MERCHANT FINANCE LTD

ANNUAL REPORT 2017

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MERCHANT FINANCE LIMITED

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OUR VISION

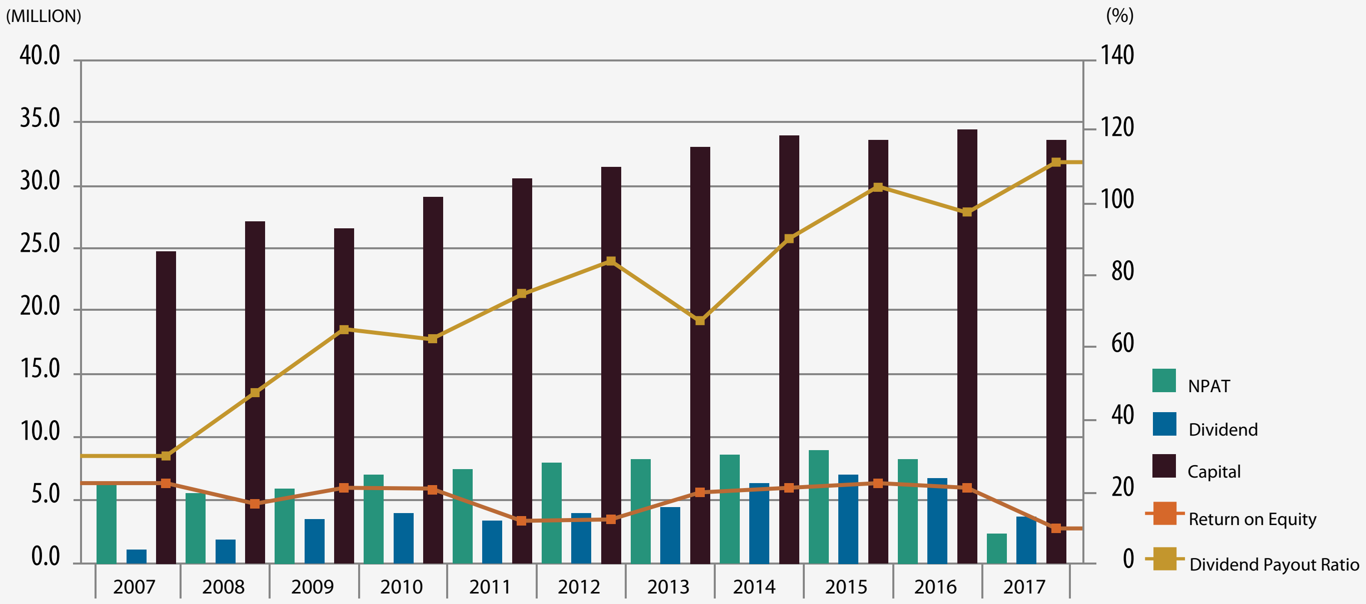
To be the preferred provider of financial services in the South Pacific

OUR MISSION

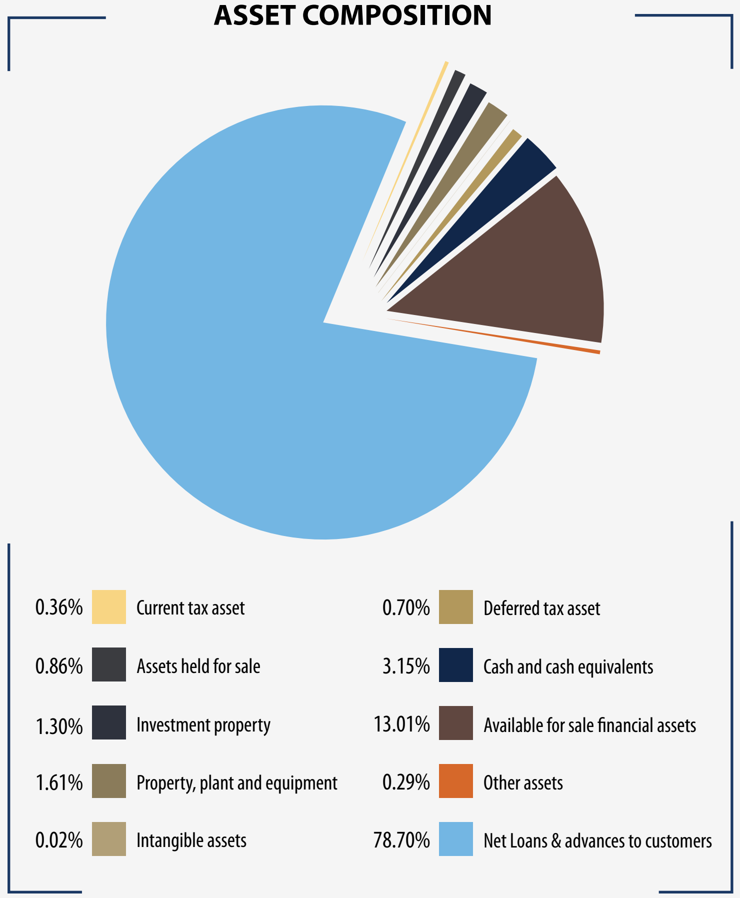
We provide innovative financial solutions in ways that: Exceed Customers' Expectations, Safeguard Depositors' Fund and maintain Our Corporate Social Responsibilities, while preserving the loyalty of our people and maximizing shareholders value

MERCHANT FINANCE LIMITED
FINANCIAL HIGHLIGHTS

PROFIT AFTER TAX

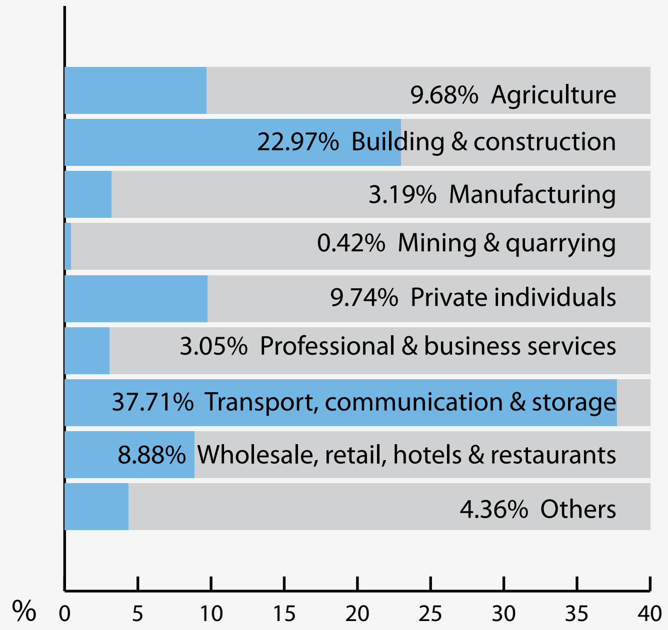


ASSET COMPOSITION

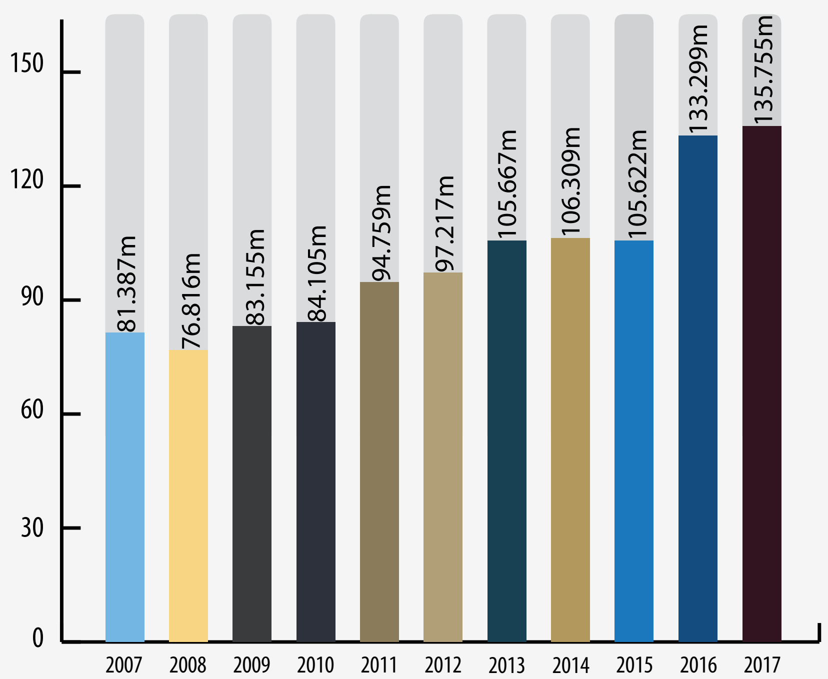


CREDIT RISK CONCENTRATION

LOANS AND ADVANCES



NET CREDIT BOOK



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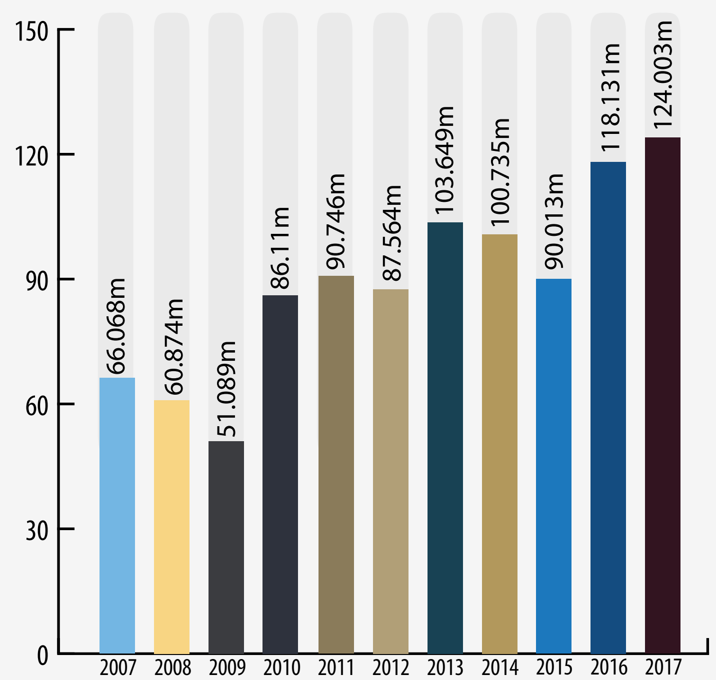
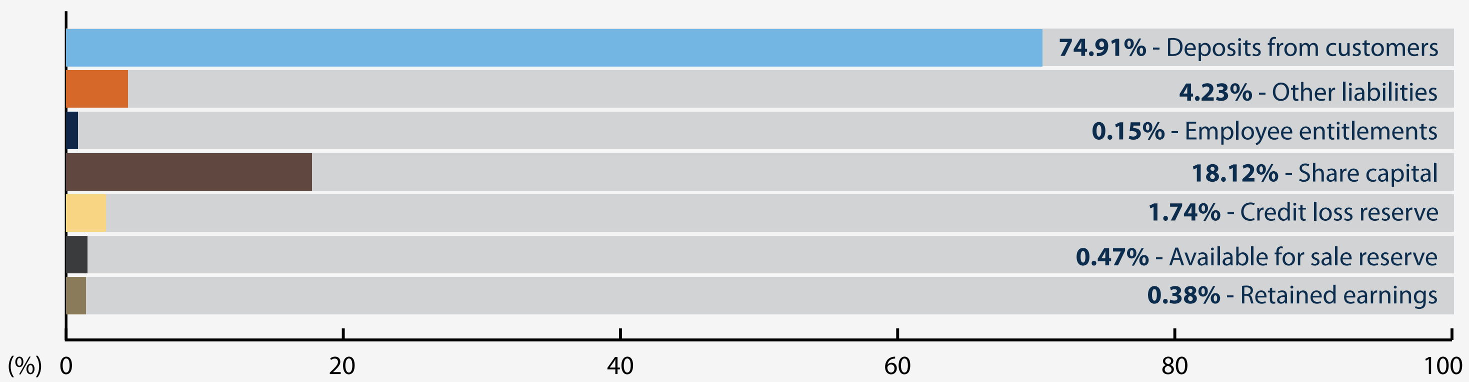


FUNDING COMPOSITION

LIABILITIES



WHAT IS CORPORATE GOVERNANCE?

