



STANDING COMMITTEE ON ECONOMIC AFFAIRS

**REPORT ON THE FIJI DEVELOPMENT BANK ANNUAL REPORT 2014 and
2015**



PARLIAMENT OF THE REPUBLIC OF FIJI
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February 2017

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CHAIR'S FOREWORD

On behalf of the Standing Committee on Economic Affairs I wish to report the following in relation to the Fiji Development Bank (FDB) 2014 and 2015 Annual Reports.

The Committee was pleased to note that despite challenging economic conditions the Bank was able to improve overall performance throughout 2014 and 2015 respectively and should be commended for this effort.

It was noted that FDB's vision is 'to be a dynamic financial service provider in the development of Fiji'. Also noted was one of the FDB's function which is to 'provide development assistance to all Fijians wanting to start new ventures'

The Bank has maintained economic viability and continues to position itself as the 'Bank of Choice' in line with their Vision and Core Function.

The Committee thanks the Chairman of FDB and his team and also the Governor of the Reserve Bank of Fiji (RBF) and his team for their presentations and feedback.

I thank the Honourable Members involved in the preparation of this Report and also the Parliamentary Staff who assisted.

On behalf of the Standing Committee on Economic Affairs I commend this Report to Parliament.

A handwritten signature in blue ink, appearing to read 'L. Eden', is written over a dotted line.

HON. LORNA EDEN

CHAIRPERSON

1.0 INTRODUCTION

The Fiji Development Bank (FDB or Bank) was established under the Fiji Development Bank Act 1966 on the 1st of July 1967. The Bank is an autonomous statutory body, the operations of which are controlled by a Board of Directors appointed by the Minister.

Under the Act the Bank provides finance for projects that contribute to the development of the Fijian economy and to improve the quality of life for the people of Fiji. Loan funds are provided for agricultural, micro, small and medium enterprises and corporate projects. The Government also uses the FDB, as a financial instrument in its development projects and plans and special assistance programs that may be necessary from time to time.

The FDB drives with the Mission to provide finance, financial and advisory services to assist in the economic development of Fiji and in particular in the development of agriculture, commerce and industry. Their Vision is to be a dynamic financial service provider in the development of Fiji.

The Bank has played a significant role in developing the various economic sectors of the country.

2.0 OBSERVATIONS AND RECOMMENDATIONS

1. The Committee notes the provisions for impaired loans which have removed a sizeable portion of bad loans thus strengthening the balance sheet of the Bank.

The Committee recommends that prudent financial measures be followed so as not to carry non-performing loans for long periods of time.

2. The Committee notes the introduction of new products to cater to the poorer sector of the community such as:

- I. The Parri Facility which is targeted at retirees to obtain financial assistance in setting up a business or farm at the age of 55 years, which will be made available to assist in filling the gap in the market.
- II. Creating a residential for rental loan package to cater for those willing to invest in residential properties as a business.
- III. The Start Smart Program – a Bank initiative to help graduating vocational students to obtain a loan to start up their businesses with the skills that they have learnt.
- IV. TOP Credit Facility – a proposed overdraft stretch facility made available for existing customers in a time of cash flow crisis.
- V. SME advisory services – providing financial advisory services to existing and new clients of the Bank. The advisory services will be implemented with a training program on how to manage your own business and finance.

The Committee recommends that to achieve all of the above, the FDB needs to strengthen their awareness and outreach program.

3. The Committee notes that the Bank wishes to reinstate the Home Loans and Lease Finance Facility which is pending official consideration and announcement by the Government.

The Committee recommends that this scheme be introduced in line with FDB's future plans.

4. The Committee notes the drive towards the development in the North which has seen some significant increases from its offices in Labasa, Nabouwalu, Savusavu, Seqaqa and Taveuni.

The Committee recommends that in line with the Look North policy, this drive must be strengthened and continued.

5. The Committee notes that the Sustainable Energy Financing Facility has been in force since 2010 and provides rural dwellers with the ability to obtain a cheaper and cleaner energy source for their long term needs.

The Committee recommends that this program be strengthened and continued.

6. The Committee observes that even though FDB is not regulated by RBF it has been under its supervision since 2003.

The Committee recommends that this continues, which will align FDB with best practices in the banking industry.

7. The Committee notes that the cost of funds to FDB is higher than that of commercial banks. FDB is exploring ways of remedying this which includes the ability to obtain a Credit Institution Licence (CIL).

The committee recommends that whatever is allowable under the Act should be approved to help FDB obtain competitive or cheaper cost of funds for its lending.

8. The Committee notes that lending to the agricultural sector is well managed through in-house expertise however with the increase in exposure to tourism and renewable energy financing; there is a need to grow expertise in lending to these two vital sectors.

The Committee recommends that the development of human resources in these new demand areas be made a priority.

3.0 CONCLUSION

To conclude, the Committee is pleased with the overall position of the Bank with its strong and improving balance sheet.

The Committee is confident that FDB is well positioned to carry out its role and will continue to grow as a profitable and self-sustaining financial development institution.

APPENDICES

**COPIES OF SUBMISSIONS RECEIVED BY THE STANDING COMMITTEE ON
ECONOMIC AFFAIRS**

SUBMISSION TO STANDING COMMITTEE ON ECONOMIC AFFAIRS- FDB ANNUAL REPORT

The Bank provides finance for projects that contribute to the development of the Fiji economy. The major sectors the Bank lends is distributed under focus and non-focus sectors including the following:

Focus	Non Focus
Agriculture	Building & Construction
Electricity, Gas & Water	Private Individuals
Manufacturing	Professional & Business Services
Mining & Quarrying	Real Estate
Professional & Business Services	Wholesale, Retail, Hotels & Restaurants
Transport, Communication & Storage	
Wholesale, Retail, Hotels & Restaurants	

The Bank has 11 Branches throughout Fiji to allow accessibility and visibility to customers.

