REPORT OF THE AUDITOR GENERAL ON THE ACCOUNT OF

Development Bank of Kiribati
For The Year Ended 31st December 2012

Kiribati National Audit Office
December 2014

KIRIBATI NATIONAL AUDIT OFFICE

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Audit Report

To the readers of Development Bank of Kiribati financial statements for the year ended 31 December 2012

The Auditor-General, Mrs Matereta Raiman is the auditor of Development Bank of Kiribati.

The audit covered the Company's compliance with the requirements of Part VII of the Public Finances (Control and Audit) 1976 and the DBK Act 1986 that apply to the financial statements of the DBK for the year ended 31 December 2012.

Qualification

- I am unable to verify, Provision for doubtful loans as of 31 Dec, 2012 due to the miscalculations noted in previous years which had distorted the current years provision.

Qualified Audit Opinion.

In my opinion, **except for** the effects of the matters referred to in the qualification paragraph above, the financial statements of the DBK present fairly, in all material respects the financial affairs of the Bank as at 31 Dec, 2012, its results and cashflow for the year then ended in accordance with a Generally Accepted Accounting Principles.

Emphasis of Matter

We would like to draw the attention to the matter described below:

- We noted with concern that the Board's decision as per Board minute # BMS1202 regarding the security value requirement, was not adhered to by the Bank and the loan was approved without the KPF pledge. This implied an inconsistency of the Board's decision and the action carried out. This will have adverse effects on the credibility of the Bank.

The audit was completed on 10 Dec 2014, and was the date at which our opinion was expressed.

Basis of Opinion

We carried out the audit in accordance with the Generally Accepted Auditing Principles as applied in Kiribati.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board of Directors;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, therefore we could not guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the DBK Board of Directors and the Auditor

The Board of Directors is responsible for preparing the financial statements in accordance with generally accepted accounting practice. The financial statements must give a true and fair view of the financial position of DBK as at 31 December 2012 and the results of its operations and cash flows for the year ended on that date. The Board of Directors responsibilities were clearly specified in the Public Finance (Control and Audit) Act 1976 and DBK Act 1986.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from the Public Finance (Control and Audit) Act 1976.

Independence

When carrying out the audit we followed the independence requirements of the Kiribati National Audit Office, which incorporate the independence requirements of the International Standards of Auditing.

Other than the audit, we have no relationship with or interests in the Bank.

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Mrs. Matereta. Raiman.
Auditor General
Kiribati National Audit Office

Date: 10/12/2014

(23)

DEVELOPMENT BANK OF KIRIBATI

FINANCIAL STATEMENTS

FOR YEAR ENDED 31 DECEMBER 2012

DEVELOPMENT BANK OF KIRIBATI
BALANCE SHEET
AS AT 31 DECEMBER 2012

	NOTES	2012	2011
CURRENT ASSETS			
Bank & Cash	4	156,290	230,969
Current Loans	5	6,132,982	6,082,383
Debtors	6	10,610	19,864
Prepayments	6	17,922	17,922
		6,317,804	6,351,138
less **CURRENT LIABILITIES**			
Creditors	14	-11,692	152,038
Revolving Fund - Agent`s M/Cycle	15	9,098	9,098
Interest on ADB Loans	18	197,015	183,765
Loans Overpayments	19	239,212	254,184
Asset Replacement Fund	17	40,000	20,000
ADB Loan - Current Portion	12	144,951	144,951
		618,584	764,036
WORKING CAPITAL		**5,699,219**	**5,587,102**
add **NON CURRENT ASSETS**			
Non Current Loans	5	2,699,377	2,874,458
Motor Vehicles, Furniture etc.	3	194,691	89,159
Long Term loans	7	1,435	1,435
		2,895,504	**2,965,052**
less **NON CURRENT LIABILITIES**			
Government Loan ADB	12	1,180,070	1,180,069
EIB Loan	12	568,775	760,347
KPF Investment	12	1,724,873	1,721,429
		3,473,719	3,661,845
NET WORTH		**5,121,004**	**4,890,309**
Represented by:			
Paid Up Capital		4,939,940	4,939,940
Accumulated Profits	8	114,982	-115,713
New Zealand Grant		66,082	66,082
		5,121,004	**4,890,309**

