to encourage the growth of Micro and Small Enterprises by providing a platform for competitive recognition and national exposure. These awards accommodated entries from businesses that were fully locally owned, and had a turnover between $30,000 and $100,000 per annum.
- In 2014, now aligned to a national agenda of promoting the growth of Small and Medium Enterprises, the Bank widened the scope of the initiative and launched the FDB Small and Medium Enterprise Awards, making entry open to businesses that were fully locally owned and had turnover between $30,000 and $500,000 per annum.
- Following the devastation wreaked by Tropical Cyclone Winston in February 2016, the awards were suspended to allow Small and Medium Entrepreneurs to focus on rebuilding their businesses and properties.
- The awards are scheduled for a comeback in 2018 Financial Year, restructured to align with the Sustainable Development Goals and Climate Change Action Framework and the Bank's Strategic Plan 2018 – 2020. The new awards will champion SMEs which contribute to achieving critical global goals of inclusivity and sustainability locally.

### Financial Literacy

The Bank's two award-winning financial literacy programmes, Money $mart™ and Invest $mart™, were specifically designed with the aim of bringing financial literacy training to schools. Both were integrated into the national school curriculum following the signing of a Memorandum of Understanding between FDB and the Ministry of Education in 2006.

The two programmes have proved extremely successful in helping students develop personal money management skills, using tools that enable them to make informed financial decisions from a young age.

The Money $mart™ initiative was integrated into the Commercial Studies syllabus of 162 Fiji secondary schools at Year 9 level, in 2007. Its key elements include budgeting, opening a savings account and starting a savings plan. The programme was later expanded into a two-year programme concluding with the Fiji Junior Certificate Examination.

The second initiative, Invest $mart™, was introduced in 2011, at Year 10 level. Invest $mart™ builds on the foundations of Money $mart™ by teaching students how to identify opportunities for investing their savings. It encourages them to learn more about the financial markets and where their money can achieve the best returns. Each year, close to 30,000 students benefit from the two programmes.

With the conclusion of the original Memorandum of Understanding in 2017, the Bank embarked on a review and expansion of its Financial Literacy programme. Its relaunch as a financial inclusivity mechanism will aim to make investors of communities, women, youths, tertiary students and pensioned retirees.

# FIJI DEVELOPMENT BANK'S CLIMATE FINANCE JOURNEY

The strengthening of institutional capacity, analysing and understanding the accreditation process and the requirements relating to the GCF Fiduciary Standards, Environmental and Social Safeguards and Gender Policy have consequently been the priorities for the Bank in the past two years.

What is potentially one of the most critical developments in the Bank's history, and arguably that of Fiji, had its beginnings in 2015 when the Fijian Government nominated FDB to become a Direct National Accredited Entity to the Green Climate Fund. This is part of the Government's strategy to climate-proof infrastructure developments and boost the resilience of the economy.

The GCF is a global body set up in 2010 by the United Nations Framework Convention on Climate Change (UNFCCC), and its purpose is to support developing countries in defending their economies against impacts of climate change, through limiting or reducing their greenhouse gas emissions and other climate-resilient initiatives. Guided by the Convention's principles and provisions, it aims to deliver equal amounts of funding to mitigation and adaptation.

FDB has had to demonstrate itself capable of strong and responsible financial management in line with exemplary fiduciary GFC standards. The Bank has consequently had to submit to a prudent assessment of its existing capability in terms of processes, systems, standards and practices.

Documentary evidence is the substantive requirement, and this has taken considerable time to collate. FDB's ability to manage any environmental and social risks that may arise at the project level has been examined, together with such matters as FDB's ability to satisfy the GCF's Gender Equity and Social Inclusion (GESI) Policy. The extensive application process alone has advanced the Bank's understanding of the climate action framework immensely.

The strengthening of institutional capacity, analysing and understanding the accreditation process and the requirements relating to the GCF Fiduciary Standards, Environmental and Social Safeguards and GESI Policy have consequently been the Bank's priorities for the past two years. The Bank has reviewed its Environment Management Plan template, and looked at the mainstreaming of GESI Policy within the Bank's lending and operating manuals.

The Bank is most grateful for the assistance rendered throughout this exacting process by the United Nations Environment Programme (UNEP) through the Green Climate Fund Readiness Programme in Fiji. The latter is a partnership between UNEP, the United Nations Development Program (UNDP) and the World Resources Institute (WRI) with guidance from the Fijian Government.

Further, the guidance of a specialist consultant engaged by UNEP in drawing up a roadmap which identified gaps in our proposal, and action items that needed to be addressed before the application was submitted, has proved absolutely crucial.

With Fiji leading climate talks through its Presidency of the 23rd session of the Conference of the Parties (COP 23) in Bonn, Germany, GCF accreditation will give Fiji better access to the critical financing needed to protect the Fijian economy against catastrophes such as the Category 5 Tropical Cyclone Winston of February 2016. The resulting projects will allow us to carry the torch of global climate change adaptation to Bonn and beyond.

With Direct National Access Accreditation, the Bank will be able to blend GCF funding of up to USD10 million per project in addition to other financing instruments, to provide the best and most affordable financing package, while continuing to deliver on its primary mandate of contributing to the development of the economy's core focus areas.

A very clear path has been mapped out by the Fiji Development Bank to ensure that we are at the forefront of Climate Financing in the future.

# FINANCIAL REPORT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# FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
# DIRECTORS' REPORT
## FOR THE YEAR ENDED 30 JUNE 2017

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 2017, 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 |
| Mr. | Vadivelu Pillay | - | Deputy Chairperson |
| Mr. | Inia Rokotui Naiyaga | | |
| Mr. | Rajesh Patel | | |
| Ms. | Olivia Mavoa | | |

### 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 2017 was $8,155,268 (2016: $7,303,944). The profit for the Bank for the year was $8,154,749 (2016: $7,305,292).

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

### GOING CONCERN
The Directors consider the Group to be a going concern. The Directors believe that the basis of preparation of the financial statements is appropriate and the Group will be able to continue in operations for at least 12 months from the date of signing this report.