Corporate Governance is the system of rules, practices and processes by which a company is directed and controlled. This essentially involves balancing the interests of a company's management, its board, shareholders and other stakeholders, including those outside a company.

The importance of Corporate Governance was highlighted, following the huge corporate failures in the international arena and the global financial crisis in the beginning of the twenty first century. As such, principle based Corporate Governance guidelines have been recommended for both developed and emerging capital markets with a view to improve investor confidence.

In Fiji, financial institutions such as Merchant Finance Limited are regulated by rules and guidelines outlined under the Companies Act, the Banking Act and a Corporate Governance policy issued by Fiji's financial sector regulator, the Reserve Bank of Fiji (RBF).

THE CORPORATE GOVERNANCE STRUCTURE WITHIN MERCHANT FINANCE

Merchant Finance Limited (MFL) is accountable to two shareholders; Fijian Holdings Limited and FHL Trustees Limited (ATF Fijian Holdings Unit Trust). Its board of directors are made up of nominees from the two companies, who are appointed after approval from RBF. To maintain fairness, transparency and good judgement, the Board also includes independent directors. A director who is 'independent of management and free from any business or other relationship with "Merchant Finance'.

MFL has five Subcommittees to the Board that help carry out its core functions. The Committees are: the Board Asset, Liability & Risk Subcommittee, the Board Credit Subcommittee, the Audit & Governance Subcommittee, the Board Human Resources Subcommittee and the Board IT Subcommittee.

Directly subordinate to the Board and Subcommittees is the Chief Executive Officer (CEO) of MFL. The CEO is responsible for leading management, developing and implementing business strategies and reports to the Board and its Subcommittees.

The Management team are the direct reports to the CEO. They are responsible for the running of their respective departments or branches, as they deal with various stakeholders on a daily basis. To ensure community involvement, management is also responsible for organizing corporate sponsorship and social responsibility activities under the guidance and approval of the CEO.

WHAT ISSUES ARE COVERED UNDER THE COMPANY'S CORPORATE GOVERNANCE POLICY?

Concerns pertaining to Corporate Governance are addressed in the Company's Corporate Governance Policy. The policy was developed to ensure the Company's compliance with the laws relating to crimes in Fiji, the Companies Act, Merchant Finance Articles of Association, Reserve Bank of Fiji's policies on Corporate Governance and Fit and Proper persons for licensed financial institutions. In addition, the policy was prepared to set clear standards and expectations for MFL to fundamentally achieve customer value and investor confidence in the Company. Some topics are summarized below:

Compostion of Board

The structure of the Board, its composition and procedure for appointing and removing directors are detailed in the company's Memorandum, Articles of Association and in our Corporate Governance policy. At present, our maximum number of Board of Directors is nine (9). As at 30 June 2017, there were 5 directors:

Name	Appointment Date	Type
Sanjit Patel	13/02/2017	Chairman
Nouzab Fareed	19/05/2010	Member
Arun Narsey	19/10/2015	Member
Sunil Sharma	13/02/2017	Member
Mereoni Matavou	13/02/2017	Member

Selection & Induction of Directors

Our directors are appointed on the basis of their professional qualifications, business experience and relevant expertise. They are also assessed by their standing in the Fijian community and their compliance to the RBF's Fit and Proper Policy requirements. The composition of the Board is intended to ensure optimum output from varying skill set and expertise.

Incoming directors go through an induction process in which they are given a full briefing on the company's direction, strategy and operations. They also have an introductory meeting with key executives of the company.

Independence of Directors and Conflicts of Interest

The independence of each director is regarded as important so that he/she may be able to, objectively:
- make sound judgements on matters that are presented to the Board or its Committees;
- set policies for the Company; and
- carry out his/her fiduciary duty of loyalty and duty of care as a director

An annual review of the state of relationship between a director and the company is done to ascertain and affirm the independence of each director.

Directors are expected to avoid any action, position or interest that conflicts or appears to conflict with the interests of Merchant Finance. Each director is required to declare all details about his/her interests. These are recorded by the Company Secretary and tabled at a meeting of directors. Upon declaring a conflict of interest, a director should refrain from participating any further in decisions with regard to that matter. Any change in a director's interests is to be disclosed as soon as practicable to the Board. Once tabled at the Board, such declaration of interests is to be recorded in the minutes of that meeting.

Remuneration Arrangement

The remuneration of directors is determined each year at the Annual General Meeting of shareholders. Each director receives a fixed annual fee as well as a sitting allowance fee for each Board meeting he/she attends.

Board members who sit on a Board Committee are also entitled to the sitting allowance fee for each Committee meeting he/she attends. There is no annual fixed fee paid for being a member of a Committee. The Chairperson of each Committee is not entitled to any special allowance.

Performance Review, Training and Advice

Each director's performance is assessed annually by the Chairperson, or at a time when a director is being considered to re-election. The performance of the Chairperson is annually assessed by the People and Nomination Committee of Fijian Holdings Limited. Directors are provided with proper information in relation to the Company before accepting appointment. A director is also entitled to seek any additional information that he/she may require to be able to carry out his/her duties. Each Director has the right to seek independent legal or other professional advice at the Company's expense. Prior approval from the Chairman is required but may not be unreasonably withheld or delayed

Meetings

Board meetings are normally held every second month. Directors are expected to prepare adequately for, attend and participate at Board meetings and any meeting of the Subcommittees when required. There were only seven (7) meetings held during the year. Meetings for the financial year were attended as follows:

Name	Capacity	No. of meetings entitled	No. of meetings attended
Sanjit Patel	Chairman	4	4
Nouzab Fareed	Member	7	7
Arun Narsey	Member	7	7
Sunil Sharma	Member	4	3
Mereoni Matavou	Member	4	4

Delegation of Authority

In accordance with the Board Charter, the Board is allowed to delegate its roles and responsibilities to Committees and management. These are captured in the Charters of each Committee.

The Chief Executive Officer (CEO) carries out his work within the delegations and boundaries set for him by the Board. Details on the Chief Executive Officer (CEO) function and his relationship with the Board and Board Subcommittees are contained in the Companies Act, the in-house Corporate Governance policy, his contract and detailed delegations of Authority from the Board.

Whistleblowing

The company's whistleblowing provisions, within the Corporate Governance policy, allows employees to voice serious concerns or escalate serious matters on a confidential basis, without, fear of reprisal, dismissal or discriminatory treatment.

The policy is intended to address matters including: dishonest, fraudulent, corrupt or illegal behaviour; accounting or internal control matters; audit-related matters, including non-disclosure or a failure to comply with internal or external audit processes; improper conduct or unethical behaviour; or conduct endangering health and safety.

The Complaints policy lays down procedures to be followed in raising a complaint, who the complaint is to be raised with, and investigation procedures that are to be adhered to when investigating a complaint.

Audit & Reporting

The Audit, Risk & Governance Committee is responsible for assisting the Board to substantiate and safeguard the integrity of the Company's financial reporting and internal control processes in the company.'

The Committee asses the compliance of the Company's external reporting, the internal processes and controls that support the external reporting, coordination with the external auditors and ensuring the yearly audits and half year reviews are conducted in an effective manner. The Committee makes recommendations for the appointment or removal of the external and internal auditors, annually assess the performance and independence of the auditors and monitors the coordination of their audits rotated on a three year basis.

Communication and Public Disclosures

Merchant Finance is committed to providing timely, accurate and balanced disclosure of all material information in accordance with the disclosure requirements issued by the Reserve Bank of Fiji. This demonstrates the Company's commitment to transparency.

External stakeholders

External stakeholders play an important role in any company and our relationship with them is covered under Corporate Social Responsibility (CSR) in our Corporate Governance Policy. We actively maintain our CSR as it not only contributes to the improvement of ourselves as socially responsible but provides an overall improvement to the community at large.

CONCLUSION

As a custodian of investors hard earned savings, we ensure that right mechanics are implemented through various policies and procedures which is overseen by the Board, shareholders and RBF.

Independent directors play a vital role as an added mechanism of oversight and collectively work towards continuing to review our Corporate Governance Policy and other policies to ensure that it meets best practices and sets the relevant benchmarks in our operations.

MERCHANT FINANCE LIMITED
SUB COMMITTEE REPORTS

AUDIT, GOVERNANCE AND RISK SUBCOMMITTEE

The Audit, Governance & Risk Committee is responsible for overseeing the company's audit, governance, risk management and compliance activities of MFL.

The Committee members during the financial year are:

Members	Capacity	Status
Joe Taoi	Chairperson	Resigned 23/11/16
Cama Raimuria	Member	Resigned 23/11/16
Saleshni Warran	Member	Current
Abilash Ram	Member	Current
Sunil Sharma	Chairperson	Appointed 14/3/17
Tarlochan Singh	Member	Appointed 14/3/17

During the year various in-house, internal, external and investigation audit reports were presented to the committee, deliberated and course of action recommended and implemented.

Training on various policies, risk management and Anti money laundering continued throughout the year.

A number of internal policies were reviewed during the year and some of these tabled to the Committee before year end. The remaining policies will be tabled in the next committee meeting and will clear Merchant Finance two yearly review of in-house policies.

The Committee is committed to upholding governance best practices, regulatory compliance and maintaining risk at acceptable levels.

REPORT OF THE INFORMATION TECHNOLOGY (IT) SUB COMMITTEE

The Information Technology Sub Committee is responsible for the oversight on the overall review of the MFL system, its project management and its proposed IT solution evaluation and any other duties delegated by the Board.

The Committee members during the financial year are:

Members	Capacity	Status
Arun Narsey	Chairman	Current
Mahlon Isimeli	Member	Current
Salesh Nand	Member	Current
Asish Kumar	Member	Current
Sitiveni Nabuka	Member	Current

During the year the committee endorsed the Expression of Interest for the IT System review and also reviewed the IT Policy and Procedures, internal and external IT audit reports.

Meetings of the IT Sub Committee board are held quarterly. If necessary, additional meetings may be convened.

ASSET & LIABILITY MANAGEMENT (ALM) SUBCOMMITTEE

The ALM sub-committee is responsible for overseeing all the company's financial management of asset and liability to achieve sustainable profit, business growth and maximize shareholders value. This includes the addressing and consideration of issues in liquidity, balance sheet mismatch, market competition, Term Deposit, investment, interest spread, cash flow and other risks.

During the financial year, the committee members are;

Members	Capacity	Status
Robin Yarrow	Chairman	Resigned November 2016
Isikeli Tuituku	Member	Resigned October 2016
Cama Raimuria	Member	Resigned February 2017
Nitesh Chand	Member	Resigned February 2017
Murgessan Pillay	Chairman	Current
Priya Singh	Member	Current
Amrish Lal	Member	Current
Joel Mastapha	Member	Current

Meetings of the ALM sub-committee are generally held quarterly. If necessary, additional meetings may be convened.

CREDIT SUBCOMMITTEE

The Credit Committee is responsible for overseeing the assessment of credit standing and repayment ability of prospective borrowers of Merchant Finance. In addition, they supervise the review and implementation of the credit policy and practices, lending decisions above limits delegated to management, and all decisions relating to non-performing loans and provisioning.

The Committee members during the financial year are:

Members	Capacity	Status
Arun Narsey	Chairperson	Appointed 07/4/17
Craig Strong	Member	Current
Abilash Ram	Member	Current
Saleshni Warran	Member	Appointed 07/4/17
Gyaneshwar Prasad	Member	Appointed 07/4/17
Navin Raj	Member	Appointed 07/4/17

During the year the Committee reviewed internal processes and management delegated approval limits were revised to help strengthen the lending and recovery function. The Committee was also instrumental in implementing all recommendations from the RBF Onsite examination reports for the Credit functions during the year.

In addition, the Committee reviewed the MFL overall credit risk exposure to ensure that it is within market acceptable levels.

Meetings of the Credit Subcommittee are generally held bi-quarterly. If necessary, additional meetings may be convened.