The accompany notes form part of these financial statements. 0.00

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Chairman
17/5/13

....
Director
17/05/13

DEVELOPMENT BANK OF KIRIBATI
INCOME & EXPENDITURE STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

	2012	2011
Income	1,216,424	1,102,325
Expenditure	979,973	1,042,186
Net Profit/(Loss) Before Prior Period Items	236,451	60,139
Prior Period Items	-5,756	3,694
Net Profit/(Loss) after Prior Period Items	230,695	63,833
Accumulated Profit/(Loss) at 1 Jan 2012	-115,713	-179,546
Accumulated Profit/(Loss) at 31 December 2012	114,982	-115,713

The accompanying notes form parts of these Financial statements.

DEVELOPMENT BANK OF KIRIBATI
CASH FLOW STATEMENT FOR THE YEAR
ENDED 31 DECEMBER 2012

	NOTES	2012	2011
Cash Flow from Operating Activities			$
Interest received		1,339,253	1,253,059
Cash payment to supplier and employees		-996,460	-883,242
Total cash received/(used) from operating activities	(B)	342,793	369,817
Cash Flow from Investing Activities			
Purchase of Fixed Assets		-135,736	-24,500
Gain on disposal		5,150	437
Net (Increase) in loan		0	0
Proceed from Long term Loans		0	0
Total Cash received/(used) from investing activities		-130,586	-24,063
Cash Flow from Financing Activities			
EIB Loan repayment		-191,572	-204,638
Loan proceed from KPF		0	0
Interest paid		-95,318	-106,522
Government Grant		0	0
Total cash received/(used) from financing activities		-286,890	-311,160
Rounding off difference		3	-1
Net (Decrease)/Increase in cash/cash equivalent		-74,682	34,592
Cash and Cash Equivalent - 1/1/12		230,969	196,375
Cash and Cash Equivalent - 31/12/12	(A)	156,290	230,967

(A)- Details of Cash and Cash Equivalent as at 31/12/12

	2012	2011
Cash Float	200	200
Cheque Account - Bairiki	159,356	79,938
Cheque Account - Kiritimati	-29,886	39,888
Interest Bearing Deposit	17,960	97,068
Electronic Clearing Account	-6,519	
Cash in Transit	15,179	13,874
	156,290	230,967

(B) - Reconciliation of cash flow from operating activities to net profit

	2012	2011
Net Profit for the year	230,695	63,833
Depreciation	30,204	30,051
Government grant	0	0
Interest paid	95,318	106,522
Adjusment of PPE		
Gain on Disposal	-5,150	-437
Provision Current Doubful loan	6,503	80,687
Provision Non-Current Doubful loan	0	344,239
(Increase)/Decrease Prepayment	0	2,975
(Incease)/Decrease in Debtors	9,253	-3,381
(Incease)/Decrease in current loan	117,978	-277,039
(Decrease)/Increase in Creditors	-165,452	-9,843
(Decrease)/Increase in Sinking fund	20,000	20,000
(Decrease)/Increase in KPF Investment	3,444	12,210
	342,793	369,817