The Bank is audited by the Office of Auditor General.

2014 Annual Report

Despite the challenging economic conditions, the Bank had an improved overall performance for the FY 2014, with a net profit of \$4.89M which was an increase of 18.20% in comparison to FY 2013. The profit attained has been marked as the highest profit margin for the Bank since 2007.

Major components of the Bank's income and expense as at 30 June 2014 include:

- ◆ Total Revenue – \$32.352M. Interest income from loans and advances which make up the largest component of the Bank's total income noted a decline of 6.54% over the year due to stiff market competition and declining portfolio levels. As at June 2014 interest income totalled \$25.54M. Other revenues include fee income, rental income, bad debt recovery and other income.

- ◆ Total operating expenses – \$10.55M, an increase of \$0.72M from \$9.83M in 2013.
- ◆ Allowance for credit Impairment - \$8.38M was credited to accommodate for future credit losses. There was a decline of 10.70% over the financial year due to write off of a few major non- performing accounts and improvements noted in the non-performing loans.

The high liquidity position in the economy resulted in competitive interest rates in the market. This has adverse effect on the Bank as it experienced the exiting of some of its prominent clients. Key indicators measures for 2014 financial year included the following:

- ◆ Total loan portfolio - \$339M a reduction of 2% in comparison to June 2013. This decline was triggered by the Bank's 10% shortfall in achieving its disbursement target coupled with the \$44.8M lost through exited customers.
- ◆ The focus sectors represent 49% of the Bank's total portfolio by value and 73% by number of accounts as at June 2014. While non-focus sector contributed to 51% of total portfolio by value and 27% by number. Bank's sector break down is follows:

Lending Activities During the Year				
Sector/RBF Major				
Portfolio as at 30/06/2014				
	No	Value	% by No.	% Value
Focus	2,801	167,456,551	72.9	49.4
Agriculture	2,026	63,859,498	52.7	18.8
Electricity, Gas & Water	23	21,570,119	0.6	6.4
Manufacturing	57	33,592,383	1.5	9.9
Mining & Quarrying	3	212,882	0.1	0.1
Transport, Communication & Storage	190	16,389,855	4.9	4.8
Professional & Business Services	94	2,588,708	2.4	0.8
Public Enterprise	1	20,125,386	0.1	5.9
Wholesale, Retail, Hotels & Resturants	407	9,117,720	10.6	2.7
Non-Focus	1,042	171,580,822	27.1	50.6
Building & Construction	40	48,020,468	1	14.2
others	90	3,254,141	2.3	1
Private Individuals	816	27,259,870	21.2	8
Professional & Business Services	1	504,940	0.1	0.1
Real Estate	85	63,022,874	2.2	18.6
Wholesale, Retail, Hotels & Resturants	10	29,518,529	0	9
Grand Total	3,843	339,037,373	100	100

The Bank incurred a total of \$6.33M in borrowing costs during the year, noting a substantial decline of 27.02% from \$8.67M in 2013. This was underpinned by declining market interest rates which enabled the Bank to acquire funds at lower interest rates during the year.

The declining market interest rates had a favorable impact on the Banks cost of fund which reduced from 3.59% in June 2013 to 2.34% at the end of June 2014.

2015 Annual Report

FDB recorded creditable improvements in 2015, in terms of both financial performance and quality of projects recording a rewarding year for the Bank. This is evident through the 25.64% increase in the Bank's net profit of \$6.14M as at June 2015.

Major components of the Bank's income and expense as at 30 June 2015 include:

- ◆ Total Revenue - \$25.847M, recording a decrease of 0.67% in comparison to the same period last year. This is comprised of interest income, fee income, bad debts recovered, insurance commission, rental income and other income.
- ◆ Total expenses including allowances for impaired assets - \$19.707M, of this \$8.34M total's to staff costs.
- ◆ Net interest income - \$24.24M, Interest Cost - \$5.38M. Interest Income recorded a decline of 1.79% in comparison to previous period mainly due to a decrease in the market weighted average interest rates which resulted in the reduction of the Bank's lending interest rate.

Total loan portfolio - \$367.242MM an increase of \$28.194M in comparison to same period last year. The growth in the portfolio is due to effective customer relationships, which enabled the Bank to retain robust corporate customers.

Financial year 2015 saw the Bank making exceptional progress in terms of lending to key economic sectors and has positively

contributed by supporting projects associated with better environment management, agricultural exports, renewable energy, tourism developments and growing small to medium business.