HUMAN RESOURCES SUBCOMMITTEE

The primary role of the committee is to review and implement appropriate human resources policies, strategies and other related issues and make recommendations to the Board.

The Committee members during the financial year are:

Members	Capacity	Status
Mereoni Matavou	Chairperson	Current
Emitai Boladuadua	Chairperson	Resigned November 2016
Catherine Grey	Member	Current
Ilisoni Taoba	Member	Resigned November 2016
Nesbitt Hazelman	Member	Current
Naveeen Lakshmaiya	Member	Current

The Committee is responsible for overseeing the overall human resources strategy from talent management, diversity, leadership development, recruitment, retention and termination, reward and remuneration and other related matters.

During the year, the Committee provided insight on a number of issues which included recommendations on the HR Policy, staff KPI's, performance appraisals and the staff bonus payment, which were further recommended to the MFL Board for approval.

MERCHANT FINANCE LIMITED

CHAIRMAN'S REPORT

Merchant Finance recorded a decline in marginal profits over the financial year ending 30 June, 2017. The Company registered a $4.9m operating profit before tax in the year, compared to $9.4m in the previous year. The reduced performance was largely attributed to the write off of one large loan exposure totalling $3.9m.

Despite intense competition, high banking system liquidity and weak revenues being our key challenges during the year, the Company maintained its capital adequacy ratio well above the minimum requirement for licensed credit institutions and met all prudential requirements set by the Reserve Bank of Fiji.

The MFL Board is aware of the many risks that emerge from our line of business and understands the necessity for stringent risk controls and robust management strategies that need to be in place. As such, we will continue to emphasize the importance of maintaining RBF compliance requirements, while steering the Company forward.

ECONOMIC BACKGROUND

The Fiji economy is projected to record a broad based growth of 3.8% this year, slightly higher than the previously anticipated 3.6%. This growth was attributed to mixed sectoral performances with a decline in the timber and mining industries, while positive outcomes prevailed in the electricity and tourism sectors.

Inflation soared above the 5.0% mark in the first quarter of this year until the month of April, which saw a slight decline to 4.1%. However, inflation still remains high compared to the trend in the last few years and the outturn is mainly attributed to higher prices for yaqona due to supply shortages, post Tropical Cyclone Winston and increase in fuel prices.

Excess liquidity in the banking system rose by 20% at the end of April, led by increases in foreign reserves coupled with a decrease in statutory reserve deposits. This reduced cost of borrowings extensively for financial institutions including Merchant Finance.

CHALLENGES IN FIJI'S FINANCIAL SECTOR

The high supply and ease of availability of funds in the banking system triggered a decrease in lending rates and a rise in term deposit rates for financial institutions.

Competition continues to be a challenge as we try to retain and grow our market share in the credit sector. Banks have been entering the credit arena with the objective to utilize excess funds from depositors.

Adverse and unpredictable weather patterns also impacted financial institutions and its customers. MFL customers in the Agriculture industry (namely in Logging and Forestry) were not spared rendering their inability to service their loan obligations with us. MFL assisted via offering to restructure their accounts.

STRATEGIC DIRECTION

Over the year, the Board was prompted to relook at strategies and re-develop output-driven strategies that will re-enforce our Corporate Vision and Mission.

After a detailed review and as a result of the large write off, the Board ceased all trade finance product in the second half of the year. The Board is adamant in renewing the strength of our loan portfolio by revising our asset management quality by refocussing on collections and our three core products: High Notes, Personal Lending and Commercial Lending.

Our people are and will always be Merchant Finance's greatest asset, the Board and management is keen to optimize this philosophy with action to implement a structure that delivers negotiated Key Performance Indicators and Incentives that drive productivity. This move will redirect our human capital to ensure that we are on top of our game and improve value proposition to our customers.

With the initiative to take our business to the people, we will be relocating our Damodar Branch to the Rups Complex in Nakasi. Conveniently, our accessibility is improved to our existing and potential customers in the Naitasiri, Rewa and Tailevu provinces.

FUTURE OUTLOOK

In line with our Vision to be the most preferred provider of financial services, our customer's credit rating is vital to our business. We will strive to be the most trusted financial partner to both our loyal and new clients.

In the new financial year, the Board has set a clear direction to Management on the way forward which involves a significant number of changes.

The first being focus is on strengthening our process and procedures through a detailed review of all aspects of our business by our internal and external auditors, Consultants and our various Sub Committees.

In addition, the Board has approved the investment of over $0.5m into the upgrading of our IT system and appointed an IT Sub Committee to look into a Document Management System to strengthen our current record keeping process.

We have also strengthened our team with a restructure of our people to better cater for our customers needs and included a new division on Asset Management to ensure better recovery of funds owed to the Company.

As a result of the above, the new MFL CEO has been placed with an enormous task to ensure that 2018 rolls out a new look MFL with new strategies and robust technology and systems to achieve shareholders expectations and exceed our customers' expectations.

Finally, the refocus on our core products; asset financing, personal financing and term deposit investment with our revised strategies will ensure that MFL remains resilient in the constantly changing environment and the increasing competition in the market. With expectations on the banking system liquidity to remain high, this new direction will empower our team and build our character as we maintain our presence in the financial sector.

CONCLUSION

We welcome our new directors to the Merchant Finance Board, Mr Sunil Sharma and Mrs Mereoni Matavou who both bring with them a wealth of knowledge in their areas of expertise to complement our current directors, Mr Arun Narsey and Mr Nouzab Fareed. The Board is well equipped with the appropriate skill set and corporate experience to the current Board to steer MFL into a new level of growth.

I wish to thank the directors that resigned during the financial year, Messers Isikeli Tuituku, Robin Yarrow, Emitai Boladuadua and Joe Taoi for their contributions during their directorship.

I also wish to acknowledge the contribution of Mr Naipolioni Batimala, who resigned as the Chief Executive Officer (CEO) at the end of the financial year. We thank him for his contribution throughout the years and wish him all the best in his endeavours. Mr Batimala has been replaced by Ms Rowena Fong, as Acting CEO in the interim.

Most importantly I wish to thank our customers for your continued support and confidence in Merchant Finance. We look forward to our continued fruitful business relationship in the new financial year.

The final acknowledge is to the management team and staff, I sincerely thank you for your hard work and contribution during the financial year. Let us use this year's results as a stepping stone to a new and improved team ready to tackle challenges ahead.

Mr. Sanjit Patel
Chairman

MERCHANT FINANCE LIMITED
BOARD OF DIRECTORS

SANJIT PATEL
Chairman

Is a businessman and holds a Bachelor of Commerce Degree from University of Canberra and a member of Australian Institute of Company Directors (AICD). Mr. Patel is a former Member of Parliament where he also served as a member of Public Accounts Committee, Economic Affairs Committee, and Chairman of Emoluments Committee and was Head of Fiji delegation to ACP - EU JPA. He has also served as Councillor and Mayor of Nadi. He is the current Chairman of Merchant Finance Limited and board member of FHL Investment & Strategy Sub-Committee. Mr Patel also sits as a Director on the Board of Fiji Hardwood Corporation Limited and Soham Investment Pte. Limited.

NOUZAB FAREED
Director

Nouzab Fareed is the Group Chief Executive Officer for Fijian Holdings Group. He is also the Chairman of Life Cinema Ltd and the Deputy Chairman of Merchant Finance Ltd. Fareed is a Board Director for all FHL Group companies. He is the Vice President of Fiji Chamber of Commerce and a Board member for Fiji Employers & Commerce Federation. He is also the Vice President of CPA Australia Fiji Branch. He is a Past - President of Fiji Institute of Accountants as well as Australian Institute of Company Directors – Fiji Chapter. Fareed has more than 27 years of Executive Experience covering diverse sectors from Education, IT, Travel & Tourism, Media, Commodity Broking, Corporate Finance, Mergers & Acquisitions, Investment Research, Management Services, Fund Management, Stock Broking, Leasing, Courier & Manufacturing. He has worked for global brands like FedEx, Western Union and NIIT. Fareed is a Chartered Accountant (Fiji), Chartered Management Accountant (UK) and a Fellow of CPA (Australia). He is also Chartered Marketer (UK), a Licensed Investment Advisor (Fiji), a Certified Fraud Examiner (CFE) of USA. He is a Graduate Member of Australian Institute of Company Director (AICD). Fareed got a MBA in Banking & Marketing and a Master of Arts in International Economics. He has received Executive Training from Harvard Business School, University of Oxford, Australian Graduate School of Management (AGSM), Graduate Business School of Auckland, Asian Productivity Organization and AOTS (Japan).

Nouzab Fareed is the only Distinguished Toastmaster (DTM) in South Pacific and a Travel Centurion.

SUNIL SHARMA
Director

Is a Senior Partner of Aliz Pacific, Chartered Accountants and Business Advisors. Has over 27 years' experience in auditing and assurances, taxation, business advisory and financial management. He is a member of the Fiji Institute of Accountants (FIA), Associate Member of CPA (Australia) and FRCA Tax Agent and currently is an Executive Board member & Treasurer of Fiji Chamber of Commerce & Industry, board member of National Employment Centre (NEC) and a member of the Arbitration Court in Fiji.

ARUN NARSEY
Director

Is a Chartered Accountant practicing under A M Narsey & Co. Chartered Accountants. He has over 30 years' experience in professional accounting and held various senior and management positions with KPMG (locally and internationally) and Ernst & Young. He is a member of the Fiji Institute of Accountants, Institute of Chartered Accountants Australia and New Zealand. Currently Arun is a director of Amalgamated Telecom Holdings Ltd, Fiji Directories Ltd and Telecom Fiji Limited. He is also Chairman of ATH Kiribati Ltd, a Local Advisory Board Member of Bank of Baroda and co.opted member of Fiji Higher Education Commission. He is also a member of Jai Narayan College Management Board and Honorary Auditor of Fiji Society for the Blind.

MEREONI MATAVOU
Director

Is a Lawyer by profession with over 10 years' experience in compliance to corporate, contract laws and litigation matters. Mrs Matavou held various positions in legal and compliance from FRCA, Fiji TV and is currently the Manager Legal and Company Secretary of FHL. She is a Director in FHL Media, FHL Retailing, the Chairperson of MFL HR Sub-Committee, FHL Group Tender Committee and a member of the HR Sub-Committee for Basic Industries Ltd while her professional membership include being a member of the Fiji Law Society, High Court Roll and the Australian Institute of Company Directors

MERCHANT FINANCE LIMITED

CHIEF EXECUTIVE OFFICER'S REPORT

It is an honour to greet the stakeholders of Merchant Finance for the first time. The 2017 financial year was one of the most challenging for Merchant Finance. The year was coupled with excess liquidity and aggressive competition in the market.

FINANCIAL PERFORMANCE

The year began positively with our newly launched trade finance product benefiting a lot of our customers. This product made a huge impact to MFL in the second half of 2017 and it was unfortunate that a default of one of our large customers make a huge impact on our bottom line. Although the year recorded a slight growth in net interest income there was a significant decrease of 48% in our profit before tax from $9.4 million in 2016 to $4.9 million in the current year.

After the write-off of this large loan, the Board and management no longer saw it viable for MFL to continue to offer the trade finance product and came to a conclusion to halt these products. This move prompted the refocus to our core products of Commercial Lending, Personal Lending and High Notes.

A significantly higher loan impairment expense was taken in 2017 due to the higher defaults in the Company's loan portfolio. The 2017 impairment expense increased to $6.4 million compared to $1.7million the previous year. In response, MFL has implemented additional processes to strengthen its credit review processes which is resulting in some loss of business, but is necessary to protect the interests of the Company, its shareholders and customers.

The increase in this expense has been impacted by the withdrawal of the Country's only credit bureau within the financial year which resulted in a lack of visibility of the debt profile and credit history of customers. This was coupled with some customers not disclosing their debt commitments and taking on debt obligations which they could not afford resulting in higher loan defaults.

Total Assets as at year-end was recorded at $165.5 million a marginal increase of 3% from the previous year (2016: $161.4 million). Our Cash and Cash equivalents grew by 8% to $5.2 million while our loan portfolio more or less remained stagnant due to increased competition.

