<u>PUBLIC ACCOUNTS COMMITTEE SUBMISSION</u>
<u>FIJI DEVELOPMENT BANK 2015 AUDIT REPORT</u>

1.0 <u>Fiji Development Bank</u>

1.1 Allocation of Provision on Loan Accounts

The Bank currently follows the Reserve Bank of Fiji's *"Banking Supervision Policy Statement No. 3; Guidelines for Loan Classification and Provisioning for Impaired Assets"*. The objective of this policy is to set a minimum guideline relating to loan classification, provisioning and other procedures that financial institutions should have in place in relation to the management of their loans and advances portfolio.

Under the current guidelines, Financial Institutions are required to carry out provisioning to be assessed in terms of General Provision and Specific Provisions. General Provision is established for possible losses inherent in the loan portfolio which are not associated with any individual loan facility. This must be maintained for all outstanding credit facilities which are not subject to specific provisioning. On the other hand, Specific Provision and unallocated Specific Provision are created once adequate information is made available to identify losses on individual impaired facilities. The creation of provision is based on the Credit Risk Rating.

In the case of Fiji Development Bank, same is practiced whereby the Bank carries out provisioning on general and specific levels as required by the Banking Supervision Policy Statement. In addition, the Bank tries to take a conservative approach in stressing its provisions to accommodate for risky portfolios and avoid shocks for possible losses arising from inadequate provisions in future.

This issue was resolved with the External Auditors during 2017 external audit and the resolution was that the Bank is complying with RBF guideline and is having a close monitoring of its provisions.

1.2 Customer Risk Rating did not agree to loan risk register

The Bank is exploring the idea of having fully automated Customer Risk Rating functionality in its new Core Banking Software as the current Banking Software cannot cater for enhancements. Status in obtaining new Core Banking Solution is in the tender stage

While the Bank is in the process of fixing this in the new Core Banking Solution, internal workflows and controls have been set in place in terms of independent checker and reviewer process to eliminate such compliance issue.

1.3 Loans and advances process control deficiency

The Bank is in full implementation phase of having its loan accounts reviewed and updated on any pending documents and security values. The Bank does not condone non-adherence to policies and processes of the Bank. The Bank whenever finds any gaps in policies and processes, act immediately to avoid any room for breaches.

Some of the strategies implemented by the Bank in order to control the loans and advances process are:

i. Creation of Regional Managers position to monitor loan appraisals, disbursements and monitoring of loans post settlements to ensure customer files updated and records are maintained.
ii. Segmentation of Credit Risk Approval Division into Credit Risk Approval – Agriculture, Credit Risk Approval – SME's and Credit Risk Approval – Corporate for quality checks and approval of loans. These divisions are to ensure that any loans before being approved adhere to Banks lending policies and guidelines.
iii. Provide regular and refresher trainings to staff to improve their competency levels and to help eliminate such compliance issues.
iv. Internal Audit has been assigned to carry out independent review, checks and spot audits to have an effective loans and advances process in place.
v. Increased level of delegation for approval for bigger loans.

2.0 <u>Fiji Development Bank Nominees Ltd</u>

2.1 Management Services provided without a valid contract

The Government in its Cabinet meeting on 9th June 2009 agreed that the operations of Fiji Investment Corporation Limited (FICL) be managed by FDB Nominees Limited (FDBNL). Hence in August 2010, a Management Agreement was signed between Ministry of Industry & Trade (MITT) (owner of FICL), FICL and FDBNL to manage the operations of FICL. The management agreement was valid for a period of three years ending August 2013.

FICL was physically handed over to FDBNL on July 2011. As per the Management Agreement, FDBNL was required to manage the operations of the company, which includes liaising with the seven different companies where FICL had financial interest and to make recommendations to the FICL Board for further investment or disinvestment decisions.

Most of these companies were not operating and had not paid any interest/dividends or settled their outstanding debt as per agreement, as there were no follow ups since the year 2006. Since the handover to FDBNL in July 2011, FDBNL has liaised with all the companies and held discussions regarding the settlement of the outstanding debt with FICL. The interim role of FDBNL was to manage the operations of FICL and recover the investments.

FDBNL has successfully managed to collect a total of $2.158M in form of repayments from the companies and through prudent management of FICL term deposits has also attained gross interest income of $0.709M. Some of these companies had also submitted discounted debt settlement offers. FDBNL was also instrumental in the sale of Tosa Bussan (Fiji) Limited, which was sold for $8.720M in June 2017 under mortgagee sale by the ANZ bank, and FICL received proceeds of $3.938M.

Upon the expiry of the contract, negotiation for its renewal stalled as there was no Board appointed hence FDBNL felt it was prudent to continue managing FICL in good faith until the contract was renewed. Upon the appointment of the Board, , FDBNL wrote to the newly appointed FICL Board Chairman, Mr. David Kolitagane on 4th July 2017 , providing a brief update on the management of FICL since handover and requested that our outstanding management fees be paid. The management fees recognized by FDBNL of $ 373,750.00 is related to the period for which there was a valid management agreement to August 2013 however it should be noted that a total fee of $920,000.00 is outstanding relating to the work done by FDBNL up to June 2016.