- ◆ A total of \$95.49MM loans of were disbursed during the year 2015. Exceeding the Bank's target by \$146,000.
- ◆ Bank's Performing Loan Portfolio stood at \$303.25 and increase of \$8.96% in comparison to the previous year.
- ◆ Non-performing loans recorded an increase of 5.38% totalling \$63.98M compared to the last financial year.
- ◆ Total loan portfolio as at June 2015 stood at 4,188 accounts with loan value of \$367.23M. Breakdown as follows:

Lending Activities During the Year				
Sector/RBF Major				
PORTFOLIO				
	No	Value	% by No.	% Value
Focus	3,195	176,236,176	76.28	47.98
Agriculture	2,219	65,526,508	52.98	17.84
Manufacturing	47	28,571,749	1.12	7.78
Transport, Communication, Storage	391	27,687,633	9.34	7.54
Electricity, Gas & Water	18	23,358,391	0.43	6.36
Public Enterprise	1	18,451,673	0.02	5.02
Wholesale, Retail, Hotels & Restaurants	424	10,075,116	10.12	2.74
Professional & Business Services	91	2,235,341	2.17	0.61
Mining & Quarrying	4	329,765	0.1	0.09
Non-Focus	993	190,996,481	23.7	52.02
Real Estate	78	71,213,945	1.86	19.39
Building & Construction	45	51,506,424	1.07	14.03
Wholesale, Retail, Hotels & Restaurants	13	37,477,246	0.31	10.21
Private Individuals	750	24,517,925	17.91	6.68
Others	107	6,280,941	2.55	1.71
Professional & Business Services	-	-	-	-
Grand Total	4,188	367,232,657	99.98	100

A total of \$217.819M was borrowed from outside through term deposits, promissory notes and bonds. This was an increase of \$19.809M in comparison to prior years. The increase is due to the growth in Bank's total loan portfolio. More borrowing were done to cater for disbursements of loans to customers that were done during the financial year.

Cost of fund increased from 2.34% in June 2014 to 2.59% at the end of June 2015.

Appointed by the Minister of Economy, for 2014 and 2015 Financial Year, the Bank's Board members included Mr Bob Lyon (Chairman), Mr Jitoko Tikolevu (Deputy Chairman), Mr Joseva Serulagilagi, Ms Olivia Mavoa, Manasa Vaniqi, Isikeli Tikoduadua and Ropate Ligairi. The meeting is held every second month.

In addition to the full board, the Bank has three board-subcommittees, Audit, Human Resource and Risk, the members of which are appointed based on their skills and experience providing support to the board in its role. The sub-committee meetings are held every quarter of the year.

VERBATIM NOTES OF THE MEETING OF THE STANDING COMMITTEE ON ECONOMIC AFFAIRS, HELD IN THE COMMITTEE ROOM (WEST WING), PARLIAMENT PRECINCTS, GOVERNMENT BUILDINGS ON TUESDAY, 21ST FEBRUARY, 2017 AT 10.50 AM.

Interviewee: Fiji Development Bank (FDB)

In Attendance:

1. Mr. Robert Lyon (Board Chairman)
2. Mr. Deve Toganivalu (CEO)
3. Mr. Hussein Saiyad (General Manager, Finance/Administration)

MADAM CHAIRPERSON.- Good morning everyone and on behalf of our Committee, I would like to thank the Development Bank Board for joining us this morning.

Welcome Mr. Lyon, Mr. Toganivalu and Mr. Hussein, we are the Standing Committee on Economic Affairs, and we are here this morning to hear from you about your 2014 and 2015 Annual Reports.

On my left, I have Honourable Vijay Nath and Honourable Prem Singh.

On my right, I have Honourable Dr. Brij Lal and Honourable Viliame Gavoka, and my name is Lorna, so we will give you the floor and we may interrupt from time to time but we will try to hold our questions until you are done, so thank you.

MR. R. LYON.- Thanks, Madam Chairperson. I think you all have got copies of our printouts so I will not just read those out to you but maybe just a bit of a summary of where the Bank has been over the last few years.

It is the first time I have been invited to this Committee, so I am pleased to be here to talk about the bank. It is a pretty good story really, but I have been Chairman now for a bit over six and a half years and the bank has undergone quite a bit of change over that time. When I went there, we had a significant amount of non-performing loans and we were disadvantaged because of the amount of the cost of funds that we have to bring in, unlike the commercial banks.

The FDB has to raise its funds on the market so we have to go and buy money in before we can lend it out. It is a disadvantage and an advantage as well, that means we can do different things. We can do longer term fixed loans and few other things but basically, it means that money is always a bit more expensive for us, having been a commercial bank executive in my previous life, I know pretty much what they pay for their funds and it is a lot less than ours.

When I went there, we were paying round about 7.5 percent for funds so you can imagine interest rates to customers were pretty high. If the Reserve Bank Guideline of 4 percent margin means that probably our average lending rate was 11 percent, 12 percent and higher for some of the more risky loans and for the good customers, we actually found it hard to be competitive because you could not lend money for less than 7.5 percent and unless it was up around 9 or 10, we were actually losing money on every deal, so we had a couple of challenges when I went there.

One was to clean up the legacy from the past, if you like, a lot of those bad loans and the Bank did not have any discretion to write them off so they all have to go to Government to be written off.

I wrote to the PM and he considered it, and now we actually have the discretion to write-off loans because Rule 101 in banking is, you do not leave bad debts on your books because they have to be funded. It is an expensive proposition so we cleaned up the book. I did not mean to say we can get some of that money back, we did, but we got it off our balance sheet which made the Bank look a bit healthier for a start, but it also meant that the gross loans dropped for a year or two. I think that was the subject of the question a few years ago by one of these Committees, but we more than rebuilt that with good business, say for the last six or seven years.

The other challenge of course was how do we get the cost of funds down and we set about putting in place a lot of mechanisms, if you like, to drive the cost down. We are aided quite a bit by the low interest regime that has been in force over the last few years, where interest rates across the board around the world have dropped, but we dropped that.