Term Deposits grew from $118 million to $124 million in the current year, an increase of 5%. Despite excess liquidity and increased competitive rates, our term deposit product fared well in the changing business environment.

Dividends to shareholders were also impacted with a total of $4.5 million declared during the financial year compared to $9.5 million in 2016.

POLICY, HUMAN RESOURCES AND CAPACITY DEVELOPMENT

During the year, a number of policies have been reviewed and developed to cover all aspects of MFL. The aim is to provide a clearly documented guide to our employees on the different process and procedures. These policies are currently with the various Sub Committees and should be rolled out in the new financial year.

Our business is our people. They play a vital role to the company's success therefore their development is a priority as it enables us to serve our customers and other stakeholders in the best possible way.

During the year one manager completed his MBA; whilst two other senior managers commenced studies for Masters in Commerce with the aim to complete it in the current year. Attainment of professional membership saw staff joining CPA Australia, Institute of Internal Auditors (North America) and the Australian and New Zealand Institute of Insurance and Finance (ANZIIF). This was in addition to various staff attending short course trainings and workshops throughout the year.

In the New Year, I have been tasked to implement a new structure that will better cater for our customers' needs and include a new division on Asset Management to ensure better recovery of funds owed to the Company.

SERVICES AND MARKET SEGMENT

The Company made its presence felt in the Nadroga, Navosa and Namosi regions, as we opened our Sigatoka Branch in July 2016. By taking our business closer to this community, MF was able to create opportunities for new and existing customers and businesses in the area.

We will be targeting a few more new branches in the new financial year to ensure that our customers are well served throughout the two main islands.

The New Year will see continued focus on our three core products; asset financing, personal financing and term deposit investment. Our core products with our revised strategies will ensure that MFL continues to be your investment partner and preferred financier in the constantly changing and increasingly competitive market.

CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility (CSR) is an important part of the Company's cultural identity, customer relationship and strategic direction.

This year, MFL contributed to a number of events in the community through:

- Donation to Viti Spinal Injuries Association of Fiji;
- Donation to Fiji Red Cross Savusavu Door Knock Appeal;
- Donation to Vodafone Tebara Carnival;
- Donation to LTA Hibiscus Festival 2016;
- Donation to Fiji Football Association;
- In kind sponsorship of the Annual 2017 TISI Sangam Convention ;
- In kind sponsorship to the Nadroga Rugby Football Union;
- In kind sponsorship to the Suva Grammar School Basketball Tournament;
- In kind sponsorship of the Annual Bodyworks Physique Event;
- Participation in the Sakura Expo at Kinoya; and
- Participation at the Adi Bua Showcase.

During the year MFL also offered fresh graduates an internship program. These interns were given on the job' training to gain work experience in our growing branches and different departments. Successful trainees were then recruited to be a part of our dynamic team.

FUTURE OUTLOOK

The 2018 financial year is going to be even more challenging for MFL. However the Board has given a clear direction to Management on their expectations going forward. The focus of the Board is the improvement of our processes, procedures with both internal and external expert reviews of all aspects of our business. There will be a significant investment into our IT system upgrade and new document management system, with a change in the company structure to improve our services and achieve better results.

CONCLUSION

To conclude, my sincere appreciation is extended to the insightful support and direction and wise counsel of the Chairman and our Board of Directors.

I would also like to acknowledge and thank the former CEO, Napolioni Batimala who resigned at the end of the financial year.

To both our new and loyal customers and suppliers, I sincerely thank you for your confidence in us to deliver investment returns and credit solutions to suit your needs. I look forward to your continued support and confidence in the 2018 financial year.

Finally, to the management team and staff I candidly thank you for your hard work, tireless efforts and contribution during the year despite the subdued and challenging business environment. Going forward, I count on your continued hard work and commitment, as we envisage a new year of growth for MFL.

Ms. Rowena Fong
Acting Chief Executive Officer

MFL MANAGEMENT TEAM

BOBBY ALI
Divisional General Manager West

PIO NATANIELA
Head of Corporate

DINESHWAR LAL
Manager Asset Management Unit & Acting Manager Credit

BOBBY DAYAL
Divisional General Manager East

ANIL PRASAD
Divisional General Manager North

ROWENA FONG
Acting Chief Executive Officer

MFL BRANCHES

CENTRAL DIVISION


NAKASI BRANCH


SUVA BRANCH


NABUA BRANCH

WESTERN DIVISION


SIGATOKA BRANCH


LAUTOKA BRANCH


NADI BRANCH

NORTHERN DIVISION


TAVEUNI BRANCH


LABASA BRANCH


SAVUSAVU BRANCH

MERCHANT FINANCE LIMITED

MFL TEAM

MERCHANT FINANCE LIMITED

FINANCIAL STATEMENTS

For the year ended 30 June 2017

TERM DEPOSIT

PERSONAL LOAN

COMMERCIAL LOAN

In accordance with a resolution of the board of directors, the directors herewith submit the statement of financial position of Merchant Finance Limited (the "Company") as at 30 June 2017 and the related statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and report as follows:

DIRECTORS

The names of directors in office at the date of this report and at any time during the financial year and up until the date the financial statements were authorised for issue are as follows:

Directors Name	Appointed	Resigned
Sanjit Bhai Patel - Chairman	13/02/2017	Current
Nouzab Fareed	19/05/2010	Current
Arun Narsey	19/10/2015	Current
Sunil Sharma	13/02/2017	Current
Mereoni Matavou	13/02/2017	Current
Isikeli Tuituku (Chairman)	10/09/2014	19/10/2016
Robin Yarrow	10/09/2014	23/11/2016
Joe Taoi	10/09/2014	23/11/2016
Emitai Boladuadua	10/09/2014	23/11/2016
Viliame Naupoto	19/10/2015	19/10/2016

STATE OF AFFAIRS

In the opinion of the directors, the accompanying statement of financial position gives a true and fair view of the state of affairs of the Company as at 30 June 2017 and the accompanying statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows give a true and fair view of the results, changes in equity and cash flows of the Company for the year then ended.

TRADING RESULTS

The operating profit after income tax expense for the year ended 30 June 2017 was $3,891,274 (2016: $7,535,953).

DIVIDENDS

A final dividend of $7,068,000 (at the rate of $0.25 per share) was declared on 23 June 2016 of which $2,000,000 was reinvested into share capital in the 2016 financial year and $1,500,000 reinvested in the current financial year.

An interim dividend of $1,500,000 (at the rate of $0.05 per share) in respect of the 2016 financial year was declared on 30 December 2016 and paid during the year.

A final dividend of $3,000,000 (at the rate of $0.10 per share) was declared on 22 June 2017 out of which $600,000 was paid and $2,400,000 was unpaid as at 30 June 2017.

RESERVES

The directors do not recommend any transfers to or from reserves and retained earnings in the 2017 financial year.

PRINCIPAL ACTIVITY

The principal activities of the Company during the year was providing finance for asset purchases, granting of personal loans, trade finance loans, acceptance of term deposits and acting as insurance agent for New India Assurance Company Ltd.

MERCHANT FINANCE LIMITED
DIRECTORS REPORT

ASSETS

The directors took reasonable steps before the Company's financial statements were made out to ascertain that the assets of the Company were shown in the accounting records at a value equal to or below the value that would be expected to be realised in the ordinary course of business.

At the date of this report, the directors are not aware of any circumstances which would render the values attributable to the current assets in the financial statements to be misleading.

LOANS AND ADVANCES TO CUSTOMERS

The directors took reasonable steps before the Company's financial statements were made out to ascertain that all known bad debts were written off and adequate allowance was made for impairment losses.

At the date of this report, the directors are not aware of any circumstances which would render the above assessment inadequate to any substantial extent.

RELATED PARTY TRANSACTIONS

All related party transactions have been adequately recorded in the financial statements.

OTHER CIRCUMSTANCES

At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements which would render any amounts stated in the accounts to be misleading.

UNUSUAL CIRCUMSTANCES/TRANSACTIONS

The results of the Company's operations during the financial year have not in the opinion of the directors, been substantially affected by any item, transaction or event of a material and unusual nature other than those disclosed in the financial statements.

GOING CONCERN

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

DIRECTORS' INTERESTS/BENEFITS

No director of the Company has, since the end of the previous financial year, received or become entitled to receive a benefit (other than a benefit included in the total amount of emoluments received or due and receivable by directors shown in the Company's financial statements) by reason of a contract made with the Company or a related corporation with the director or with a firm of which he/she is a member, or in a company in which he/she has a substantial financial interest.

Dated at Suva this 7th day of August 2017

Signed in accordance with a resolution of the Directors

Director

Director

STATEMENT BY DIRECTORS

In the opinion of the directors of Merchant Finance Limited:

a) The accompanying statement of profit or loss and other comprehensive income of the Company is drawn up so as to give a true and fair view of the results of the Company for the year ended 30 June 2017;

b) The accompanying statement of changes in equity of the Company is drawn up so as to give a true and fair view of the changes in equity of the Company for the year ended 30 June 2017;

c) The accompanying statement of financial position of the Company is drawn up so as to give a true and fair view of the state of affairs of the Company as at 30 June 2017;

d) The accompanying statement of cash flows of the Company is drawn up so as to give a true and fair view of the cash flows of the Company for the year ended 30 June 2017;

e) At the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due;

f) All related party transactions have been adequately recorded in the books of the Company; and

g) The Company's financial statements have been prepared in accordance with the Companies Act 2015.

Dated at Suva this 7th day of August 2017

Signed in accordance with a resolution of the Directors

Director

Director

INDEPENDENT AUDITORS' REPORT TO THE SHARE HOLDERS OF MFL

KPMG

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of Merchant Finance Limited ("the Company"), which comprise the statement 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 28.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company 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).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Companies Act 2015 and the ethical requirements that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our 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 our 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 (ISAs) 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 ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We 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 our 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

In our opinion:

i) proper books of account have been kept by the Company, sufficient to enable financial statements to be prepared, so far as it appears from our examination of those books; and

ii) to the best of our knowledge and according to the information and explanations given to us the financial statements give the information required by the Companies Act 2015, in the manner so required.

KPMG
KPMG

Suva, Fiji

7 August , 2017

Steve Nutley, Partner

AUDITORS INDEPENDENCE DECLARATION UNDER SECTION 395 OF THE COMPANIES ACT 2015

To: the Directors of Merchant Finance Limited

As required under Section 395 of the Companies Act 2015, we declare that to the best of our knowledge and belief, in relation to the audit for the year ended 30 June 2017 and up to the date of this report there have been:

(i) no contraventions of the Auditor independence requirements as set out in the Companies Act 2015 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG
KPMG

Suva, Fiji

7 August , 2017

Steve Nutley, Partner

MERCHANT FINANCE LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2017

	Note	2017 $	2016 $
Interest income	3	21,675,455	20,208,732
Interest expense	4	(5,393,428)	(4,272,720)
Net interest income		16,282,027	15,936,012
Fee and other income	5	1,317,344	1,219,822
Loan impairment expenses	6	(6,382,873)	(1,662,991)
Personnel expenses	7	(2,857,402)	(2,832,742)
Depreciation, impairment and amortisation		(592,798)	(581,276)
Other operating expenses	8	(2,864,666)	(2,679,277)
Operating profit before income tax		4,901,632	9,399,548
Income tax expense	9 (a)	(1,010,358)	(1,753,584)
Transitional tax expense		-	(110,011)
Profit for the year		3,891,274	7,535,953
Other comprehensive income Items that are or may be reclassified subsequently to profit and loss			
Available-for-sale financial assets- net change in fair value	21(b)	(24,245)	799,528
Total comprehensive income for the year		3,867,029	8,335,481

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements.