### 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 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 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 Group, 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 2017

### 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 or its subsidiary 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 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 subsidiary 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 23rd day of October 2017.

Director

Director

# FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY
## STATEMENT BY DIRECTORS
## FOR THE YEAR ENDED 30 JUNE 2017

In accordance with a resolution of the Board of Directors of Fiji Development Bank and its subsidiary, 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 2017;

(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 2017;

(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 2017;

(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 2017;

(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.

(vii) the financial statements of the Bank and of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and Fiji Development Bank Act (Cap 214).

Signed on behalf of the board of directors in accordance with a resolution of the directors this 23rd day of October 2017.

| | |
|---|---|
| Director | Director |

# OFFICE OF THE AUDITOR GENERAL

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**Independent Auditors' Report**

**To the Fiji Development Bank and its Subsidiary Company**

**Report on the Audit of the Financial Statements**

**Opinion**

I have audited the accompanying financial statements of Fiji Development Bank (the "Bank") and the consolidated financial statements of Fiji Development Bank and its subsidiary (the "Group"), which comprise the statements of financial position as at 30 June 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out in notes 1 to 27.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and the Bank as at 30 June 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Fiji Development Bank Act (Cap 214).

**Basis for Opinion**

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Bank in accordance with the Fiji Development Bank Act and the ethical requirements that are relevant to my audit of the financial statements and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

**Responsibilities of Management and those Charged with Governance for the Financial Statements**

Management is responsible for the preparation of Consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group and Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group and Bank's financial reporting process.

**Independent Auditor's Report (Continued)**

**Auditors' Responsibilities for the Audit of the Financial Statements**

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Bank or Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank and Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditors' report. However, future events or conditions may cause the Bank or the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the Group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

**Independent Auditors' Report (continued)**

**Report on Other Legal and Regulatory Requirements**

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.

In my opinion:

i) proper books of account have been kept by Fiji Development Bank and its Subsidiary Company, sufficient to enable financial statements to be prepared, so far as it appears from my examination of those books; and

ii) to the best of my knowledge and according to the information and explanations given to me the financial statements give the information required by the Fiji Development Act (Cap 214), in the manner so required.

Ajay Nand
**AUDITOR GENERAL**

Suva, Fiji
27 October, 2017

# FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
## STATEMENTS OF FINANCIAL POSITION
## FOR THE YEAR ENDED 30 JUNE 2017

| | Notes | CONSOLIDATED | | THE BANK | |
|---|---|---|---|---|---|
| | | 2017 | 2016 | 2017 | 2016 |
| | | $ | $ | $ | $ |
| **Assets** | | | | | |
| Cash and cash equivalents | 7 | 24,566,853 | 56,566,428 | 24,549,882 | 56,549,281 |
| Investments held to maturity | 8 | 2,032,397 | 2,030,650 | 2,000,000 | 2,000,000 |
| Loans and advances | 9 | 354,820,471 | 294,844,851 | 354,820,471 | 294,844,851 |
| Receivable due from subsidiary | 10 | - | - | 404,820 | 404,820 |
| Other receivables | 11 | 2,806,063 | 3,440,924 | 2,431,512 | 3,065,409 |
| Investment in subsidiary | 12 | - | - | 20,000 | 20,000 |
| Investments | 13 | 15,001 | 15,001 | 15,001 | 15,001 |
| Property and equipment | 15 | 17,637,904 | 17,795,839 | 17,637,904 | 17,795,839 |
| Computer Software -Intangibles | 16 | 180,567 | 211,438 | 180,567 | 211,438 |
| **TOTAL ASSETS** | | 402,059,256 | 374,905,131 | 402,060,157 | 374,906,639 |
| **Liabilities** | | | | | |
| Accounts payable and accruals | 18 | 6,077,304 | 3,037,338 | 6,072,217 | 3,032,339 |
| Debt securities issued | 19 | 237,177,512 | 220,918,643 | 237,177,512 | 220,918,643 |
| Other liabilities | 20 | 4,492,860 | 4,656,379 | 4,492,860 | 4,656,379 |
| Employee entitlements | 21 | 1,031,309 | 1,471,177 | 1,031,309 | 1,471,177 |
| Deferred income | | 2,718,512 | 2,415,103 | 2,718,512 | 2,415,103 |
| **TOTAL LIABILITIES** | | 251,497,497 | 232,498,640 | 251,492,410 | 232,493,641 |
| **Equity** | | | | | |
| Capital | 22 | 56,050,636 | 56,050,636 | 56,050,636 | 56,050,636 |
| Reserves | | 15,048,508 | 15,048,508 | 15,048,508 | 15,048,508 |
| Accumulated profits | | 79,462,615 | 71,307,347 | 79,468,603 | 71,313,854 |
| **TOTAL CAPITAL AND RESERVES** | | 150,561,759 | 142,406,491 | 150,567,747 | 142,412,998 |
| **TOTAL LIABILITIES AND EQUITY** | | 402,059,256 | 374,905,131 | 402,060,157 | 374,906,639 |

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 2017

| | Notes | CONSOLIDATED | | THE BANK | |
|---|---|---|---|---|---|
| | | 2017 $ | 2016 $ | 2017 $ | 2016 $ |
| **INCOME** | | | | | |
| Interest income | 3 | 25,369,427 | 23,854,646 | 25,369,427 | 23,854,646 |
| Interest expense | | (7,411,560) | (6,525,024) | (7,411,560) | (6,525,024) |
| **Net interest income** | | 17,957,867 | 17,329,622 | 17,957,867 | 17,329,622 |
| Fee income | 4 | 3,801,367 | 3,576,481 | 3,801,367 | 3,576,481 |
| Other income | 5 | 2,763,885 | 7,267,062 | 2,762,644 | 7,266,238 |
| **OPERATING INCOME** | | 24,523,119 | 28,173,165 | 24,521,878 | 28,172,341 |
| **OPERATING EXPENSES** | 6 | (12,364,041) | (12,291,253) | (12,363,319) | (12,289,081) |
| **OPERATING PROFIT BEFORE ALLOWANCES** | | 12,159,078 | 15,881,912 | 12,158,559 | 15,883,260 |
| Allowance for credit impairment | 9 | (1,772,938) | (6,929,397) | (1,772,938) | (6,929,397) |
| Allowance for Interest & Fees | | (2,230,872) | (1,648,571) | (2,230,872) | (1,648,571) |
| **PROFIT BEFORE TAX** | | 8,155,268 | 7,303,944 | 8,154,749 | 7,305,292 |
| Tax expense | 1(q) | - | - | - | - |
| **PROFIT FOR THE YEAR** | | 8,155,268 | 7,303,944 | 8,154,749 | 7,305,292 |
| **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** | | 8,155,268 | 9,817,161 | 8,154,749 | 9,818,509 |