A lot of the funding for the Bank is long-term, like we are locked in for a period of time so we have to wait for some time until these borrowings mature before we could actually go out and find a cheaper source but over the last few years, we did that and about 12 months ago, our cost of funds was around 2.5 percent so it went from 7.5 to 2.5 percent. That has crept up a bit now and back over 3 again, because interest rates are starting to rise a bit, but I do not see the day when I will ever go back to the disadvantaged situation we were in before. I think we are a lot smarter at managing our liquidity and their cost of funds so what this meant for us was that we could go out and be fairly competitive.

We are always going to be a little bit disadvantaged because the cost of funds in the commercial banks is significantly lower than what we are paying, I will not tell you how much, you can ask them that but we are probably 2 percent or more disadvantaged against the commercial banks.

Having said that, we are lending, we have cut our margins where necessary, to make sure that we can compete. We are competing in slightly different markets perhaps, but we can go out and do deals at a fairly competitive interest rate. It is meant that we have picked up a lot of big and new development loans. We have been able to lend out to cut the cost to our major constituency, which is the agricultural sector.

FDB is responsible or is a lender, if you like for about 50 percent of the agricultural sector in Fiji. When you consider our size, we are not the biggest bank by any means but we lend half the money for agriculture, so it is a very strong part of the bank and will always will be and it is part of the market that the commercial banks are not that attracted to.

It can be subjected to heavy losses, it is also money lent out in small parcels which is not always economic for them, so FDB fills that void. So if you look at our business schedules at the back of our business cards, it is all about the agricultural sector and we handle most of that and I think over the last few years, some very positive things are happening in the agriculture in Fiji, it is not all about subsistence, cane farming, et cetera.

There are some very smart people out there in our farms and there are lots of young people coming in to farming with tertiary education. They have gone away to school and come back on the family farm or they have created a new farm and we have got some very smart young customers that bank with us that are doing some wonderful things in agriculture. So, it has changed a lot, if you like, over my time at the bank and along with that, our profits have gone up each year.

I have to stress it and I say this to our staff too, “we do not make a profit, we are not allowed to be playing the game.” So, we need to make a profit to fund the business we are in, but on the other hand it is not our main driver, the main driver, as the name suggests is ‘development’. So, when we look at deals, we look at doing deals which we believe will lead to creation of jobs and economic managers for Fiji.

So, we have been doing a lot of work in tourism recently and people say, why you are doing this? At the moment, we are doing the biggest project in Fiji - the *Vunibaka* Programme. Why we are doing that? Because it is going to create thousands of jobs or hundreds and hundreds of jobs.

There are also huge payments going back to the landowners in putting perpetuity. So, we believe this is good for Fiji. Also, as you realise and some of you I know got very strong tourism credentials, but tourism is the first billion dollar industry for Fiji, about 40 percent of the GDP, it creates most of the new jobs in Fiji. So, we need to be in that sector, but that does not mean that our traditional sectors like agriculture, manufacturing and all the other things that we are in.

So, we have not walked away from any sector but we have done a lot more in tourism over the last few years. In every businesses in Fiji now, it is dependent on tourism one way or another and we are setting ours as well.

So, over the last few years, our profits have been going up each year. We have tabled the 2014 and 2015 Reports, soon the 2016 Report will be ready to go out, and each of you will see a progress in the size of the book, reduction as a percentage in our book in bad debts, and healthy figures across the board and I will have to say that the bank is in pretty good shape.

We can always do more or any constructive thoughts that anyone has got for us, we are feeling a much needed role in Fiji. There are a lot of talks in our countries that we do not need a development bank anymore. I think we are a far way away from it in Fiji, but obviously when you get to the western countries, the bigger developed western countries, they do not have anything called the development bank like we do. But I think that without it, Fiji would not be up to do a lot of the deals that we do. In fact, I got a note back from one of our largest customers a couple of weeks ago who is about to repay his loan and the last paragraph was; “it has been a rocky road over the last few years. Thanks for speaking with us. FDB is the only true development bank in Fiji.”

It is nice to hear a comment from someone that we have probably hit by each other a few times over the last couple of years to get to where we are, but we are going to get that and this job has created a lot of wealth. This particular project creates a lot of wealth for Fiji.

So, probably I will be happy to answer any questions, Madam Chair. If there is anything you want me to elaborate on, please ask.

MADAM CHAIRPERSON.- Thank you very much, Mr. Lyon. Committee Members, who would like to start?

HON. V.R. GAVOKA.- Madam Chair, if I can be first. Thank you, Mr. Lyon in the manner you have cleaned up the books in terms of the bad debts. I see that on Page 17 on your 2014 Report, showing us the impairment ratio from 2007 to 2014. So, I would assume the percentage there would be what you carry your brand today as doubtful.

MR.R. LYON.- Yes, we have to say with our doubtful debts, we have one account that 'squeezed the figures way out of the queue', if you like. If you take this one account out, we virtually have very few bad debts, if there is any, well within the realms of expectation through any banks, commercial or development but I am hopeful that this one account will be sorted out this year, something that we did not actually have the money for, we had credited it from somewhere else.

You will normally expect your bad and doubtful debts to be non performing, that will be less than five percent and write offs would be hopefully one percent or so. I think we are not that far away from it.

HON. V.R GAVOKA.- Yes, it is quiet comforting and reassuring that you applied yourself in this area, hence, we see today the reduction in the ratio. You are also under the supervision of the RBF. You are not regulated by RBF.

MR. R. LYON.- Not regulated by RBF.

HON. V.R. GAVOKA.- You are supervised by them and then you share all these with the RBF.