MERCHANT FINANCE LIMITED

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2017

	Share Capital $	Credit loss reserve $	Available for sale reserve $	Retained earnings $	Total $
Balance at 1 July 2015	26,500,000	2,875,936	-	4,670,213	34,046,149
Total comprehensive income for the year					
Profit	-	-	-	7,535,953	7,535,953
Other comprehensive income					
Net change in fair value of Available for Sale Assets			799,528	-	799,528
Total comprehensive income for the year	-	-	799,528	7,535,953	8,335,481
Transactions with owners of the Company, recognised directly in equity					
Contributions by and distributions to owners of the Company					
Interim dividend declared and paid ($0.09 per share) in respect of 2016 financial year	-	-	-	(2,400,000)	(2,400,000)
Final dividend declared ($0.25 per share) in respect of 2016 financial year	-	-	-	(7,068,000)	(7,068,000)
Issue of ordinary shares (Note 20)	2,000,000	-	-	-	2,000,000
Total contributions by and (distributions to) owners of the Company	2,000,000	-	-	(9,468,000)	(7,468,000)
Balance at 30 June 2016	28,500,000	2,875,936	799,528	2,738,166	34,913,630
Balance at 1 July 2016	28,500,000	2,875,936	799,528	2,738,166	34,913,630
Total comprehensive income for the year					
Profit	-	-	-	3,891,274	3,891,274
Other comprehensive income					
Net change in fair value of Available for Sale Assets			(24,245)	-	(24,245)
Total comprehensive income for the year	-	-	(24,245)	3,891,274	3,867,029
Transactions with owners of the Company, recognised directly in equity					
Contributions by and distributions to owners of the Company					
Interim dividend declared and paid ($0.05 per share) in respect of 2016 financial year	-	-	-	(1,500,000)	(1,500,000)
Final dividend declared ($0.10 per share) in respect of 2016 financial year	-	-	-	(3,000,000)	(3,000,000)
Issue of ordinary shares (Note 20)	1,500,000	-	-	(1,500,000)	-
Total contributions by and (distributions to) owners of the Company	1,500,000	-	-	(6,000,000)	(4,500,000)
Balance at 30 June 2017	30,000,000	2,875,936	775,283	629,440	34,280,659

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements.

MERCHANT FINANCE LIMITED

STATEMENT OF FINANCIAL POSITION

For the year ended 30 June 2017

	Note	2017 $	2016 $
Assets			
Cash and cash equivalents	10	5,218,213	4,787,828
Available for sale financial assets	12	21,532,872	19,552,117
Other assets	13	487,038	509,584
Loans and advances to customers	11 (a)	130,282,495	129,227,792
Current tax asset	9 (b)	590,327	-
Assets held for sale	23	1,416,172	1,416,172
Investment property	17	2,150,000	2,060,550
Property, plant and equipment	18	2,666,362	2,987,026
Intangible assets	19	33,045	41,038
Deferred tax assets	9 (c)	1,162,178	880,380
Total assets		165,538,702	161,462,487
Liabilities			
Deposits from customers	15	124,005,299	118,130,584
Other liabilities	14	7,003,473	7,181,596
Employee entitlements	9 (b)	-	806,311
Current tax liability	16	249,271	430,366
Total liabilities		131,258,043	126,548,857
Shareholders' equity			
Share capital	20	30,000,000	28,500,000
Credit loss reserve	21(a)	2,875,936	2,875,936
Available for sale reserve	21(b)	775,283	799,528
Retained earnings		629,440	2,738,166
Total shareholders' equity		34,280,659	34,913,630
Total liabilities and equity		165,538,702	161,462,487
Commitments and contingent liabilities	22		

Signed on behalf of the board

Director

Director

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements.

MERCHANT FINANCE LIMITED

STATEMENT OF CASH FLOWS

For the year ended 30 June 2017

	Note	2017 $	2016 $
Cash flows from operating activities			
Interest received from loans and advances		20,701,723	19,291,764
Interest paid on deposits from customers		(5,285,150)	(3,592,959)
Interest received from short term deposits and investments		945,008	850,137
Other income		1,225,010	1,009,018
Payment to suppliers and employees		(4,479,517)	(5,121,287)
Net increase in loans and advances		(7,437,576)	(29,515,271)
Net increase in deposits		5,874,715	28,117,265
Income taxes paid	9 (b)	(2,660,312)	(934,762)
Transitional tax paid	9 (b)	(28,482)	(80,701)
Net cash provided by operating activities		8,855,419	10,023,204
Cash flows from investing activities			
Payment for property, plant and equipment		(259,884)	(2,092,987)
Payment for intangibles		(5,750)	(51,772)
Proceeds from sale of property, plant and equipment		-	181,000
Proceeds from sale of assets held for sale		-	380,000
Payment for purchase of investment property		-	(2,060,550)
Net cash used in investing activities		(265,634)	(3,644,309)
Cash flows from financing activities			
Net movement in investment securities		(2,005,000)	2,000,707
Dividends paid		(6,154,400)	(9,013,600)
Net cash used in financing activities		(8,159,400)	(7,012,893)
Net increase/(decrease) in cash held		430,385	(633,998)
Cash and cash equivalents at beginning of financial year		4,787,828	5,421,826
Cash and cash equivalents at the end of financial year	10	5,218,213	4,787,828

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements.

TERM DEPOSIT

PERSONAL LOAN

COMMERCIAL LOAN

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

1. SIGNIFICANT ACCOUNTING POLICIES

Merchant Finance Limited is a licensed credit institution incorporated and domiciled in Fiji. The address of the Company's registered office is at Level 1, Ra Marama House, Gordon Street, Suva. The significant accounting policies, which have been adopted in the preparation of these financial statements, are noted below.

The financial statements were authorised for issue by the directors on 4 August 2018.

(a) Statement of compliance

The financial statements of the Company have been drawn up in accordance with the provisions of the Banking Act 1995, Companies Act 2015, and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

(b) Basis of preparation

The financial statements are presented in Fiji dollars, rounded to the nearest dollar. The financial statements have been prepared based on historical costs except for Available for Sale assets and Investment Property which are both measured at fair value. The accounting policies have been consistently applied to both years presented in the financial statements expect for the below.

The Company re-assessed its accounting for investment properties during 2017. The Company had recognised investment properties in the 2016 financial year using the cost model, whereby, after initial recognition of the asset classified as investment properties, the asset was carried at cost less accumulated depreciation and accumulated impairment losses.

During 2017, the Company changed the method of accounting for investment properties, management believes that revaluation model more effectively demonstrates the financial position of land and buildings and is more aligned to practices where the properties are held to earn rentals. In addition, the activity in the property markets in which these assets are located provides observable market data on which reliable fair value estimates may be derived.

After initial recognition, the Company now uses the revaluation model, whereby land and buildings will be measured at fair value at the date of the revaluation. The Company applied the revaluation model retrospectively and as the properties were acquired in the 2016 financial year, the purchase price was considered to reflect the fair value. Hence there was no impact on the amount stated in the prior year.

(c) New standards and interpretations not yet adopted

The following standards, amendments and interpretations to existing standards have been published which are relevant to the Company and are mandatory for accounting periods beginning after 1 July 2016, but for which the Company does not plan to early adopt. None of these is expected to have a significant effect on the financial statements of the Company, except for IFRS 9 "Financial Instruments" and IFRS 16 "Leases". The impact of these standards and interpretations on the financial statements of the Company has not yet been fully determined.

Standard/ Interpretation	Content	Applicable for financial years beginning on/ after
IFRS 9 Financial Instruments	IFRS 9, published in July 2014 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carried forward the guidance on recognition and de-recognition of financial instruments from IAS 39.	1 January 2018, with early adoption permitted
IFRS 16 Leases	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 (such as personal computers) 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 returns. Lessor accounting remains similar to current practice - i.e. lessors continue to classify leases as finance and operating leases.	1 January 2019, with early adoption permitted

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Use of estimates and judgements

The preparation of the financial statements requires management to make judgments, 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 estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in the following notes:

Note 1(h) – Impairment of Loans and advances

(e) Foreign Currency

All foreign currency transactions are translated to Fiji currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling at balance date. Gains and losses arising on such translations are recognised in the profit or loss.

(f) Income Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary difference when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(g) Property, plant and equipment

Recognition and measurement
Items of plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.
Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Company. Ongoing repairs and maintenance are expensed as incurred in the profit or loss.

Depreciation and amortisation
Items of property, plant and equipment, including buildings but excluding freehold land, are depreciated using the straight-line method over their estimated useful lives. Depreciation methods, useful lives and residual values are reassessed at the reporting date.
The depreciation rates used for each class of asset are as follows:

Office alterations	20%	Office machine	20% - 50%
Land and buildings	1.25%	Office furniture	20%
Motor vehicles	20% - 50%		

(h) Loans and advances to customers

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money to a debtor with no intention of trading the loans and advances. Loans and advances are classified as loans and receivables, and are initially recognised at fair value plus transaction costs that are directly attributable to the issue of the loan and advance. They are subsequently measured at amortised costs using the effective interest rate method.

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Loans and advances to customers *(continued)*

Impairment of Loans and Advances

Loans and advances are reviewed at each reporting date for impairment. Credit impairment provisions are raised for exposures that are known to be impaired. Loans and advances are recorded at the recoverable amount after ascertaining the required allowance for impairment. A loan is impaired when there is reasonable doubt that not all of the principal and interest can be collected in accordance with the terms of the loan agreement. Loan accounts are reviewed throughout the year to assess the need to create any impairment allowances for bad and doubtful debts that may have occurred. The impairment loss is the difference between the outstanding balance of the loan facilities and recoverable amount based on the collateral held by the Company. There are two components of the Company's impairment allowance assessment - individually assessed allowances and collectively assessed allowances.

Individually assessed allowances
Individually assessed allowances are created to cover for identified doubtful debts arising from individual loan accounts which are impaired. The determination of the amount of individually assessed allowances is based on many factors including credit evaluation of the borrowers, value of collateral held, current economic conditions and past experience. Management monitors these individually assessed allowances on a monthly basis.

Collectively assessed allowances
Collectively assessed allowances are created at a rate of 2.5% (2016: 2.5%) on the loan balances to cover for the losses that may arise from loan accounts that are facing uncertainty on which individual provisioning is not assessed. Management does a risk analysis taking into account the history of write-off, arrears and adjusted changes in market conditions and an appropriate risk factor is allocated based on this assessment. The risk factor assigned is monitored continuously against the fluctuation in market conditions and management's overall assessment is reviewed annually.

Impaired assets
The Company has disclosed, in Note 11, components of its loans and advances portfolio that have been classified as impaired assets. The following broad categories are used in classifying impaired assets:

Non-accrual finance receivables
Non-accrual finance receivables are those loans and advances facilities where income may no longer be accrued ahead of its receipt because reasonable doubt exists as to the collectability of principal and interest in accordance with the terms of the loan contract.

Past-due receivables
Past-due receivables are those facilities which have not been operated within their key terms by the borrower for at least thirty days and which are not non-accrual facilities.

Bad debts
Bad debts are written off when identified. If an allowance for impairment has been categorised in relation to a loan, write-offs for bad debts are made against the allowance. If no allowance for impairment has previously been categorised, write-offs for bad debts are categorised as expenses in the profit or loss.

(i) Intangible assets

Intangible assets include costs incurred in acquiring software and computer systems ("software").
Software is amortised using the straight-line method over its expected useful life to the Company.
The period of amortisation is 5 years. At each reporting date, software assets are reviewed for impairment. If any such indication exists, the recoverable amount of the assets are estimated and compared against the existing carrying value. Where the existing value exceeds the recoverable amount, the difference is charged to profit or loss.

Costs incurred in planning or evaluating software proposals are capitalised. Costs incurred in maintaining systems after implementation are not capitalised.

(j) Cash and cash equivalent

Cash comprises of cash on hand, cash at bank and short term deposits.

(k) Other liabilities

Other liabilities are stated at amortised cost.

MERCHANT FINANCE LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2017

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Deposits from customers

Deposits from customers are stated at the gross value of the outstanding balance. Interest is taken to profit or loss on the effective interest method.

(m) Assets held for sale

Assets held for sale is stated at the lower of the carrying amount and fair value less costs to sell. Gains and losses on disposals are determined by comparing proceeds with the carrying amounts.

(n) Leases

Operating lease payments are recognised in the profit or loss as an expense on a straight-line basis over the lease term.

(o) Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.
Other fees and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.
Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

(p) Employee entitlements

Liability for annual leave is recognised and measured as the amount unpaid at the reporting date at expected pay rates in respect of employees' services up to that date.