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 CHANGES IN EQUITY
## FOR THE YEAR ENDED 30 JUNE 2017

**CONSOLIDATED**

| | Notes | Capital | General reserve | Revaluation reserve | Accumulate profits | Total |
|---|---|---|---|---|---|---|
| | | $ | $ | $ | $ | $ |
| Balance at 30 June 2015 | 22 | 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 |
| Total other comprehensive income | | - | - | - | - | - |
| Net profit for the 2017 year | | - | - | | 8,155,268 | 8,155,268 |
| **Balance at 30 June 2017** | | 56,050,636 | 8,064,000 | 6,984,508 | 79,462,615 | 150,561,759 |

**THE BANK**

| | | Capital | General reserve | Revaluation reserve | Accumulate profits | Total |
|---|---|---|---|---|---|---|
| | | $ | $ | $ | $ | $ |
| Balance at 30 June 2015 | 22 | 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, 2017 | | 56,050,636 | 8,064,000 | 6,984,508 | 71,313,854 | 142,412,998 |
| Total other comprehensive income | | - | - | - | - | - |
| Net profit for the 2017 year | | - | - | - | 8,154,749 | 8,154,749 |
| **Balance at 30 June 2017** | | 56,050,636 | 8,064,000 | 6,984,508 | 79,468,603 | 150,567,747 |

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
## STATEMENTS OF CASH FLOWS
## FOR THE YEAR ENDED 30 JUNE 2017

| | Notes | CONSOLIDATED 2017 $ Inflows (Outflows) | CONSOLIDATED 2016 $ Inflows (Outflows) | THE BANK 2017 $ Inflows (Outflows) | THE BANK 2016 $ Inflows (Outflows) |
|---|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | | |
| Interest and subsidy received | | 26,146,053 | 23,233,005 | 26,144,305 | 23,233,129 |
| Interest and other costs of borrowing paid | | (7,183,123) | (6,367,833) | (7,183,123) | (6,367,833) |
| Net increase/(decrease) in loans & advances | | (62,615,253) | (5,751,127) | (62,615,253) | (5,751,127) |
| Fees received | | 4,104,776 | 3,977,097 | 4,104,776 | 3,977,097 |
| Cash paid to suppliers and employees | | (12,330,824) | (11,513,090) | (12,328,900) | (11,513,090) |
| Other receipts | | 2,752,645 | 1,183,180 | 2,752,645 | 1,183,180 |
| Net increase in Small & Micro Grant | | 2,598,498 | - | 2,598,498 | - |
| **Net cash (used in)/provided by operating activities** | | (46,527,228) | 4,761,232 | (46,527,052) | 4,761,356 |
| **INVESTING ACTIVITIES** | | | | | |
| Proceeds from the sale of property, plant and equipment | | 11,814 | - | 11,814 | - |
| Payments for property, plant and equipment | | (1,530,146) | (867,670) | (1,530,146) | (867,670) |
| **Net cash used in investing activities** | | (1,518,332) | (867,670) | (1,518,332) | (867,670) |
| **FINANCING ACTIVITIES** | | | | | |
| Net increase in long-term borrowings | | 12,284,705 | 14,986,773 | 12,284,705 | 14,986,773 |
| Net increase in short-term borrowings | | 3,761,280 | (11,910,576) | 3,761,280 | (11,910,576) |
| **Net cash (used in) / provided by financing activities** | | 16,045,985 | 3,076,197 | 16,045,985 | 3,076,197 |
| Net (decrease)/increase in cash and cash equivalent | | (31,999,575) | 6,969,759 | (31,999,399) | 6,969,883 |
| Cash and cash equivalents at the beginning of the financial year | | 56,566,428 | 49,596,669 | 56,549,281 | 49,579,398 |
| **Cash and cash equivalents at the end of the financial year** | 7 | 24,566,853 | 56,566,428 | 24,549,882 | 56,549,281 |

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
# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2017

## 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Fiji Development Bank (FDB) 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 2017 comprise the Bank and its subsidiary company ("the Group"). The Group 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 23rd October 2017.

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 Fiji Development Bank 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:

**Standard:** IFRS 9 Financial Instruments

**Summary of the requirements:** This standard on classification and measurement of financial assets and financial liabilities will replace IAS 39, 'Financial instruments: Recognition and measurement'. IFRS 9 has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. For liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. This change will mainly affect financial institutions. The Bank is in the process of assessing the impact of this standard.

**Effective Date**: Annual periods beginning on or after 1 January 2018

**Standard:** IFRS 15 Revenue from Contracts

**Summary of the requirements:** IFRS 15 was issued in 2014 by IASB and contains new requirements for the recognition of revenue and additional disclosures about revenue.

**Effective Date**: Annual periods beginning on or after 1 January 2018

**Standard:** IFRS 16 Leases

**Summary of the requirements:** IFRS 16 removes the classification of leases as either operating leases or finance leases – for the lessee – effectively treating all leases as finance leases. Short term leases (less than 12 months) and leases of low-value assets are exempt from the lease accounting requirements. There are also changes in accounting over the life of the lease. In particular, companies will now recognize a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. Lessor accounting remains similar to current practice i.e. lessor continue to classify leases as finance and operating lease

**Effective Date**: Annual periods beginning on or after 1 January 2019

### (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.

# FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
## FOR THE YEAR ENDED 30 JUNE 2017

### 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (d) Use of estimates and judgements (Continued)

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(k) and Note 9 – Allowance for credit impairment
- Note 1(h) – 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 entity 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.