MR. R. LYON.- Yes we do, even I am not regulated by the RBF. I believe strongly in liaising with them along the way and we try and conform to all the RBF guidelines as if we were being regulated. So, the things are like, for example the interest margin and things like that we take on board the same sort of criteria that they might be applying to the commercial banks.

HON. V.R. GAVOKA.- So, your provisions for your doubtful items will be in-keeping with the standards set by the RBF?

MR. R. LYON.- Yes.

HON. V.R. GAVOKA.- Alright.

HON. DR. B. LAL.- Thank you very much for your presentation. I was very happy to hear that you have mentioned that there were young people who were going into farming and things like that. Some years ago, we started a programme with the Ministry of Education on the 'Money Smart Invest Smart'. Can you highlight something on that and what are the actual areas where the children are investing into?

MR. R. LYON.- Just get some advice from my colleagues as money is certainly something and financial literacy itself is something we are very interested in because there is a lot of our clientele, in particular in the rural areas, but not all have the advantage of a strong education. If you are in any sort of business, you need to have that understanding to run a business.

MR. D. TOGANIVALU.- Madam Chair, I remember, we actually signed that some years back and this is the Money Smart Programme that we have; money smart, then money invest, invest smart, and the next one is start smart.

I will not go into any detail on the programme because of the *TC Winston*, we had to sort of temporarily stop and just a couple of weeks back, we were back on to the programme and we will be pushing on. It is amazing, it is something about this programme, the school

children are encouraged to save. For that time, I think I remember we actually saved more than about \$2 million out from their daily savings that the parents gave them every day. So, collectively over a period, it has reached a million dollars and that programme is still on and we are still sponsoring it.

The next, like I say, we start with 'money smart' and then starts 'invest smart' to the next one is 'start smart'.

MR. R. LYON.- I might just add another, it is one of my passion as well, that in my previous life when I headed Asia Pacific for ANZ, we started up the rural banking in Fiji, which continues to stay, and I think that is one of the issues I was most proud of was getting that set up in Fiji.

The other thing I did was, for the last 12 years, I have been Chairman of an organisation in Brisbane and we run a network around the world, core banking with the poor. We have started with about 16 million clients in India and South Asia. So, something that was pretty close to my heart and FDB fulfils that role in Fiji. So it is an important part, I think, the education process and in preparation for business of any kind.

HON. P. SINGH.- Sir, I have a couple of questions. Firstly, the Government guarantee. Presently, the Government guarantees around 21 percent of the total loans. The total 21 percent that we are talking about from Government guarantees, does Government provide interest subsidies on certain loans to your customers?

MR. H. SAIYAD.- Thank you, Honourable Member. Government provides, say interest subsidy to agriculture agro-based customers and these rates are subsidised by the Government. So the effective rate to the customer is pretty low, so usually in a year, we end up to close to \$2 million and that is paid by the Government in terms of interest subsidy.

HON. P. SINGH.- So in terms of the interest subsidies, the whole idea is, one is to assist the customer, the second one, I believe is to make it competitive with other banks.

MR. H. SAIYAD.- Yes, that is true but I think the main motive there to assist the customer in terms of paying the interest.

MR. R. LYON.- The latest figure we have got is about \$290,000. The other importance of Government guarantee of course is that it gives, for instance, their credit rating if you like. I have mentioned before that we have to go to the market to borrow funds and one of the things that help us get the funds at the cheapest rate is the fact that we have got Government backing so that helps. So it does not actually cost the Government anything in that regard but it does strengthen our position as far as going to the market to borrow a lot of money.

HON. P. SINGH.- When you have a shortfall, you borrow and also raise funds through bank bonds, promissory notes, short-term borrowings, do you also have fixed?

MR. R. LYONS.- At the current time, we are allowed to a certain number of term deposits which we use, we use as more today than we might have a couple of years ago because they are a cheaper source of funds for us.

HON. P. SINGH.- Is it long-term?

MR. R. LYON.- What would be the longest term? One year would be the longest, so it is fairly short-term but it has been of great assistance to keep that average cost of funds down.

I am hopeful that going forward, we are going to have a little bit more flexibility, if you like in how we raise our funds from some depositors.

I do not envisage that we will get into large scale deposits because that would deflate, I think, from our main mission and we are not big enough to get some of the economies of scale that the major banks have, whilst they get cheap funding from their deposits. They are big enough to be able to carry the overheads but if we could just have access to some large deposits from a little bit more freedom than we have now, that will help also to keep the interest rate cost down to customers.

HON. P. SINGH.- You mentioned *Vunibaka* Development, are you alone in this or are you part of a consortium?

MR. R. LYON.- We are alone in this as far as financing goes. We might not be alone for much longer. I think it is another bank now, we just found out about that an hour ago that they are interested in getting involved now but it has been an interesting exercise that we have taken the front running on that particular project but also a few others in Fiji, where our competitors have not been that competitive, I might say, but we have taken the running but they all proved to be good decisions.

I think *Vunibaka* is going to be a world-class project, make Fiji more famous, I think, in tourism but there is a bit of a lack of appetite if you like for some of the start-up projects in Fiji, and I think that is probably, maybe it is not just Fiji but maybe other countries too. But certainly here, I have sat on both, of course, for the last 20 years and I remember back then when I was with my other company, we did things like the Outrigger down in the Coral Coast and things like that, but it does not seem to be a lot of appetite for those sorts of projects at the moment, which is a bit of a shame because in Fiji's tourism, I think still got a long way to run.

HON. P. SINGH.- You are still thinking of being the start-up bank for a lot of these projects?