Annual leave generally is taken within one year of entitlement and accordingly it is expected that a significant portion of the total annual leave balance will be utilised within the next financial year.

Bonus is settled within 12 months of the financial year and is based on the performance of the Company and the achievement of the employees' individual objectives. Contracted employees are entitled to gratuity payment after successful completion of their contract. Contractual payments mainly range from 10% - 20%.

(q) Interest Income

Interest income from loans and advances is recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

(r) Impairment

The carrying amounts of the Company's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit or loss.

(s) Available for sale investments

Available for sale investments are non-derivative investments that are designed as available for sale and are not classified as another category of financial assets. Gains or losses arising from changes in fair value are included as a separate component of equity in the 'available for sale reserve' and in Other Comprehensive Income. When the assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss. Where there is objective evidence of impairment on an available for sale asset, the cumulative loss related to that asset is removed from equity and recognised in profit or loss, as an impairment expense for debt instruments or as non-interest expense for equity instruments.

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Investment property

Investment properties are held for long-term rental yields and are not occupied by the Company. Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value, determined by external independent valuers who have appropriate recognised professional qualification and recent experience in the location and category of property being valued. Changes in fair values are recorded in the profit or loss. Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the profit or loss during the financial period in which they are incurred.

(u) Comparatives

Where necessary, amounts relating to prior years have been reclassified to facilitate comparison and achieve consistency in disclosure with current year amounts.

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 Company has access at that date

When available, the Company 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 Company 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 Company 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.

2. FAIR VALUE ESTIMATION *(continued)*

The following table shows the carrying amounts and fair values of the financial assets and financial liabilities, including their levels in fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount			Fair value			
	Available for sale	Loans and receivable	Other financial liabilities	Level 1	Level 2	Level 3	Total
	$	$	$	$	$	$	$
Balance as at 30 June 2017							
Financial assets measured at fair value							
Available for sale investments							
Short term deposits	11,257,589	-	-	-	-	11,257,589	11,257,589
Government bonds	10,275,283	-	-	-	10,275,283	-	10,275,283
	21,532,872	-	-	-	10,275,283	11,257,589	21,532,872
Balance as at 30 June 2017							
Financial assets not measured at fair value							
Cash and cash equivalents	-	5,218,213	-	-	-	-	-
Loans and advances to customers	-	130,282,495	-	-	-	130,282,495	130,282,495
	-	135,500,708	-	-	-	130,282,495	130,282,495
Balance as at 30 June 2017							
Financial liabilities not measured at fair value							
Deposits from customers	-	-	124,005,299	-	-	124,005,299	124,005,299
	-	-	124,005,299	-	-	124,005,299	124,005,299
Balance as at 30 June 2016							
Financial assets measured at fair value							
Available for sale investments							
Short term deposits	9,252,589	-	-	-	-	9,252,589	9,252,589
Government bonds	10,299,528	-	-	-	10,299,528	-	10,299,528
	19,552,117	-	-	-	10,299,528	9,252,589	19,552,117
Balance as at 30 June 2016							
Financial assets not measured at fair value							
Cash and cash equivalents	-	4,787,828	-	-	-	-	-
Loans and advances to customers	-	129,227,792	-	-	-	129,227,792	129,227,792
	-	134,015,620	-	-	-	129,227,792	129,227,792
Balance as at 30 June 2016							
Financial liabilities not measured at fair value							
Deposits from customers	-	-	118,130,584	-	-	118,130,584	118,130,584
	-	-	118,130,584	-	-	118,130,584	118,130,584

2. FAIR VALUE ESTIMATION *(continued)*

Valuation technique and significant observable inputs:

Type	Valuation	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
• Government bonds	Market comparison- The fair value of the long term investment securities is based on market prices published by the Reserve Bank of Fiji.	Not applicable	Not applicable
• Short term deposits • Loans and advances to customers • Deposits from customers	Discounted cash flows- The valuation model considers the present value of expected payment, discounted using a risk-adjusted discount rate.	Not applicable	Not applicable

	2017 $	2016 $
3. INTEREST INCOME		
Deposits with other financial institutions	336,441	283,921
Investment securities	637,293	633,047
Loans and advances	20,701,721	19,291,764
	21,675,455	20,208,732
4. INTEREST EXPENSE		
High Notes Deposits	5,392,183	4,271,472
Other	1,245	1,248
	5,393,428	4,272,720
5. FEE AND OTHER INCOME		
Credit related fees and commissions	529,576	540,339
Income received on loans previously written off	303,687	260,515
Repossession and auction administration fees	157,064	137,654
Gain on sale of property, plant and equipment	-	150,862
Fair value gain on revaluation of investment property	89,450	-
Rental income	26,253	-
Other fees	211,314	130,452
	1,317,344	1,219,822
6. LOAN IMPAIRMENT EXPENSES		
Increase in impairment	6,124,133	1,535,642
Amounts written off directly to profit or loss during the year as uncollectible	258,740	127,349
	6,382,873	1,662,991

		2017 $	2016 $
7.	**PERSONNEL EXPENSES**		
	Salaries and wages	2,281,748	2,256,391
	Fiji National Provident Fund	237,353	228,030
	Other Staff Costs	338,301	348,321
		2,857,402	2,832,742

The number of employees at the end of the financial year was 73 (2016:74)

		2017 $	2016 $
8.	**OTHER OPERATING EXPENSES**		
	Advertising expense	245,135	370,016
	Computer expenses	55,247	71,756
	Donations	1,500	12,777
	Directors fees and allowances	83,166	113,710
	External audit fees	54,500	44,000
	Internal audit fees	22,500	27,204
	Management fees	117,720	120,960
	Legal costs	255,414	270,075
	Insurance expense	33,440	34,463
	Motor Vehicle Expense	142,570	150,248
	Loss on disposal	1,493	70,000
	Other expenses	723,520	299,996
	Premises	862,061	802,428
	Printing and stationary	108,343	129,808
	Telecommunication expenses	158,057	161,836
		2,864,666	2,679,277

		2017 $	2016 $
9.	**INCOME TAX**		
(a)	Income tax expense		
	Prima facie income tax expense calculated at 20% (2016: 20%) on the operating profit	980,326	1,879,909
	Increase/ (decrease) in income tax expense due to:		
	FNPF employer contribution	23,163	22,803
	Other permanent differences	300	2,147
	Under/(Over) provision in prior years	6,569	(151,275)
		1,010,358	1,753,584

9. INCOME TAXES *(continued)*

(a) Income tax expense *(continued)*

		2017 $	2016 $
	Total income tax expense is made up of:		
	Deferred tax expense	(281,798)	32,952
	Current income tax expense	1,287,282	1,871,907
	Under/(Over) provision in prior years	4,874	(151,275)
		1,010,358	1,753,584
(b)	Current tax liability/(asset)		
	Movements during the year were as follows:		
	Balance at beginning of year	806,311	(8,869)
	Income tax paid	(2,660,312)	(934,762)
	Transitional tax paid	(28,482)	-
	Current year's income tax expense	1,287,282	1,871,907
	Transitional tax payable	-	29,310
	Under/(Over) provision in prior years	4,874	(151,275)
	Balance at end of year	(590,327)	806,311
(c)	Deferred tax asset		
	Allowance for doubtful debts	1,094,424	814,161
	Property, plant and equipment	35,790	36,175
	Employee entitlements	49,854	30,044
	Revaluation of investment property	(17,890)	-
		1,162,178	880,380
10.	**CASH AND CASH EQUIVALENTS**		
	Cash at bank and on hand	3,647,429	3,717,187
	Short Term Deposits	1,570,784	1,070,641
		5,218,213	4,787,828

The Company has a Standby Overdraft Facility of $4,000,000 (2016: $4,000,000) with the ANZ Bank.
The facility is secured by a registered equitable mortgage over all the Company's assets and uncalled capital. As at year end, the facility remained unutilised (2016: $ Nil).

		2017 $	2016 $
11.	**LOAN AND ADVANCES TO CUSTOMERS**		
	(a) Individual customers		
	Asset purchase loans	87,352,554	76,235,555
	Personal loans	76,646,122	80,612,950
	Trade finance loans	3,355,583	7,999,353
	Gross loans and advances to customers	167,354,259	164,847,858
	Less: Deferred revenue	(31,599,643)	(31,549,265)
		135,754,616	133,298,593

11. LOAN AND ADVANCES TO CUSTOMERS *(continued)*

		2017 $	2016 $
(a)	Individual advances to customers		
	Less: Individually assessed allowance for impairment	(2,686,879)	(1,126,718)
	Collectively assessed allowance for impairment	(2,785,242)	(2,944,083)
	Net loans and advances	130,282,495	129,227,792
(b)	b) Maturity analysis		
	Not longer than 3 months	19,809,180	19,902,355
	Longer than 3 and not longer than 12 months	41,623,724	45,140,435
	Longer than 1 and not longer than 5 years	95,247,403	92,533,435
	Longer than 5 years	10,673,952	7,271,633
		167,354,259	164,847,858

(c)
(i) Impairment of loans and advances

Reconciliation of allowance for impairment on asset purchase loans is as follows:

	2017		2016	
	Individual allowance for impairment $	Collective allowance for impairment $	Individual allowance for impairment $	Collective allowance for impairment $
Balance as at 1 July	59,856	1,399,498	207,477	1,147,152
Increase / (decrease) in impairment allowances	803,384	185,507	208,411	252,346
Write offs against provisions	(271,890)	-	(356,032)	-
Balance at 30 June	591,350	1,585,005	59,856	1,399,498

Reconciliation of allowance for impairment on asset personal loans is as follows:

	2017		2016	
	Individual allowance for impairment $	Collective allowance for impairment $	Individual allowance for impairment $	Collective allowance for impairment $
Balance as at 1 July	1,066,862	1,366,322	1,824,590	1,067,824
Increase / (decrease) in impairment allowances	1,005,694	(194,057)	598,124	298,498
Write-offs against provisions	(490,828)	-	(1,355,852)	-
Balance at 30 June	1,581,728	1,172,265	1,066,862	1,366,322

11. LOAN AND ADVANCES *(continued)*

(c)
(i) Impairment of loans and advances *(continued)*

Reconciliation of allowance for impairment on asset purchase loans is as follows:

	2017		2016	
	Individual allowance for impairment $	Collective allowance for impairment $	Individual allowance for impairment $	Collective allowance for impairment $
Balance as at 1 July	-	178,263	-	-
Increase / (decrease) in impairment allowances	4,473,896	(150,291)	-	178,263
Write-offs against provisions	(3,960,095)	-	-	-
Balance at 30 June	513,801	27,972	-	178,263

		2017 $	2016 $
(ii)	Bad debts written off represented as:		
	Write off from provision	4,722,813	1,711,884
	Write off charged to profit and loss	258,740	127,349
		4,981,553	1,839,233
(iii)	Non-accrual loans		
	Non-accrual loans	16,733,554	13,211,014
	Less: Individual allowance for impairment	(1,647,870)	(1,126,718)
		15,085,684	12,084,296
(iv)	Restructured loans	6,614,008	10,196,217
	12. Available for sale financial assets		
	Government securities	10,275,283	10,299,528
	Short-term deposits	11,257,589	9,252,589
		21,532,872	19,552,117
	Investment maturity analysis		
	Longer than 3 and not longer than 12 months	11,257,589	9,252,589
	Longer than 1 and not longer than 5 years	5,318,199	5,104,339
	Longer than 5 years	4,957,084	5,195,189
		21,532,872	19,552,117

In 2016 the Company redeemed a number of term deposits prior to their maturity. As a result, the Held to Maturity portfolio has been tainted and no financial instrument can be classified as Held to Maturity for a period of two years, in accordance to the requirements of IAS 39

	2017 $	2016 $
13. OTHER ASSETS		
Prepayments	24,691	72,279
Accrued income	335,862	307,136
Other receivables	126,485	130,169
	487,038	509,584
14. OTHER LIABILITIES		
Dividend payable (note 25)	2,400,000	4,054,400
Accrued expenses	868,044	172,663
Accrued interest on deposits from customers	2,350,303	2,242,025
Other	1,385,126	712,508
	7,003,473	7,181,596
15. DEPOSITS FROM CUSTOMERS	124,005,299	118,130,584
Maturity analysis		
No longer than 3 months	26,981,417	24,595,252
Longer than 3 and not longer than 12 months	59,513,756	61,460,339
Longer than 1 and not longer than 5 years	36,510,126	30,073,040
Longer than 5 years	1,000,000	2,001,953
	124,005,299	118,130,584
16. EMPLOYEE ENTITLEMENTS		
Accrual for annual leave	76,749	54,591
Accrual for bonus	-	280,146
Accrual for gratuity	159,481	84,885
Accrual for Fringe Benefit Tax	13,041	10,744
	249,271	430,366
17. INVESTMENT PROPERTY		
Opening balance	2,060,550	-
Change in fair value	89,450	-
Acquisitions	-	2,060,550
Closing balance	2,150,000	2,060,550

Changes in fair values are recognised as gains in profit or loss and included in "Fee and other income".