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 benefit will flow to the Group 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 realization.

**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 profit or loss over the term of the loan. Lending fees not directly related to the origination of a loan are recognised as and when the service has been renewed.

**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 and also impaired as doubtful debts to profit or loss.

#### (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 using effective interest method. 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 via other comprehensive income. Revaluation decrements are debited directly to equity via other comprehensive income 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.

# FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
## FOR THE YEAR ENDED 30 JUNE 2017

### 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (h) Property and equipment (Continued)

#### 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 amortized 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 |

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 profit or loss.

### (i) Intangible assets

The Bank recognises internally generated Banking Software (Bank Management System) and any other externally purchased software as intangible assets. Due to the finite life of the software, it is amortised on a 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 have been suspended and are recognized in profit or loss 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 or restructured.

### (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.

# FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
## FOR THE YEAR ENDED 30 JUNE 2017

## 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

#### 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 groups of financial assets with similar credit risk characteristics for those that are not individually significant. 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.

#### 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 Group has purchased with positive intent and ability to hold until maturity. These securities are initially recorded at fair value and subsequently adjusted for amortization 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 recognized using the effective interest method. Borrowing costs are recognized 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.

# FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
## FOR THE YEAR ENDED 30 JUNE 2017

## 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (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 Group.

### (r) Employee entitlements

#### Annual leave

The accrual for annual leave represents the amount which the Group 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 permanent 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 2017 was 176 (2016: 172).

### (s) Contingent liabilities and credit commitments

The Group is involved in a range of transactions that give rise to contingent and / or future liabilities. The Group 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 Group'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 Group 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 2017

### 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 Group has access at that date.

When available, the Group 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 Group 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 Group 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 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 abilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

| 2017 | Carrying amount | | | Fair value | | | |
|---|---|---|---|---|---|---|---|
| | Held to maturity | Other Financial | Total | Level 1 | Level 2 | Level 3 | Total |
| | $ | $ | $ | $ | $ | $ | $ |
| **Assets** | | | | | | | |
| Investments held to maturity | 2,000,000 | - | 2,000,000 | - | 2,677,012 | - | 2,677,012 |
| | 2,000,000 | - | 2,000,000 | - | 2,677,012 | - | 2,677,012 |
| **Liabilities** | | | | | | | |
| Bonds | - | 147,200,000 | 147,200,000 | - | 147,478,616 | - | 147,478,616 |
| Promissory notes | - | 36,600,000 | 36,600,000 | - | 35,960,177 | - | 35,960,177 |
| | | 183,800,000 | 183,800,000 | - | 183,438,792 | - | 183,438,793 |
| **2016** | | | | | | | |
| **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 2017

| | CONSOLIDATED | | THE BANK | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | $ | $ | $ | $ |
| **3 INTEREST INCOME** | | | | |
| Included in interest income are interest subsidies received / receivable from the Government for: | | | | |
| - Agricultural loans | 2,310,259 | 1,834,823 | 2,310,259 | 1,834,823 |
| - Commercial Loans to Fijians scheme | 129,098 | 174,671 | 129,098 | 174,671 |
| - Economic Rehabilitation Package Scheme | 1,159 | 1,038 | 1,159 | 1,038 |
| - Small Business Scheme | 850,718 | 738,465 | 850,718 | 738,465 |
| - Northern Rehabilitation Package | 102,184 | 121,938 | 102,184 | 121,938 |
| | 3,393,418 | 2,870,935 | 3,393,418 | 2,870,935 |
| **4 FEE INCOME** | | | | |
| Application fees | 183,080 | 150,555 | 183,080 | 150,555 |
| Establishment fees | 508,738 | 407,505 | 508,738 | 407,505 |
| Commitment fees | 488,314 | 346,691 | 488,314 | 346,691 |
| Bank Service fees | 1,677,343 | 1,684,913 | 1,677,343 | 1,684,913 |
| Arrears fees | 141,800 | 117,857 | 141,800 | 117,857 |
| Legal fees | 801,412 | 868,340 | 801,412 | 868,340 |
| Other fee income | 680 | 620 | 680 | 620 |
| | 3,801,367 | 3,576,481 | 3,801,367 | 3,576,481 |
| **5 OTHER INCOME** | | | | |
| The following items are included in other income: | | | | |
| Gain on sale of property, plant and equipment | 10,000 | 55,000 | 10,000 | 55,000 |
| Bad debts recovered | 822,581 | 5,548,291 | 822,581 | 5,548,291 |
| Insurance commission | 118,330 | 117,009 | 118,330 | 117,009 |
| Rental income | 744,877 | 888,079 | 744,877 | 888,079 |
| Other Income | 1,068,097 | 658,683 | 1,066,856 | 657,859 |
| | 2,763,885 | 7,267,062 | 2,762,644 | 7,266,238 |
| **6 OPERATING EXPENSES** | | | | |
| Items included in administrative expenses: | | | | |
| Amortisation of bond discounts | 89 | 115 | 89 | 115 |
| Auditors' remuneration | 39,996 | 39,996 | 39,996 | 39,996 |
| Directors' fees | 135,460 | 83,973 | 135,460 | 83,973 |
| Depreciation and amortisation | 1,001,964 | 963,501 | 1,001,964 | 963,501 |
| Employee costs | 7,908,557 | 7,961,332 | 7,908,557 | 7,961,332 |
| Other Expenses | 3,277,975 | 3,242,336 | 3,277,253 | 3,240,164 |
| | 12,364,041 | 12,291,253 | 12,363,319 | 12,289,081 |

# FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
## FOR THE YEAR ENDED 30 JUNE 2017

## 7 CASH & CASH EQUIVALENTS

| | CONSOLIDATED | | THE BANK | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | $ | $ | $ | $ |
| Petty cash | 1,980 | 1,900 | 1,980 | 1,900 |
| Overdraft facility | 15,000 | 15,000 | 15,000 | 15,000 |
| Western Union facility | 12,000 | 12,000 | 12,000 | 12,000 |
| Deposit accounts -Branches | 18,813,714 | 11,517,534 | 18,796,743 | 11,500,387 |
| Bank of South Pacific- Call account | 172,662 | 220,593 | 172,662 | 220,593 |
| Bank of Baroda- Head Office | 3,840,403 | 29,736,202 | 3,840,403 | 29,736,202 |
| HFC Bank - Head office | 1,504,229 | 15,063,199 | 1,504,229 | 15,063,199 |
| Westpac Bank- Head office | 206,865 | - | 206,865 | - |
| | 24,566,853 | 56,566,428 | 24,549,882 | 56,549,281 |

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 its clients and the accounts earn interest at floating rates based on daily rates. A new cheque account was opened with Westpac Banking Corporation for the Bank's daily transactions with its clients.

### Restricted Funds

The cash at bank includes money received from the Government to be distributed to small and micro enterprises as grant. As at 30 June 2017, $2,598,499 (2015: $nil) were yet to be disbursed and thus payable to Government. These funds are payable at call and since it is only provided by the Government to be distributed by way of grant to small and micro enterprises meeting certain criterions it cannot be used for any other activity.

## 8 INVESTMENTS HELD TO MATURITY

| | CONSOLIDATED | | THE BANK | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | $ | $ | $ | $ |
| Investment In bonds | 2,032,397 | 2,030,650 | 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 two term deposit aggregating to $32,397 (2016: $30,650) held by FDB Nominees Limited in Home Finance Corporation at 4.00% and 4.75% 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 2017

### 9 LOANS AND ADVANCES

| | CONSOLIDATED | | THE BANK | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | $ | $ | $ | $ |
| **Loans and advances** | 438,105,461 | 375,521,302 | 438,105,461 | 375,521,302 |
| **Allowance for Interest and fees suspended** | (17,227,702) | (15,939,012) | (17,227,702) | (15,939,012) |
| | 420,877,759 | 359,582,290 | 420,877,759 | 359,582,290 |
| Allowance for credit impairment | (66,057,288) | (64,737,439) | (66,057,288) | (64,737,439) |
| **Net loans and advances** | 354,820,471 | 294,844,851 | 354,820,471 | 294,844,851 |

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

| | CONSOLIDATED 2017 $ | CONSOLIDATED 2016 $ | THE BANK 2017 $ | THE BANK 2016 $ |
|---|---|---|---|---|
| The bank's split for gross loans and advances to customers is as follows: | | | | |
| Current | 35,643,505 | 34,782,176 | 35,643,505 | 34,782,176 |
| Non-current | 402,461,956 | 340,739,126 | 402,461,956 | 340,739,126 |
| **Total** | 438,105,461 | 375,521,302 | 438,105,461 | 375,521,302 |
| **Allowance for credit impairment is represented as follows:** | | | | |
| **Individually assessed allowance** | | | | |
| Balance at the beginning of the year | 57,790,714 | 52,735,790 | 57,790,714 | 52,735,790 |
| Charge to the profit or loss | 487,673 | 6,596,365 | 487,673 | 6,596,365 |
| Transfer from collective provision | - | 55,263 | - | 55,263 |
| | 58,278,387 | 59,387,418 | 58,278,387 | 59,387,418 |
| Bad debts written off against allowance for credit impairment | (453,089) | (1,596,704) | (453,089) | (1,596,704) |
| Balance at the end of the year | 57,825,298 | 57,790,714 | 57,825,298 | 57,790,714 |
| **Collectively assessed allowance** | | | | |
| Balance at the beginning of the year | 6,946,725 | 6,668,956 | 6,946,725 | 6,668,956 |
| Charge to the profit or loss | 1,285,265 | 333,032 | 1,285,265 | 333,032 |
| Transfer from collective provision | - | (55,263) | - | (55,263) |
| | 8,231,990 | 6,946,725 | 8,231,990 | 6,946,725 |
| **Total allowance for credit impairment** | 66,057,288 | 64,737,439 | 66,057,288 | 64,737,439 |

## FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
## FOR THE YEAR ENDED 30 JUNE 2017

| | CONSOLIDATED | | THE BANK | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| **10 RECEIVABLE FROM SUBSIDIARY** | $ | $ | $ | $ |
| FDB Nominees Limited | - | - | 404,820 | 404,820 |

### 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 | 619,918 | 2,115,371 | 619,918 | 2,115,371 |
| Other | 2,186,145 | 1,325,553 | 1,811,594 | 950,038 |
| | 2,806,063 | 3,440,924 | 2,431,512 | 3,065,409 |
| 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 Impairment at the beginning of the year | 5,499,216 | 5,499,216 | 5,499,216 | 5,499,216 |

### 12 INVESTMENT IN SUBSIDIARY

| | 2017 | 2016 | 2017 | 2016 |
|---|---|---|---|---|
| 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 | 3,334,291 | 3,334,291 | 3,334,291 |
| Impairment | (3,319,290) | (3,319,290) | (3,319,290) | (3,319,290) |
| | 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 2017

## 14 LAND HELD FOR RESALE

| | CONSOLIDATED | | THE BANK | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **$** | $ | **$** | $ |
| **Nasarawaqa Estate** | | | | |
| Cost at beginning of the year | 99,426 | 99,426 | 99,426 | 99,426 |
| Impairment at the beginning of the year | (94,531) | (94,531) | (94,531) | (94,531) |
| Impairment expense during the year | - | - | - | - |
| Impairment at the end of the year | 4,895 | 4,895 | 4,895 | 4,895 |
| Contributions to project | (4,895) | (4,895) | (4,895) | (4,895) |
| | - | - | - | - |