MR. R. LYON.- We treat them on their merits. You are not going to do every project and we set ourselves internal quotas on how much we believe we should be lending to particular sectors and they are pretty much in line with Fiji's GDP figures, if you like. The tourism obviously is the biggest industry in Fiji. We should have a healthy appetite for tourism but there are some traps, I think we all know, we have all seen the front page news on quite a few developments in Fiji that have gone well over the years.

So there are some proposals that you do not want to get involved in but every now and again, a good one comes along and I think we recognise that. I do not want to talk about individual customers too much but companies like the *Vunibaka* Programme, we were pretty impressed from day one, at least the quality outfit to do things properly.

We have not been disappointed, we have had a good relationship for the last three or four years now and we have not had any hiccups, so we will continue to keep an eye for tourism projects but we are not racing as a number one target, if you like. But when a good one comes along, we will have a look at it because they do create lots of jobs, they do pump in a lot of money back into the community and the economy.

HON. P. SINGH.- It is all about development.

MR. R. LYON.- Yes, it is all about development and if you look at some of these projects, you can see that it is real development. I think that is one particular one we have got and have a look and so what has happened here, it has been a very positive change on the landscape, there is money being shared amongst the community and a lot of jobs in the construction process and a lot of jobs going forward in the service and hospitality industry.

HON. P. SINGH.- Now you are venturing into this new trend of emerging markets like tourism and the other ones. You just said that they will not come at a cost of losing a traditional portfolio of core values.

MR. R. LYON.- It is a good point that you are raising. In the past, I have seen people thinking that maybe the bank has only got so much in it but if we lend more money to this group, there will be less money for that group and that is not true. We would never do that.

HON. P. SINGH.- Given your capital outlays and your total assets base, that is a constraint itself.

MR. R. LYON.- There is a constraint itself, I mean, we can only lend

HON. P. SINGH.- So, I do not blame these people who have to raise these concerns.

MR. R. LYON.- We certainly have capital, balance sheet constraints and how much we can lend to anyone party. We group all our customers together. If there are two or three businesses, they will be grouped and there will be a cap put on that particular entity and we do that as a matter of course, it is just a prudent measure. There are a few accounts that run up against that sort of constraints, they are a pretty big number, but it is there for our guidance and also protection, if you like.

HON. P. SINGH.- Thank you.

HON. V.R. GAVOKA.- Mr. Lyon, Madam Chairperson, if I could just ask a question while you are talking about Vunibaka, what would be the lessons learnt from Momi?

MR. R. LYON.- I do not think we were too heavily involved in the Momi, we have gone over the Momi hang-over, if you like, but it was not what we created, but I think there has been a lot of lessons learnt from Momi and Natadola and I suppose Hilton too was another one.

I go back to my ANZ days and there were three customers that we declined to get involved with and it is really a matter of having the expertise in-house, and I think that is one thing too. All banks start and try to build up some expertise in these particular industries and I think having this in Fiji, it is a very sensible idea to have someone senior on your staff who really understands tourism, for example, or agriculture, and then we have quite a lot of people in the bank to understand agriculture because that has been a core activity for a long time, but now we are developing some skills around credit.

I have to say that having worked in banking for over 50 years, I am very proud of my guys at FDB, the level of credit assessment and thoroughness that goes into assessing projects. I know that other financial organisations in the region per se are not that good and there are quite a few mistakes made by not having the right level of expertise to look at the particular project they are looking at and even going out and seeking that expertise through a consultancy arrangement, but beginning to deal in the \$20 million plus range without having strong expertise on board, the financial institution is a pretty dangerous game. I think maybe you asked what we have learnt from Momi. I think a lot of it is around that, getting that understanding of what needs to be done, what are the trigger points, what are the points of danger when you looking at those big concerns.

I think also understanding the proprietors for the owners of the projects, one of the things we do very carefully is check out everyone's background, I mean that is one, and you probably are aware of this, there are a few skeletons in the cupboard and one of those projects, and probably both of them, are going back for some years. I think it is a matter of understanding who you dealing with, what safe track form, what they have done before coming to you with the big project in Fiji and they have never been here before, what have they done somewhere

else and did it succeed or not, and whether there were any repercussions. If you look back now, with the benefit of hindsight, there were some history in some of those projects. It maybe it was either overlooked or not, or not discovered at that time.

MADAM CHAIRPERSON.- Mr. Lyon you have mentioned that you have a strong expertise in the agricultural area, which is the 50 percent of the bank's business and which is also where the Government subsidy applies; do you also have any monitoring mechanisms in place to monitor these projects, or they are monitored by someone else?

MR. R. LYON.- Yes, we monitor them, so from time to time we bring in an external credit inspection team, we did this about one year ago, that was 12 months ago, so we have brought in a credit inspection team from overseas. Some were brought in the team that have had a lot of experience in Africa and other developing countries. Whilst they gave us a clean bill of health, we felt a lot better knowing that they have been through our books and they have given us any advice they felt needed but also the fact that they did not really find anything that was bad so I think this organisation might be coming back

Yes, we do monitoring and we have external monitoring and we have internal/external auditors as well. So I think any bank needs stringent in all those areas and a lot of it is a matter of time and I think the biggest lesson in banking that I have learnt in 50 years is 'act quickly' because the longer you let things go, the worse they get with interest capitalising. I could show you some horrible examples but that counts them into trouble, strong action has not been taken to either fix it, restructure to do something with interest running either even five percent a year within a couple of years. It is an untenable situation.

MADAM CHAIRPERSON.- Alright, thank you for that. We also noticed that FDB operate some subsidiary companies. One of them is FDB Nominees Limited. Would you just give us a little bit of history on that?