0

DEVELOPMENT BANK OF KIRIBATI
DETAILED INCOME & EXPENDITURE STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

INCOME	NOTES	2012	2011
Interest - Commercial Loans		622,619.70	796,014.75
Interest - Housing Loan		8,333.57	0.00
Interest - Personal Loan		182,983.96	0.00
Interest - Bank Deposit		890.27	1,522.47
Interest - Staff House Loan		27,555.98	24,524.57
Interest - Staff Personal Loan		5,153.86	5,122.37
Interest - Penalty		35,804.89	88,857.40
Loan Fees		120,809.27	94,287.44
Application Fees		28,966.00	0.00
Registration Fees		10,648.73	0.00
KPF Pledge Fees		10,727.50	0.00
Refinancing Fees		24,041.97	0.00
Arrears Fees		14,748.15	0.00
Recovery Cost		970.40	2,110.12
Government Grant		72,876.16	72,876.16
Gain on Disposal		5,150.00	437.00
Closing fees		38,600.00	9,500.00
Sundry Income		5,543.32	7,072.81
		1,216,423.73	1,102,325.09
EXPENDITURE			
Salaries & Staff Expense	9	533,499.39	549,181.98
Workmens Compensation		8,500.00	0.00
Leave Grant		26,584.00	24,999.95
Directors		26,078.35	24,888.55
Entertainment		1,357.60	0.00
Repair & Maintenance - Motor Vehicle		9,138.70	5,827.50
Repair & Maintenance - Office Equipment		4,495.16	1,464.78
Repair & Maintenance - Computer		487.00	361.50
Transportation		13,262.80	11,537.55
Office Rent	16	32,975.00	35,800.00
Electricity		14,821.29	15,874.64
Telephone, Fax and Emails		16,949.66	29,793.65
Postage & Telegram		1,667.86	1,241.75
Printing and Stationery		23,197.88	25,482.20
Overseas Travel		26,985.15	20,077.95
Subscriptions		0.00	1,159.08
Advertising		973.50	2,051.80
Bank Charges		6,204.62	5,935.57
Provision for Loans Specific	11	6,503.11	80,686.90
Depreciation	3	30,203.78	30,051.07
Outer Island Travel		7,943.10	13,873.55
Operating Cost - Outer Is, Agencies		1,917.70	4,655.62
Interest on Borrowing	12	95,317.50	106,522.10
Loans Writte off		11,266.55	1,951.91
ADFIP Conference		0.00	0.00
Debt Written off		0.00	0.00
Audit Fees		0.00	0.00
Rebate Interest expense		309.20	271.18
Research and development		1,372.90	0.00
Silver Jubilee		35,058.50	0.00
Insurance Coverage		11,500.00	0.00
Sundry Expense	13	31,402.60	48,495.62
Total Expenditure		979,972.90	1,042,186.40
Operating Profit/(Loss) before Prior Period Items		236,450.83	60,138.69
Prior Period Items	10	-5,755.82	3,694.16
Net Profits / (Loss) after Prior Period Items		230,695.01	63,832.85

DEVELOPMENT BANK OF KIRIBATI
NOTES TO THE FINANCIAL STATEMENTS

1 The Development Bank of Kiribati was established by the Development Bank Act 1986 for the provision of long, medium and short term loans as well as the required technical assistance to promote the efficient organization and conduct of business undertakings.

2 Principal Accounting Policies

2.1 ACCOUNTING CONVENTION

The Financial Statements have been prepared under the historical cost convention.

2.2 CURRENCY

The Financial statements are expressed in Australian Dollars.

2.3 DEPRECIATION

Depreciation is calculated to write down fixed assets value in equal installments using the following rates:

Furniture & Fittings	20%
Computer Upgrade	20%
Office Improvement	33.33%
Motor Vehicle	33.33%
Fence security Area	33.33%

2.4 INTEREST AND INVESTMENT INCOME

Interest on loans and income from investments are included in the income and expenditure statement in the accounting period in which they are due.

2.5 TURNOVER

Turnover comprises interests, fees and sundry income.

3 Fixed Assets

	Motor Vehicle	Office Furn & Equip.	Fence Sec. Area	Computer Upgrade	Container	Office Improvemen	Total
Cost at 1 Jan 2012	190,247	425,664	35,265	64,532	4,545	11,653	731,906
Additions	39,000	14,333	50	82,352		0	135,735
Disposal /Adjustment	47,310	0	0	0	0	0	47,310
	181,937	439,997	35,315	146,884	4,545	11,653	820,332
Depreciation							
At 1 January 2012	167,741	394,226	20,603	43,980	4,545	11,653	642,747
Charge	3,781	7,778	3,318	15,327		0	30,204
Disposal / Adjustmen	47,310					0	47,310
	124,212	402,004	23,920	59,307	4,545	11,653	625,641
Book Value							
At 31Dec 2012	57,726	37,994	11,394	87,578	0	0	194,691
At 01 Jan 2012	22,507	31,438	14,662	20,552	0	0	89,159