## 15 PROPERTY, PLANT AND EQUIPMENT

CONSOLIDATED AND THE BANK

| | Land and Buildings $ | Plant and Equipment $ | Fixtures and Fittings $ | Work in Progress $ | Total $ |
|---|---|---|---|---|---|
| **Cost or valuation** | | | | | |
| 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) |
| Impairments | (494,782) | - | - | - | (494,782) |
| Balance at 1 July 2016 | **15,140,912** | **6,780,948** | **119,975** | **217,905** | **22,259,740** |
| Acquisitions during the year | - | 114,784 | 1,885 | 1,392,112 | 1,508,782 |
| Disposals | | (413,100) | - | | (413,100) |
| Transfer in /(out) | 594,164 | 273,125 | - | (867,289) | - |
| Disposals | (700,000) | (355,051) | - | - | (1,055,051) |
| Balance at 30 June 2017 | **15,035,076** | **6,813,806** | **121,860** | **742,728** | **22,713,471** |
| **Accumulated Depreciation** | | | | | |
| Balance at 1 July 2015 | | | | | |
| Depreciation charge for the year | 172,438 | 743,133 | 5,679 | - | 921,250 |
| Revaluation | (615,197) | - | - | - | (615,197) |
| Disposal | - | (388,658) | (12,043) | - | (400,701) |
| Balance at 1 July 2016 | **87,794** | **4,262,972** | **113,135** | **-** | **4,463,901** |
| Depreciation charge for the year | 188,536 | 758,397 | 2,795 | - | 949,729 |
| Disposals | - | (338,063) | - | - | (338,063) |
| Balance at 30 June 2017 | **276,330** | **4,683,306** | **115,930** | **-** | **5,075,567** |
| **Carrying amount** | | | | | |
| Balance at 1 July 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 |
| Balance at 30 June 2017 | **14,758,746** | **2,130,500** | **5,930** | **742,728** | **17,637,904** |

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 2016. The Bank's Nadi property lease which expired on 30th June 2016 will not be renewed. The Bank has recognised the disposal of Nadi property premises at the Landowner's valuation offered amount of $700,000.00.

# FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
## FOR THE YEAR ENDED 30 JUNE 2017

| | CONSOLIDATED | | THE BANK | |
|---|---|---|---|---|
| **16 COMPUTER SOFTWARE - INTANGIBLES** | 2017 | 2016 | 2017 | 2016 |
| | $ | $ | $ | $ |
| Balance at the end of the year | 341,573 | 133,833 | 341,573 | 133,833 |
| Acqusitions during the year | - | 197,058 | - | 197,058 |
| Work in Progress | 21,364 | 10,682 | 21,364 | 10,682 |
| Balance at the end of the year | 362,937 | 341,573 | 362,937 | 341,573 |
| **Accumulated Amortisation** | | | | |
| Balance at the end of the year | 130,135 | 87,884 | 130,135 | 87,884 |
| Amortisation charge for the year | 52,235 | 42,251 | 52,235 | 42,251 |
| Balance at the end of the year | 182,370 | 130,135 | 182,370 | 130,135 |
| **Carrying amount** | | | | |
| Balance at the beginning of the year | 211,438 | 45,949 | 211,438 | 45,949 |
| Balance at the end of the year | 180,567 | 211,438 | 180,567 | 211,438 |

## 17 OPERATING LEASE

**Leases as Lessee**

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

| | | | | |
|---|---|---|---|---|
| Not Later than one year | 47,614 | 52,007 | 47,614 | 52,007 |
| Between one and five years | 190,455 | 208,027 | 190,455 | 208,027 |
| More than 5 years | 2,050,606 | 2,076,265 | 2,050,606 | 2,076,265 |
| | 2,288,675 | 2,336,299 | 2,288,675 | 2,336,299 |

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

| | | | | |
|---|---|---|---|---|
| **18 ACCOUNTS PAYABLE AND ACCRUALS** | | | | |
| Interest accruals | 1,130,064 | 901,627 | 1,130,064 | 901,627 |
| Others | 4,947,240 | 2,135,711 | 4,942,153 | 2,130,712 |
| | 6,077,304 | 3,037,338 | 6,072,217 | 3,032,339 |
| **19 DEBT SECURITIES ISSUED** | | | | |
| **Short term borrowings** | | | | |
| Term deposits | 6,450,000 | 5,434,000 | 6,450,000 | 5,434,000 |
| Promissory Notes | 36,600,000 | 37,500,000 | 36,600,000 | 37,500,000 |
| RBF Export Facility | 7,437,013 | 2,755,424 | 7,437,013 | 2,755,424 |
| FDB Registered bonds - face value | 43,700,000 | 36,000,000 | 43,700,000 | 36,000,000 |
| Short term borrowings | 94,187,013 | 81,689,424 | 94,187,013 | 81,689,424 |
| **Non-current - Bonds** | | | | |
| Term deposits | 200,000 | - | 200,000 | - |
| RBF Export Facility | 39,270,967 | 36,005,404 | 39,270,967 | 36,005,404 |
| FDB Registered bonds - face value | 103,500,000 | 103,200,000 | 103,500,000 | 103,200,000 |
| Unamortised discount | 19,532 | 23,815 | 19,532 | 23,815 |
| Long term borrowings | 142,990,499 | 139,229,219 | 142,990,499 | 139,229,219 |
| **Total borrowings** | 237,177,512 | 220,918,643 | 237,177,512 | 220,918,643 |

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 2.85% to 4.40%, in (2016: 1.70% to 4.00%). The borrowings under RBF Export Facility have 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 2017

## 20 OTHER LIABILITIES

| | CONSOLIDATED | | THE BANK | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | $ | $ | $ | $ |
| **Current** | | | | |
| Seed Capital Fund | 2,416,135 | 2,471,498 | 2,416,135 | 2,471,498 |
| Staff Savings account | 1,239,379 | 1,124,763 | 1,239,379 | 1,124,763 |
| Export Facility | 727,228 | 950,000 | 727,228 | 950,000 |
| Farmers Assistance Scheme | 110,118 | 110,118 | 110,118 | 110,118 |
| | 4,492,860 | 4,656,379 | 4,492,860 | 4,656,379 |