MR. D. TOGANIVALU.- Thank you, Madam Chair. This particular subsidiary, it was formed to actually look after other businesses rather than the core business at the bank. I will give an example, we manage other companies. One in particular, the FICL, the main task at the moment is to manage that government investment company. We have also managed actually our customers - women customers who find problems in running their businesses where loans are involved, so we get a management fee and then we run it for them. So, that is really the main purpose - doing other business other than the core lending business of the bank.

HON. V.R. GAVOKA.- Thank you, Madam Chair, given the responsibilities that we carry in your core functions, I notice that in 2015 there were very little activities with the nominees. It is blank there. I am with the Nadroga/Navosa Corporation and we funded our properties through FDB and it was managed by the nominee company within FDB. Somewhere along the line, the relationship began to deteriorate to the extent that what you are expecting them to do for us was not happening. So, it begs the question whether you want to continue with this because it appears to me that it was too much of a burden to the bank. That is the impression I got. As lending for development is your core business, managing these entities within the structure that you have, do you still see a need for it or whether you have the capacity within the bank to continue to do this?

MR. D. TOGANIVALU.- Thank you, Honourable Member. You will notice that we got only one company being managed at the moment and it is not a client in our lending books. Usually, (I will not quote the account of the customer but particularly there are some provincial accounts) where it is very expensive to hire chartered accountants. So, we are try to help but

we have the expertise to manage the accounts for the actual accounts for them and we have certain condition. If you want us to manage your accounts, this is what we require of you so at times it starts off well but then it is up to them really.

The decision is there whether they want us to continue to manage it for them. Usually when we start off it is a required condition of the loan, after a while when all the funds have been disbursed then it is their choice if they can hire another accountant outside the nominee, it is alright with us. At the moment, like I say, most of the provincial accounts have run their own accounting management. So, the only one that is left with us now is the FICL one.

HON. V.R. GAVOKA.- Thank you for bringing up that provincial relationship because I believe that was part of the equation at that time. Your exposure to the provincial council, have they all serviced their loans, are they now stronger, or do you have any delinquency in them?

MR. D. TOGANIVALU.- They are all alright in fact. One of the good accounts because most of buildings, these high rise buildings, most of the ones that we finance are for provincial councils, those commercial buildings and they all doing well.

HON. P.SINGH.- I note from the two Annual Reports - 2014 and 2015, you use to lend to central government and local government, but I believe in 2015, they have all paid up. Are you pursuing with them again or they have got some competitive edge?

MR. R. LYON.- Now, if we get a proposition we will look at, there has been no force, put it that way. It just a matter of, I think, what activity, we are more than happy to lend.

HON. P.SINGH.- It was not a question though. The other one, Madam Chair, is FDB used to have this provision of lending on Class "J" land - the *mataqali* land. Do you still continue with that? I believe that it was introduced to assist the agricultural sector, particular the landowning units, do you still have that?

MR. R. LYON.- Yes, we do. We have also, I mean over the last couple of years, spoken with bodies like ADB and others. They are looking to fine tune procedures to make it easy to do those sort of things. I think it is an issue across the Pacific.

A few years ago, I was on the Pacific Wide Advisory Board on land ownership from Papua New Guinea right across the Pacific. It is a huge issue as we all know is, how do you free up funds and capital, to enable communities to develop their properties or their businesses? It is something that we are open to, to look at better ways of doing it, but certainly we do it now. If you look at the numbers of accounts we have got, I think it is 70 odd percent of our customers who are in the rural areas, in farming, so we have got a lot of those clients that have got small businesses inland that we cannot really sell but we continue to do that.

HON. P. SINGH.- I believe one of the conditions of the security arrangement and with their collaterals is that, it cannot be sold to someone outside of that unit.

MR. R. LYON.- Yes, that is right.

HON. P. SINGH.- How do you manage this? Do this set of loans form part of your impairment?

MR. R. LYON.- There are other forms of security too that maybe you have, many against some chattels as well, there are other ways, over a car, farm, equipment or whatever, at the end

of the day too, track record counts for a fair bit. We have had clients there for generations, if you like, that borrow of us and continue to borrow and once you earned that through your own track record, it is all the customers, security is not the issue.

In fact, I think, for any customer really, the bank is the last resort. If you have got customers that you can lend on cash flow, then we will have a look at it as well.

HON. P. SINGH.- Basically, you have collaterals with the notifications being the mortgage and you have collaterals on chattels.

MR. D. TOGANIVALU.- If I may add on, Sir, the Class "A", we are very selective on helping out with the Class "A" leases, but we always encourage the clients if they want, we can help them de-reserve them, then it will become the norm. Even if the loan goes sour, we have to sell the lease, then it goes on the open market and anyone can buy that but at the moment, like Mr. Lyon has mentioned, this is why we look at cash flow more, how to assess the viability of the project rather than relying on security entirely.

For these people out in the rural areas, those all the assets they have, the land, and when you ask for equity there, no cash equity but land and the labour force itself, so we do recognise that, but it is important that the viability of the cash flow lending is what we are trying to emphasise.

HON. DR. B. LAL.- You were saying that you are able to process all the loans within two weeks. Has that gone well with the rural people, with lack of documents and what challenges you face in that area?

MR. D. TOGANIVALU.- We have done some lessons, actually 48 hours is our internal target, but they have got an idea. They want this to be financed by the bank so it is not only asking for information, but actually guiding them trying to teach them why we need this.