	2012	2011
4 Cash & Bank		
Cash on Hand - Petty Cash	200.00	200.00
Bank Account - No. 1	159,355.9	79,937.9
Bank Account - Kiritimati	-29,885.8	39,887.7
Bank Account - IBD	17,960.0	97,069.7
Electronic Clearing account	-6,519.2	
Cash in Transit	15,179.0	13,873.9
	156,290	230,969
Cash in transit Break down		
Abaiang agency	1,292	1,292
Abemama agency	1,606	2,101
Beru agency	544	465
Nikunau agency	-315	-252
Onotoa agency	2,833	1,693
Marakei agency	207	68
Fanning agency	2,008	1,542
Tabnorth agency	2,082	1,909
Butaritari agency	334	1,087
Tamana agency	0	0
Nonouti agency	3,118	764
Maiana agency	142	608
Arorae agency	-459	-287
Kuria agency	94	71
Aranuka agency	1,692	2,812
	15,179	13,874
5 Non Current Loans (maturity beyond 12 months)		
Commercial	3,385,717	664,818
Staff House	373,325	388,701
Staff Personal	70,085	55,606
Personal	159,801	
Housing	126,966	
Past Due	0	3,012,741
Hardcore	0	162,606
Total Loans - Non Current Portion	4,115,893	4,284,471
less: Provision for Doubtful Loans	-1,416,516	-1,410,013
	2,699,377	2,874,458
Current Loans		
Commercial	2,153,757	5,972,439
Staff House	108,008	89,958
Staff Personal	19,344	19,986
Personal	3,698,617	0
Housing	114,199	0
Non Commercial Loan	39,057	0
Total Loans - Current Portion	6,132,982	6,082,383
less: Provision for Doubtful Loans		0
	6,132,982	6,082,383
Total Loans - Current and Non Current Portion	8,832,359	8,956,841

	2012	2011
6 Debtors		
Vinster	0	0
Loan Deposit	163	163
Unresolved Receivables	4,537	4,537
	4,700	4,700
less: Provision for Doubtful Debts	-2,630	-2,630
	2,070	2,070
Suspense & Clearing a/c		
Salary clearing	-258	2,837
Staff Imprest	7,818	8,443
Others	-2,282	4,243
Renovation	3,071	3,071
Bounce cheque	191	-800
less: Provision for doubtful debts	0	0
	8,540	17,794
Prepayments		
Deffered Expenditure - Xmas Office Extension	17,922	17,922
Office Rent	0	0
	17,922	17,922
Trade Debtors	28,532	37,785
7 Long Term Loans to Subsidiaries		
OHL	1,435	1,435
	1,435	1,435
8 Accumulated Profits/(loss)		
Balance at 1 Jan 2011	-115,713	-179,546
Plus Profit/(loss) for the year	230,695	63,833
	114,982	-115,713
9 Salaries & Staff Benefits		
Salaries & wages	467,605	468,613
Overtime	4,986	9,268
Staff allowances	11,790	9,848
Provident fund	34,756	33,219
Staff expense	380	0
House Rent subsidy	13,983	19,734
		8,500
	533,499	549,182

10 Prior Period Items

	2012	2011
Refund of seafreight for Klaus		-732.0
Telephone bill for 2010 paid in 2011		8,528
Leave Grant for Fanning agent and Tautebwa	1,417	
Staff Bonus tax for November paid in 2011		1,472
KHC Subsidy Rent	1,860	
Loan Adjustments	37	-7,074
Imprest Retired	2,442	
Leave Grant for Terengantaake (Agent Kuria 2008-2010)		1,500
Unclaimed cheques appeared in BST		
	5,756	3,694