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 | 1,471,177 | 1,810,117 | 1,471,177 | 1,810,117 |
| Utilised during the year | (849,437) | (774,734) | (849,437) | (774,734) |
| Arising during the year | 409,569 | 435,794 | 409,569 | 435,794 |
| At 30 June | 1,031,309 | 1,471,177 | 1,031,309 | 1,471,177 |

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

| The split for employee entitlement's is as follows: | | | | |
|---|---|---|---|---|
| Current | 494,520 | 512,981 | 494,520 | 512,981 |
| Non-current | 536,789 | 958,196 | 536,789 | 958,196 |
| **Total** | 1,031,309 | 1,471,177 | 1,031,309 | 1,471,177 |

## 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

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| (a) Commitments | | |
| (i) Loans approved but not disbursed | 72,577,376 | 98,585,439 |
| (b) Capital Commitments | | |
| (i) Work In Progress | 137,613 | 320,188 |
| (c) Contingent liabilities | | |
| (i) Guarantees | 1,821,190 | 2,079,521 |
| (ii) Litigation | - | - |

# FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
## FOR THE YEAR ENDED 30 JUNE 2017

### 23 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

The Bank has claims against it by various individuals and organisations for unspecified losses or damages relating to actions taken by the Bank in the normal course of operations. The directors of the Bank are assessing the merits of certain claims, or are defending certain claims rigorously and are of the opinion that it is not probable that these claims will be successful. Accordingly, no provisions have been included in the financial statements in respect of these matters.

### 24 RELATED PARTY TRANSACTIONS

Directors

The following were directors of the Bank during the financial year ended 30 June 2017 and up to the date of this report:

Current directors

| | | |
|---|---|---|
| Mr. | Robert G. Lyon | Chairperson |
| Mr. | Vadivelu Pillay a.k.a Wella Pillay | Deputy chairperson |
| Mr. | Rajesh Patel | |
| Mr. | Inia Rokotui Naiyaga | |
| Ms. | Olivia Mavoa | |

| | CONSOLIDATED | | THE BANK | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **$** | $ | **$** | $ |
| Directors' Expenses | 135,460 | 83,973 | 135,460 | 83,973 |

Other related party transactions

Loans amounting to $3,118,947 (2016: $3,898,481) were advanced to a Company where a Director has a related party interest and are included in "Loans and Advances" (refer note 9). 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 – Retired on 31/03/2017 |
| Tevita Madigibuli | General Manager Relationship & Sales |
| Saiyad Hussain | General Manager Finance and Administration |
| Nafitalai Cakacaka | General Manager Business Risk Services |

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

| | CONSOLIDATED | | THE BANK | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | **$** | $ | **$** | $ |
| Short-term benefits | 814,080 | 824,979 | 814,080 | 824,979 |

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 $213,834 (2016: $339,268) to executives are included in "Loans and Advances" (refer note 9). The loans were provided at arm's length transaction.

# FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
## FOR THE YEAR ENDED 30 JUNE 2017

## 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 in respect of each 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 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 were 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 its 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 | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Agriculture | 86,155,450 | 72,746,312 |
| Building and construction | 54,600,299 | 54,809,429 |
| Manufacturing | 28,422,252 | 20,935,888 |
| Mining and quarrying | 847,274 | 557,715 |
| Private individuals | 18,852,721 | 20,903,175 |
| Professional and business services | 3,361,776 | 2,275,335 |
| Real estate | 60,576,977 | 70,397,894 |
| Transport, communication and storage | 36,640,070 | 31,897,898 |
| Wholesale, retail, hotels and restaurants | 108,128,686 | 57,466,808 |
| Others | 40,519,956 | 43,530,848 |
| **Total gross loans and advances** | 438,105,461 | 375,521,302 |

# FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
## FOR THE YEAR ENDED 30 JUNE 2017

### 25 RISK MANAGEMENT POLICY (continued)

| | THE BANK 2017 $ | 2016 $ |
|---|---|---|
| **Impaired and Past-Due Assets** | | |
| Non-accrual loans | | |
| Gross | 78,284,029 | 62,945,370 |
| Less: Interest and Fees suspended | (17,166,803) | (15,896,144) |
| | 61,117,226 | 47,049,226 |
| Less: individual assessed allowance | (57,767,960) | (57,747,512) |
| Net non-accrual loans without individual assessed allowance | 3,349,266 | (10,698,286) |
| **Restructured loans without individual assessed allowance** | | |
| Gross | 144,537 | - |
| Less: Interest and Fees suspended | (4,452) | - |
| Net restructured loans without individual assessed allowance | 140,085 | - |
| **Restructured loans with individual assessed allowance** | | |
| Gross | 25,154 | 106,387 |
| Less: Interest and Fees suspended | (19,968) | (28,597) |
| | 5,186 | 77,790 |
| Less: individual assessed allowance | (5,785) | (43,202) |
| Net restructured loans with individual assessed allowance | (599) | 34,588 |
| **Other impaired loans** | | |
| Gross | 351,193 | 394,705 |
| Less: Interest and Fees suspended | (899) | - |
| | 350,294 | 394,705 |
| Less: individual assessed allowance | (51,553) | - |
| Net other classified loans | 298,741 | 394,705 |
| Total impaired and past-due loans | 3,787,493 | (10,268,993) |
| **Past-due loans** | | |
| Gross | 9,444,602 | 18,832,288 |
| Less: Interest and Fees suspended | (24,774) | (2,502) |
| Total past-due loans | 9,419,828 | 18,829,786 |

Ageing analysis of financial assets that are past due but not impaired or restructured

| 2017 | | 1-3 months | 3-6 months | 6-9 months | 9-12 months | More than 1 year |
|---|---|---|---|---|---|---|
| Loans & Advance | ($) | 6,300,742 | 3,008,254 | 115,963 | 8,620 | 11,023 |
| **2016** | | **1-3 months** | **3-6 months** | **6-9 months** | **9-12 months** | **More than 1 year** |
| Loans & Advance | ($) | 17,243,250 | 967,558 | 168,488 | 2,722 | 450,270 |

# FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
## FOR THE YEAR ENDED 30 JUNE 2017

### 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 and;
- 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 interest rates during the time of borrowing are fixed. 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 2017

### 25 RISK MANAGEMENT POLICY (continued)
Liquidity Risk Management (continued)

**Maturity Analysis**

The following analysis of financial liabilities is based on remaining contractual terms to maturity.