There is an internal rule of thumb that we have, if someone asks you for \$20,000 for agriculture, just be careful, so we will try and start from a simple one.

MR. R. LYON.- If you like, I will say that the Board had set the management with a challenge a couple of years ago. We looked around and said, "what are we famous for? I think at that stage, we were famous for taking two months to make a decision on the lending deal at which the A-G reminded me of. I told him, "we just changed a few weeks before that, now we can do deals in two days" and we did a big deal which the Government involved in in two days and that was staggered, but our aim is actually two days.

If we got everything on the table, sometimes you have got this information which is not easily attainable. It might be the Lands Department approval or something that is just going to hold it up but if you have got all the information there, then why would you hang around for weeks, in making a decision?

Once we got all the information, we will move very quickly. The ones that are not approved very quickly are the ones where there has been a hold-up somewhere because of something that is way outside and maybe the customers' discretion, someone else is involved, but take that away, then we will be surprised how fast we can make decisions. We do not wait for board meetings, if it has to go to the Board, the big one, then we will do a circular minute and get it done, we do not hold it up for a meeting.

HON. P. SINGH.- So two days subject to red-tape and bureaucracy?

MR. R. LYON.- Yes.

HON. P. SINGH.- The final question from me, I believe FDB has lodged an application with the Green Climate Fund to be an approved institution for Climate Funds, how are we progressing on that?

MR. R. LYON.- Very well, actually.

MR. D. TOGANIVALU.- Honourable Members, it has taken us three years to try and get this fund and I think we are on the last question, the last stage. Our application was as thick as the Bible, the response was as thick as the Bible as well, the number of queries and the detail they want is Climate Fund Committee, we are almost there.

I just saw the last question, a set of about 18 questions to respond to and very detailed. They even asked us whether we have got a gender policy. We are dealing with the Climate Fund and they ask for gender policy, those kind of things so it is not easy. Some of the policies we do not have but we have been developing it as we went along.

What I was told by the Committee on this Climate Fund, the Fund will eventually be approved but it will come with conditions, so it is not a "yes" or "no" kind of thing, it will come, but it will have certain conditions.

MR. R. LYON.- We talked earlier about which industries do you look out to and we talked about tourism but the new one that is coming on stream is renewable energy and I think without being too critical of the commercial banks here or overseas for that matter, because the banks have been slow to pick up this new industry as the security consideration is too difficult for example, you pull down second hand saw, the panels of a roof or whatever. I should declare my interest, as I Chair a renewable energy company as well, but it is starting to change. Even this morning, I have got some information from the commercial banks to say that there is a bit of pressure from ISC.

They are starting to look a bit more serious and I am hopeful that there will be some sort of funds that will come forth from the commercial banks to fund renewable energy projects because in Fiji, for example, one of our big costs here is importing the fossil fuels to drive generators and things and we have an abundance (I did not say an abundance of sunshine, but I live in the West, I have not seen the sun for four weeks) but Fiji produces all the elements for a successful renewable energy market.

We have no need to bring in fossil fuels in the rate we do now. So I think if we can move across from fossil fuels to renewable energy over the next few years, that is the market that banks should be looking at a bit more kindly and hopefully make that move smoothly and cheaply for all the people involved.

HON. P. SINGH.- May require changes to the legislation, if we are to pursue that.

MR. R. LYON.- Alright, that will be good, we will appreciate that, from both the banking and the renewable energy.

HON. P. SINGH.- Just on the approved accreditation, is it only for Fiji that you are vying or for the Pacific Region?

MR. R. LYON.- It is for the Pacific Region.

MR. D. TOGANIVALU.- We actually started with the regional one, but now we have concentrated on the national one only, because if we go regional, it is going to take longer, so it is much easier if you go on for the Fiji one.

HON. P. SINGH.- First step first.

efficient way of doing it, we would be happy to work together with the appropriate Government Department to come up with a maybe simpler or more efficient way of doing it.

HON. P. SINGH.- I am sure you have made your observations known to the Government.

MR. R. LYON.- Yes, we have.

HON. V.R. GAVOKA.- I think he is really enjoying this. You want to go back to home loans and leasing. I notice from the comments from the CEO in his Annual Reports, it is pretty crowded out there?

MR. R. LYON.- Yes, it is pretty crowded but I think leasing in particular, if you like, asset management-type products. There is a need, it completes the picture, if you like. If you have got a business that is doing pretty much anything these days, apply to lease machinery, they want to do something else and it is a bit hard to say, "yes, we are going to have a loan" but you are going to go somewhere else and do the leasing because just as I have pointed out a minute ago, the security might be with us and then it gets to be more complicated so there were some areas that we like to expand into. But in actual fact they do the foreign exchange, and all sorts of things that the commercial banks do. That is another argument really but certainly there are some products.

We have done leasing in the past so we might as well just go back to what we did before but there are some issues we would like to have a look at and it makes life easier for the customers they come to one place and have their project approved.

MADAM CHAIRPERSON.- Thank you very much, Mr. Lyon, Mr. Toganivalu and Mr. Hussein, we have learnt quite a lot from your presentation. We are very happy to hear that the Bank is doing better each year as you go and we look forward to seeing you back with the 2016 Annual Report.

MR. R. LYON.- Not too far off.

MADAM CHAIRPERSON.- So we look forward to that.

We are going to break for a cup of tea, if you like to join us, we will be very happy to have you, thank you.

MR. R. LYON.- Thank you, Madam Chairperson, and gentlemen for the questions and we enjoy that too.

The Committee Interview adjourned at 11.54 a.m.