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18. PROPERTY, PLANT AND EQUIPMENT

	Land & Buildings $	Motor Vehicles $	Office Alterations $	Office Furniture $	Office Machine $	Work in Progress $	Total $
Cost							
Balance at 1 July 2015	1,417,652	1,290,624	653,415	690,637	1,876,266	120,846	6,049,440
Acquisitions	1,344,800	498,200	-	14,559	90,812	144,616	2,092,987
Transfer (out)/in	(1,416,172)	-	-	-	-	-	(1,416,172)
Disposals	-	(390,500)	-	-	(43,388)	-	(433,888)
Balance at 30 June 2016	1,346,280	1,398,324	653,415	705,196	1,923,690	265,462	6,292,367
Balance at 1 July 2016	1,346,280	1,398,324	653,415	705,196	1,923,690	265,462	6,292,367
Acquisitions	-	3,769	133,657	42,953	62,880	16,625	259,884
Transfer (out)/in	-	-	-	34,332	-	(40,082)	(5,750)
Disposals	-	-	-	-	(2,559)	-	(2,559)
Balance at 30 June 2017	1,346,280	1,402,093	787,072	782,481	1,984,011	242,005	6,543,942
Accumulated Depreciation							
Balance at 1 July 2015	1,480	767,947	587,734	460,038	1,321,350	-	3,138,549
Depreciation charge for the year	6,421	244,106	15,498	74,972	229,545	-	570,542
Disposals	-	(362,350)	-	-	(41,400)	-	(403,750)
Balance at 30 June 2016	7,901	649,703	603,232	535,010	1,509,495	-	3,305,341
Balance at 1 July 2016	7,901	649,703	603,232	535,010	1,509,495	-	3,305,341
Depreciation charge for the year	8,024	264,133	17,455	89,048	194,645	-	573,305
Disposals	-	-	-	-	(1,066)	-	(1,066)
Balance at 30 June 2017	15,925	913,836	620,687	624,058	1,703,074	-	3,877,580
Carrying amount							
At 1 July 2015	1,416,172	522,677	65,681	230,599	554,916	120,846	2,910,891
At 30 June 2016	1,338,379	748,621	50,183	170,186	414,195	265,462	2,987,026
At 30 June 2017	1,330,355	488,257	166,385	158,423	280,937	242,005	2,666,362

	2017 $	2016 $
19. INTANGIBLE ASSETS		
Software Cost :		
Balance at the beginning of the year	95,309	43,537
Acquisition	5,750	51,772
Transfer from WIP	5,750	-
Balance at the end of the year	106,809	95,309
Accumulated amortisation :		
Balance at the beginning of the year	(54,271)	(43,537)
Amortisation charge for the year	(19,493)	(10,734)
Balance at the end of the year	(73,764)	(54,271)
Carrying amount :		
Balance at the beginning of the year	41,038	-
Balance at the end of the year	33,045	41,038

20. SHARE CAPITAL

	2017 $	2016 $
Authorised capital 50,000,000 ordinary shares (2016: 50,000,000 ordinary shares)	50,000,000	50,000,000
Issued and paid up capital		
Balance at the beginning of the year	28,500,000	26,500,000
Dividend re-investment through special resolution on 23 June 2016	1,500,000	2,000,000
Balance at the end of the year	30,000,000	28,500,000

Shares of the Company have no par value

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder's meetings. All shares rank equally with regard to the residual assets of the Company.

21.

(a) Credit loss revenge

	2017 $	2016 $
Balance at the beginning of the year	2,875,936	2,875,936
Transfer from retained earnings	-	-
Balance at the end of the year	2,875,936	2,875,936

The Credit Loss Reserve is established at prudent levels for possible losses inherent in the loan portfolio which are not associated with any facility or amount. These are maintained in respect of all credit facilities outstanding which are not subject to individually assessed provision requirements. The Credit Loss Reserve is required to be held as an equity reserve through an appropriation of retained earnings

(b) Available for sale reserve

	2017 $	2016 $
Balance at the beginning of the year	799,528	-
(Decrease)/Increase in fair value	(24,245)	799,528
Balance at the end of the year	775,283	799,528

The available for sale reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the assets are derecognised or impaired.

22. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Operating lease commitments

The Company has entered into various lease agreements in respect of its office premises with both related parties and third parties. The lease agreements vary in length and date of commencement.

Total commitments for future lease rentals which have not been provided for in the accounts are as follows:

	2017 $	2016 $
Due not later than one year	498,783	356,785
Due later than one year but not later than 5 years	205,005	426,170
Due later than five years.	-	-
	703,788	782,955

The lease expenses for the year are $559,228 (2016:$506,300).

(b) Commitments

Commitments in respect of loans and approved credit commitments offered but not yet advanced as at balance date amounted to approximately $2,783,173 (2016: $1,867,689).

The Company is committed to incur other capital expenditure of $7,000 (2016:$ 28,637).

(c) Contingent liabilities

Contingent liabilities amounted to $nil (2016:$nil).

Several actions have been instituted against the Company which it is defending actions and in the directors' opinion, no material loss is expected to arise.

23. ASSETS HELD FOR SALE

	2017 $	2016 $
Opening balance	1,416,172	450,000
Additions	-	1,416,172
Disposals	-	(450,000)
Closing balance	1,416,172	1,416,172

24. RELATED PARTY TRANSACTIONS

Directors
The directors of the Company in office at any time during the year were:

Sanjit Bhai Patel (appointed 13/02/2017)	Isikeli Tuituku (resigned 19/10/2016)
Nouzab Fareed	Robin Yarrow (resigned 23/11/2016)
Arun Narsey	Joe Taoi (resigned 23/11/2016)
Sunil Sharma (appointed 13/02/2017)	Emitai Boladuadua (resigned 23/11/2016)
Mereoni Matavou (appointed 13/02/2017)	Viliame Naupoto (resigned 19/10/2016)

Amount paid to directors are disclosed below.

Holding company
The Company's holding company is Fijian Holdings Limited, a company incorporated in Fiji.

Loans to Directors
As at 30 June 2017, $Nil (2016: $Nil) was outstanding from the directors.

Guarantee by Basic Industries Limited
Basic Industries Limited has provided a guarantee to cover the loan balance provided by the Company to a customer amounting to $174,820.

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24. RELATED PARTY TRANSACTIONS *(continued)*

	2017 $	2016 $
Transaction with related parties		
High Notes Issued		
FHL Properties Limited	264,386	264,386
FHL Stockbrokers Limited	25,262	25,262
R B Patel Limited	205,814	200,000
FHL Fund Management Limited	600,000	600,000
Fijian Holdings Unit Trust	5,000,000	4,000,000
FHL on SPSE account	20,000	20,000
Fijian Property Trust Company Limited Cyclone Reserve Account	488,434	488,434
Life Cinema Limited	-	1,000,000
Dividend payable		
Fijian Holdings Limited	2,400,000	4,054,400
Interest payable		
FHL Properties Limited	1,420	1,391
FHL Fund Management Limited	24,491	23,606
Fijian Property Trust Company Limited Cyclone Reserve Account	766	606
Fijian Holdings Unit Trust	77,386	89,807
FHL Stockbrokers Limited	97	94
FHLS on Account of SPSE	346	287
Life Cinema Limited	-	658
RB Patel	1,722	1,634
Dividend paid		
Fijian Holdings Limited	5,254,400	6,400,000
Fijian Holdings Unit Trust	900,000	2,613,600
Service provider fees		
FHL Fund Management Limited	5,071	492
Other income		
FHL Fund Management Limited	3,554	4,424
Expenses		
Rent		
FHL Properties Limited	211,307	211,088

24. RELATED PARTY TRANSACTIONS *(continued)*

Transactions with related parties *(continued)*

	2017 $	2016 $
Interest expense on High Notes		
FHL Properties Limited	9,518	10,930
FHL Fund Management Limited	-	32,229
Fijian Property Trust Company Limited Cyclone Reserve Account	16,868	16,579
Fijian Holdings Unit Trust	189,460	89,807
FHL Stockbrokers Limited	678	1,006
FHLS on Account of SPSE	615	907
Life Cinema Limited	13,537	658
RB Patel Limited	5,926	3,231
Directors Allowance		
Basic Industries Limited	238	-
Fiji TV Limited	-	238
Fijian Holdings Limited	7,125	11,750
Directors Fees		
Fijian Holdings Limited	29,041	40,137
Facility Charges		
RB Patel Limited	-	3,103
FHL Properties Limited	23,275	25,206
Management fees		
Fijian Holdings Limited	117,720	120,960
Other expenses		
RB Patel Limited	11,792	9,380

Key management personnel
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 Company

Name	Title	Contract Details	
		Start	End
Napolioni Batimala	CEO	01/10/2015	22/06/2017
Rowena Fong	Acting CEO	22/06/2017	Current
Dineshwar Lal	Manager Suva	29/12/2014	Current
Bobby Ali	Manager Lautoka	18/12/2014	Current
Leonore Lewenilovo	Manager Nadi	17/12/2014	Current
Bobby Dayal	Manager Nasinu	29/03/2015	Current
Anil Prasad	Manager North	01/04/2015	Current
Semanta Naicker	Manager Credit	17/12/2014	Current
Pio Nataniela	Manager Finance & Administration	16/12/2014	Current
Alipate Radrodro	Team Leader Corporate	06/01/2015	Current
Osea Nawalu	Team Leader Rural	12/01/2015	Current
Beatrice Mar	Risk & Compliance Officer	17/12/2014	Current
Tokasa Senisinu	IT Administrator	02/03/2015	Current
Louisa John	Human Resource Officer	16/12/2014	Current

The aggregate compensation of the key management personnel is set out below:

	2017 $	2016 $
Short Term Benefits	1,220,645	909,964

25. PROVISION FOR DIVIDENDS

Dividends declared or paid by the Company are:

	2017	2016
Balance at the beginning of the year	4,054,400	5,600,000
Add: Interim dividend 2016 declared and paid during the year ($0.05 per share) (2016: $0.09)	1,500,000	2,400,000
Add: Final dividend 2016 declared during the year ($0.10 per share) (2016: $0.25)	4,500,000	7,068,000
Less: dividends reinvested as capital	(1,500,000)	(2,000,000)
Less: dividends paid	(6,154,400)	(9,013,600)
Balance at the end of the year	2,400,000	4,054,400

26. STATEMENT OF CASH FLOWS

Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash at bank, cash on hand and short term deposits. Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows are reconciled to the related items in the statement of financial position as follows:

	2017	2016
Cash and cash equivalents	5,218,213	4,787,828

27. RISK MANAGEMENT DISCLOSURE

Introduction
The Company is committed to the management of risk to achieve sustainability of service to its customers, employment of its staff and profits to its shareholders and, therefore, takes on controlled amounts of risk when considered appropriate. The risk management framework is targeted at ensuring the Company maintains sufficient capital at a level, which equals or exceeds the minimum "Capital Adequacy Ratio" requirements prescribed by the Reserve Bank of Fiji.

The primary risks are those of credit, market, liquidity and operational risk. The Company's risk management strategy is set by Executive Management and approved by the Board.