2017

| | 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 | 932 | - | - | 3,178 |
| Loans and advances | 6,182 | 10,220 | 113,231 | 219,520 | 88,952 | (34,517) | 403,588 |
| Total | 8,812 | 10,281 | 113,416 | 220,452 | 88,952 | (34,517) | 406,766 |
| *Liabilities* | | | | | | | |
| Other Liabilities | 8,242 | - | - | - | - | - | 8,242 |
| Accounts Payables | 6,072 | - | - | - | - | - | 6,072 |
| Borrowings | - | 27,886 | 66,302 | 142,971 | 19 | - | 237,178 |
| Total | 14,314 | 27,886 | 66,302 | 142,971 | 19 | - | 251,492 |

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 | | | | | | | |
| 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 |

# FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
## FOR THE YEAR ENDED 30 JUNE 2017

### 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 value at risk is used to determine the relative depletion of asset value at existing conditions. Forecast value at risk is then computed based 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 2017 | Increase in Lending Rate (+2.50%) | Decrease in Lending Rate (-2.50%) |
|---|---|---|---|
| Weighted Average Lending Rate (%) | 5.64 | 8.14 | 3.14 |
| Interest Income ($) | 25,369,427 | 10,952,637 | (10,952,637) |
| Impact on profit or loss ($) | 8,154,749 | 10,952,637 | (10,952,637) |

# FIJI DEVELOPMENT BANK AND ITS SUBSIDIARY COMPANY
# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)
## FOR THE YEAR ENDED 30 JUNE 2017

### 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.

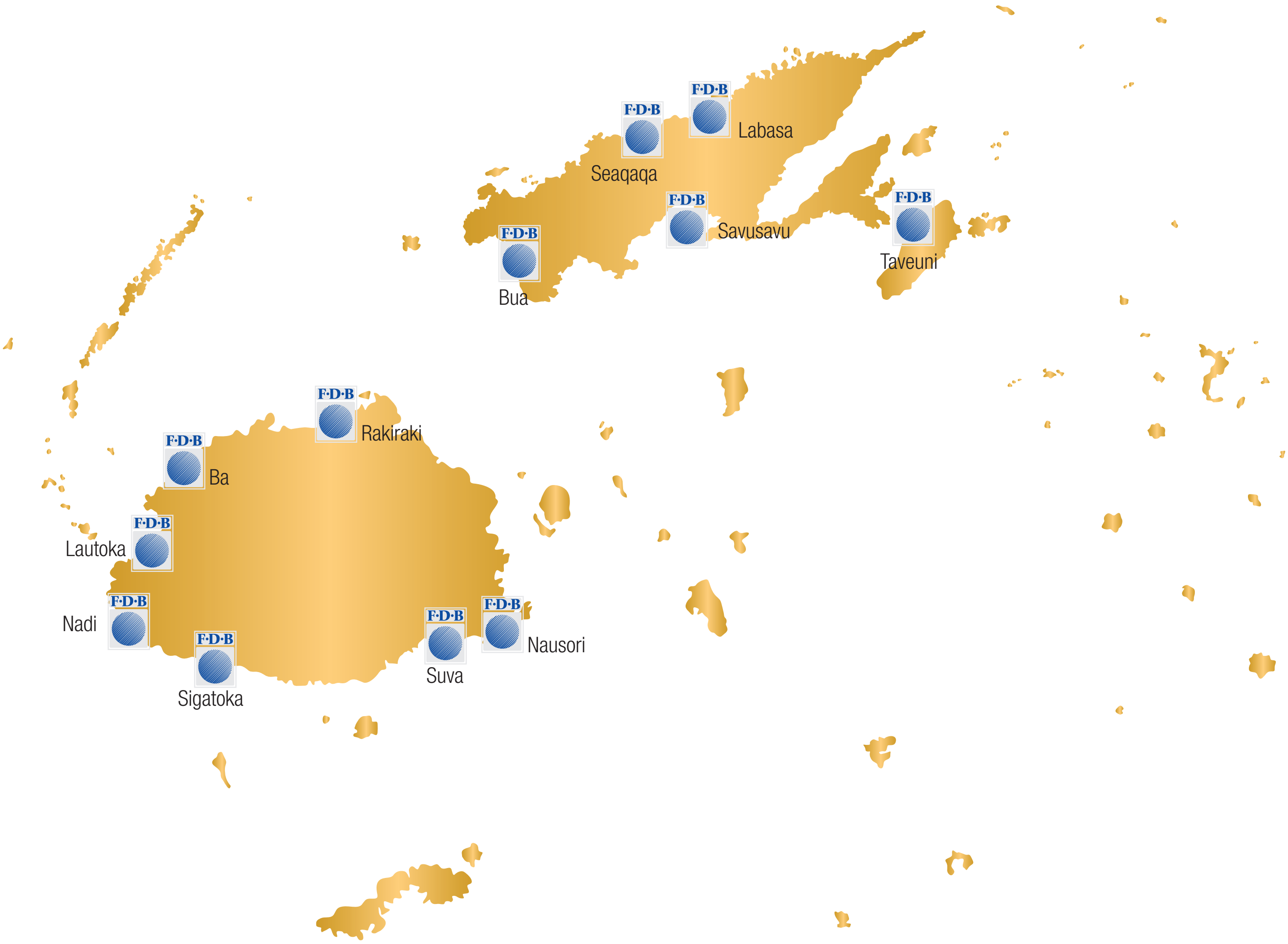
Most operational risks are best managed within the departments in which they arise. However, overall planning, coordination, and monitoring should be provided by a centralized operational risk management department. This should closely coordinate with market risk and credit risk management departments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

### 26 COMPARATIVES

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

### 27 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.

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