11 Provision for Doubtful Loans

Provision for Doubtful Loans				2012	2011
Active Loans					
Commercial, Personal, Home Loans	7,105,347	@	5%	355,267	356,863
Staff Personal	89,429	@	2%	1,789	1,512
Staff House	481,333	@	2%	9,627	9,573
Total Provision Required				366,683	367,948
less Provision already provided				367,948	387,011
additional provision required/(write back)				-1,265.30	-19,063.21
Past Due Loans					
Pastdue	2,533,710	@	35%	886,798	879,459
Total Provision Required				886,798	879,459
less Provision already provided				879,459	778,902
additional provision required/(write back)				7,339	100,557
Hard Core Loans					
Hard Core	163,035	@	100%	163,035	162,606
Total Provision Required				163,035	162,606
less Provision already provided				162,606	163,413
additional provision required/(write back)				429	-807
Total Provision Required for the Year				1,416,516	1,410,013
less Provision already provided				1,410,013	1,329,326
Additional Provision Required/(write back)				6,503.11	80,686.90

	2012	2011
12 Long Term Loans		
Government Loan - ADB		
Balance 1 st January 2012	1,325,021	1,325,021
Payment to Government	-86,126	-86,126
Interest Due - 2010 (6.5%)	86,126	86,126
	1,325,021	1,325,021
Current Portion	144,951	144,951
	1,180,070	1,180,070

EIB Loan		
Balance at 1 st January	760,346	964,985
Disbursement from EIB	0	0
Payment to EIB	-191,571	-204,638
Adjustments		
Interest Due - 2011 (1% p.a)	0	0
	568,775	760,346

* *Interest paid on EIB loan = $5,747.13.*

KPF Investment		
Balance at 1 st January	1,721,429	1,709,219
Disbursement from KPF	0	0
Payment to KPF	0	0
Interest Due - 2009 (6% on used funds)	3,444	12,210
	1,724,873	1,721,429

13 Sundry Expense		
Training	15,448	22,885
Promotions	2,028	2,100
Janitorial	1,397	769
Loan adjustments-sundry expense	2,225	2,550
Bill of Sale	545	
Pledge Expense	9,500	
Sundry Expenses	117	42
Legal and Lawyer fees	143.50	8,650.00
	31,403	48,496

	2012	2011
14 Greditors		
Greditors	-35	-35
Payroll Accruals Payable	-5,047	
DBK Staff Deduction Clearing	0	
	-5,082	
Suspense & Clearing a/c		
Suspense Re: H/Rent Clearence	186	186
Suspense Re: Xmas Branch H	8,445	7,735
Suspense Re: Bank errors	6,833	7,827
Suspense Re: Staff fund	-280	0
Suspense Re: Unclaimed cheques	78,059	78,300
Suspense Re: Phone Clearence	-5	-5
Suspense Re: Loan Refund	-3,323	-3,323
Suspense Re: Missing Telmo	12,018	12,018
Suspense Re: Vinstar Expenses	0	0
Suspense Re: Commercialisation Project	7,647	12,647
Suspense Re: Project development	-788	-788
Suspense Re: Loan Adjustments	-138,372	14,505
Suspense Re: Unknown	22,970	22,970
	-6,610	152,073
Total Creditors	-11,692	152,038

15 Revolving Fund - Agent's M/ycle		
Abaiang agent	865	865
Abemama agent	865	865
Beru agent	865	865
Nikunau agent	865	865
Onotoa agent	865	865
Marakei agent	982	982
Fanning agent	865	865
Tabnorth agent	865	865
Butaritari agent	865	865
Tamana agent	865	865
Nonouti agent	-197	-197
Arorae Agent-	-1,092	-1,092
Aranuka Agent-	-1,092	-1,092
Maiana agent	865	865
Marakei agent	865	865
Nikunau agent	982	982
	9,098	9,098

	2012	2011
16 Office Rent		
Head Office	32,975	35,800
Tab North		
Notional Rent - Xmas Branch	0	0
	32,975	35,800

17 General Insurance Fund		
Worksmen Compensation	17,000	8,500
Motor Vehicles	18,000	9,000
Furniture and fittings	5,000	2,500
	40,000	20,000
18 Interest on ADB Loans	197,015	183,765
19 Loans Over Payments	239,212	254,184