Implementation of risk management strategy and the day to day management of risk is the responsibility of the Chief Executive Officer, supported by the executives of the Company.

The Risk and Compliance officer is responsible for monitoring compliance with the Company's risk management policies and procedures and for reviewing the risk management framework in relation to the risks faced by the Company. The Fijian Holdings Group also monitors compliance with the group's risk management policies and framework in relation to risks faced by each company in the group. The management team is assisted in these functions by an outsourced Internal Audit function, which undertakes both regular, and ad-hoc reviews of management controls and procedures, the results of which are reported directly to the Audit sub-committee of the Board.

The following sections describe the risk management framework components:

(a) Credit Risk

The Company's primary exposure to credit risk arises through its loans and advances to customers. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the statement of financial position.

Credit risk is the potential risk of loss arising from failure of a debtor to meet their contractual obligations. In order to manage credit risk, the Company closely monitors its existing customers to ensure that a debt service ratio greater than 1 and loan to value ratio of 85% is maintained and ensuring that all new customers go through a comprehensive credit screening.

Furthermore, customer accounts are graded internally and all existing customers are categorised as excellent, good, satisfactory or limited. Further the individual accounts/customer groups are classified as Standard, Special Mention, Sub Standard, Doubtful and Loss for credit risk management purposes. All loans and advances are secured by collateral.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying Amount	
	2017 $	2016 $
Cash and cash equivalents	5,218,213	4,787,828
Available for sale investments	21,532,872	19,552,117
Loans and advances to customers	130,282,495	129,227,792
	157,033,580	153,567,737
Credit risk exposure of loans and advances		
Neither past due nor impaired	131,358,703	130,663,096
Past due but not impaired	31,342,206	31,750,523
Individually impaired	4,653,350	2,434,239
Gross loans and advances	167,354,259	164,847,858
Less: unearned revenue	(31,599,643)	(31,549,265)
Less: allowance for impairment	(5,472,121)	(4,070,801)
Net loans and advances	130,282,495	129,227,792

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27. RISK MANAGEMENT DISCLOSURE *(continued)*

(a) Credit risk *(continued)*

Credit quality of financial assets that are past due but not impaired:

An analysis of the age of financial assets that are past due as at the reporting date but not impaired are as follows:

	2017 $	2016 $
Age Analysis		
0 to 30 days	9,273,737	9,358,981
31 days to 60 days	10,382,282	9,425,036
61 days to 90 days	4,163,784	5,463,470
Greater than 91 days	7,522,403	7,503,036
Gross loans and advances	31,342,206	31,750,523

Management reviews all accounts at balance date and where necessary may also make provision as a prudent measure. Financial assets classified as past due but not impaired are further classified as Standard or special mention with arrears below 60 days. These accounts are closely monitored to ensure that they do not deteriorate further. Security inspections are undertaken on these accounts to verify the value of the collateral pledged. These assets are monitored by specialist collection teams on a daily basis and further monitored by management at each month end. Where necessary, management restructures these loans to enhance recovery.

Individually assessed loans are those that have arrears exceeding 60 days and/or those which in the view of management have a higher probability of failure in the near term beyond its control and where a loss is expected to arise.

Collateral
The Company employs a range of policies and practices to mitigate credit risk with the most common practice being the security collateral. The Company implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation. The principal collateral types for loans and advances are:
- Mortgages over residential and commercial properties.
- Hire Purchase Agreements and Bill of Sale over vehicles and machinery
- Charges over business assets such as premises, inventory and accounts receivable.
- Charges over financial instruments such as debt securities and equities and term deposits.

Longer-term finance and lending to corporate entities are generally secured. Revolving individual credit facilities for FHL Group staff (including MFL) to a maximum of $2,000 are unsecured. In addition, in order to further minimise the potential for credit loss, the Company will seek additional collateral from the counter party once impairment indicators are identified for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument.

If an account goes into arrears, a credit review is performed and the collateral value is reassessed by the Company's in-house credit officers or independent valuers.

Individual Assessed Provisions
Management undertakes an overall assessment of the loan portfolio and allocates a relative risk category to each loan based on repayment trend, arrears, industry performance, management and other available information including latest financials of its customers. Review of security is undertaken internally on a regular basis - annually for standard and special mention accounts and monthly to quarterly for doubtful, loss and substandard accounts. Where specialised items are taken as security, a special valuation is also undertaken.

The shortfall between the outstanding balance and net realisable value of security on accounts classified as doubtful or loss is fully provided for and 50% of the shortfall is provided for those classified as substandard accounts. Additional provision is provided for those customers where management believes that this provision may prove insufficient in the future. The provision for these three categories is classified as individually assessed. Management monitors these individually assessed allowances on a monthly basis.

27. RISK MANAGEMENT DISCLOSURE *(continued)*

(a) Credit risk *(continued)*

Collectively Assessed Provisions
In addition, for accounts that are classified as standard and special mention, management undertakes an overall assessment of accounts making up these classifications within industries and allocates a relative percentage to cover for any shortfall which may arise.

Management undertakes a risk analysis on each individual industry taking into account the history of write-off, arrears and adjusted changes in market conditions and an appropriate risk factor is allocated based on this assessment (averaged amongst the industry). The risk factor assigned to each industry is monitored continuously against fluctuation in market conditions and management's overall assessment is reviewed annually.

Credit Risk Concentration	2017		2016	
	Loans and advances	Collective Impairment allowance	Loans and advances	Collective Impairment allowance
Industry	%	%	%	%
Agriculture	9.68	9.68	7.58	6.41
Building and construction	22.97	18.88	17.75	16.73
Manufacturing	3.19	2.77	5.18	5.17
Mining and quarrying	0.42	0.27	0.90	0.52
Private individuals	9.74	11.30	11.18	11.88
Professional and business services	3.05	1.80	3.16	1.58
Transport, communication and storage	37.71	41.36	38.34	41.16
Wholesale, retail, hotels and restaurants	8.88	9.11	9.70	10.21
Others	4.36	4.83	6.21	6.34
Total	100	100	100	100

Credit Concentration is determined based on the industry for which the loan is given

(b) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations from its financial liabilities. Prudent and careful management of the Company's liquidity position is essential in order to ensure that adequate funds are available to meet the Company's ongoing financial obligations. In order to comply with the Reserve Bank's requirement and the Banking Act 1995, the Company must hold as liquid deposits an amount equivalent to 10% of its total borrowed funds.

The Company ensures that the investment standalone is sufficient to meet the Unimpaired Liquid Assets Ratio requirements which are covered entirely by long term bonds.

The daily liquidity position is monitored. The key measure used by the Company for managing liquidity risk is the ratio of net liquid assets to deposits from customers. Monthly maturity mismatch reports are prepared and analysed. Maturity reports of term deposits are actioned via pre-analysis (calling customer to determine status of re-investment) and the Board ALR sub-committee is kept informed.

The Company further addresses its liquidity risk via a Letter of Comfort from its parent, Fijian Holdings Limited, pledging its support and assistance as required to ensure that the Company maintains capital and liquidity levels to enable it at all times to meet its obligations as and when due. The Company also has a finance facility of $4 million with ANZ Bank that is unutilised as at balance date.

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27. RISK MANAGEMENT DISCLOSURE *(continued)*

(b) Liquidity Risk *(continued)*

The following analysis of financial liabilities is based on contractual terms and includes interest:

As at 30 June 2017	1 - 3 months	4- 12 months	1 - 5 years	Over 5 years	Gross nominal outflow	Carrying amount
	$	$	$	$	$	$
Deposits from customers	26,849,324	57,586,088	47,331,961	1,348,157	133,115,530	124,005,299
Other liabilities	7,003,473	-	-	-	7,003,473	7,003,473
Total Liabilities	33,852,797	57,586,088	47,331,961	1,348,157	140,119,003	131,008,772

As at 30 June 2016	1 - 3 months	4- 12 months	1 - 5 years	Over 5 years	Gross nominal outflow	Carrying amount
	$	$	$	$	$	$
Deposits from customers	24,377,084	57,673,063	37,131,871	2,595,164	121,777,182	118,130,584
Other liabilities	7,181,596	-	-	-	7,181,596	7,181,596
Total Liabilities	31,558,680	57,673,063	37,131,871	2,595,164	128,958,778	125,312,180

Liquidity exposure is measured by calculating the Company's Net Liquidity Gap and by comparing current ratios with targets. The Board ALR monitors the Company's liquidity position by reviewing the following measures:

Target for Net Liquidity Gap expressed as a percentage of Liabilities:

	Less than 1 month	1 to < 3 months	3 to <6 months	6 to <12 months	Over 12 months
Net Liquidity Gap as a % of Rate Sensitive Assets (not to exceed)	-5%	-7%	-10%	-20%	40%

Other Liquidity Ratios
In addition to the above, the Company uses the following ratios as benchmarks in monitoring its liquidity position

Ratio	Target	Tolerance range
Cash Reserve	Minimum 8%	Not to fall below 5%
Liquid Assets/Total Deposits Ratio	20-25%	Not to fall below 20%
Liquid Asset/Total Assets Ratio	10-20%	Not to fall below 10%
Loans/Deposit Ratio	120-135%	Not to exceed 135%
Loans/Adjusted Deposit Ratio	100-120%	Not to exceed 120%
Unimpaired liquid asset requirement	Minimum 12%	Not to fall below 10%

27. RISK MANAGEMENT DISCLOSURE *(continued)*

(c) Market Risk

Market risk is the risk that changes in the market prices of, and regulatory policies on, interest rate, equity prices and credit spreads will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to limit market risk exposures within acceptable parameters, while optimising the return on risk

(i) Interest Rate Risk

The principal risk to which investments and lending portfolios are exposed is the risk of loss from fluctuations in future cash flows or fair value of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits from re-pricing bonds. The Company is not subject to interest rate risk as all the financial assets and liabilities are at a fixed rate and no financial instruments are fair valued through the profit or loss.

The management of interest rate risk against interest rate gap limits is supplemented by management's regular monitoring of the sensitivity of the Company's financial assets and liabilities to various standard interest scenarios and market offerings.

Interest rate risk will be managed through: 1) investments; 2) loan pricing; and 3) deposit pricing. The Company always tries to maintain an interest spread that it believes is sufficient to cater for the risk it is taking and is above the cost of its funds and is sufficient to cover operating costs. Interest spread is monitored monthly and is submitted to RBF for monitoring purposes.

Interest rate is reviewed consistently against those offered in the market and revised where appropriate.

Below is a range of interest rates for the Company's loans and advances:

	2017 %	2016 %
Industry		
Agriculture	10-27	13-27
Building and construction	11-24	11-27
Manufacturing	8-27	7-27
Mining and quarrying	14-18	14-17
Private individuals	27	26
Professional and business services	12-24	10-27
Transport, communication and storage	8-28	8-28
Wholesale, retail, hotels and restaurants	10-25	12-27
Others	10-24	10-26

27. RISK MANAGEMENT DISCLOSURE *(continued)*

(d) Capital Risk Management

The Company's objectives when managing capital is to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders to maintain an optimal capital structure to reduce the cost of capital. In order to maintain the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company's objectives when managing capital, which is a broader concept than the 'equity' on the face of the balance sheet, are:
- To comply with the capital requirements set by the Reserve Bank of Fiji:
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of the Company's business.

Capital adequacy and the use of regulatory capital are monitored daily by the Company's management, employing techniques based on the guidelines developed by the Basel Committee as implemented by the Reserve Bank of Fiji, for supervisory purposes.

The Reserve Bank of Fiji requires the Company to (a) hold at least 10% or more of its total holdings in liquid assets and (b) maintain a ratio of total regulatory capital to risk-weighted assets at or above 15%. The Company complied with these requirements during the year. The Company ensures that its capital adequacy ratio is above 20% as per its ALR policy.

The Company also measures its General Reserve Credit Losses (GRCL) requirement on an annual basis and ensures that sufficient allocation is made for it.

28. EVENTS SUBSEQUENT TO BALANCE DATE

There has not arisen in the interval between the end of the 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 and management, to affect significantly the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

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