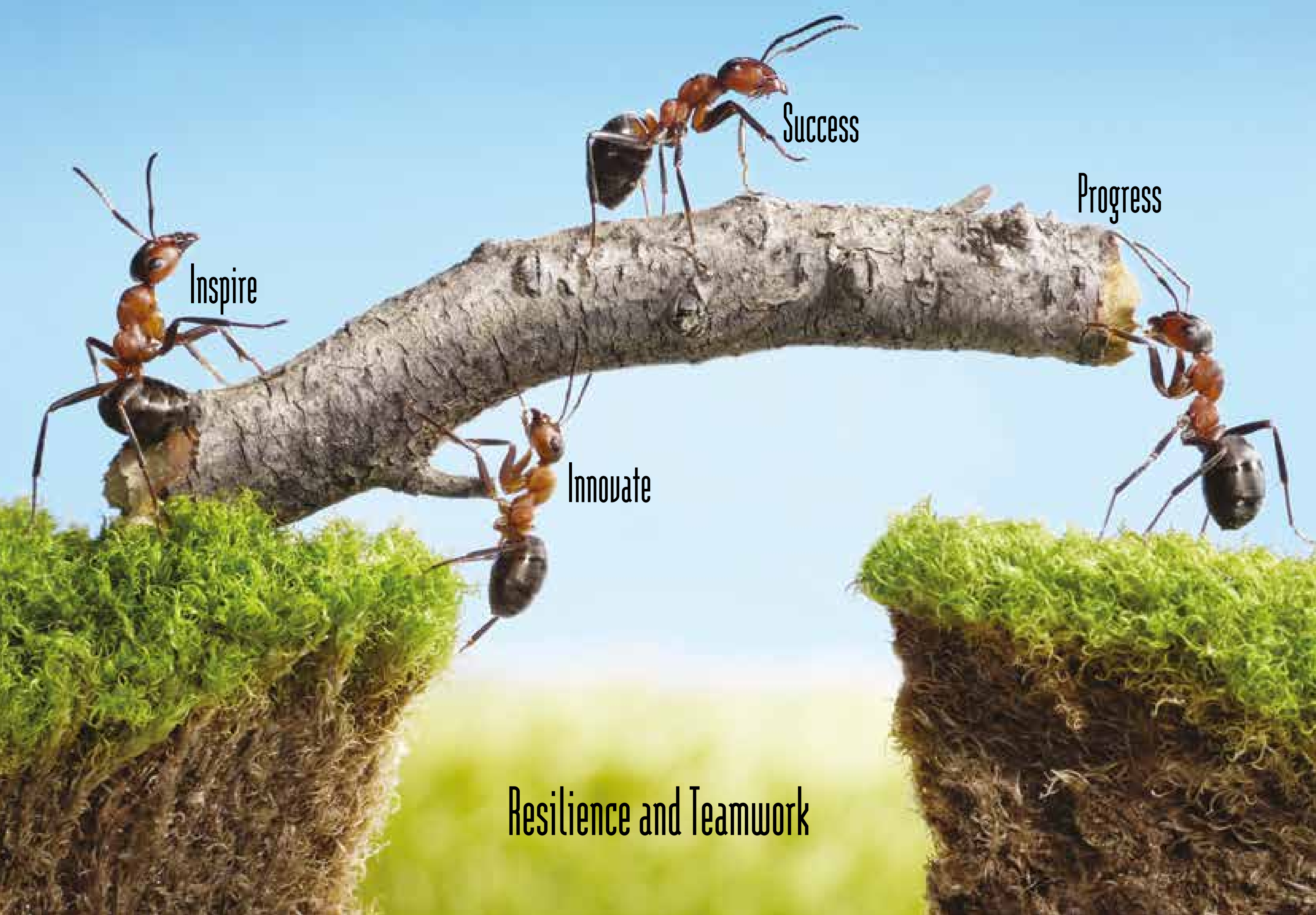
MERCHANT
FINANCE LTD

2018 ANNUAL REPORT



Resilience and Teamwork

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 maximising shareholders value.

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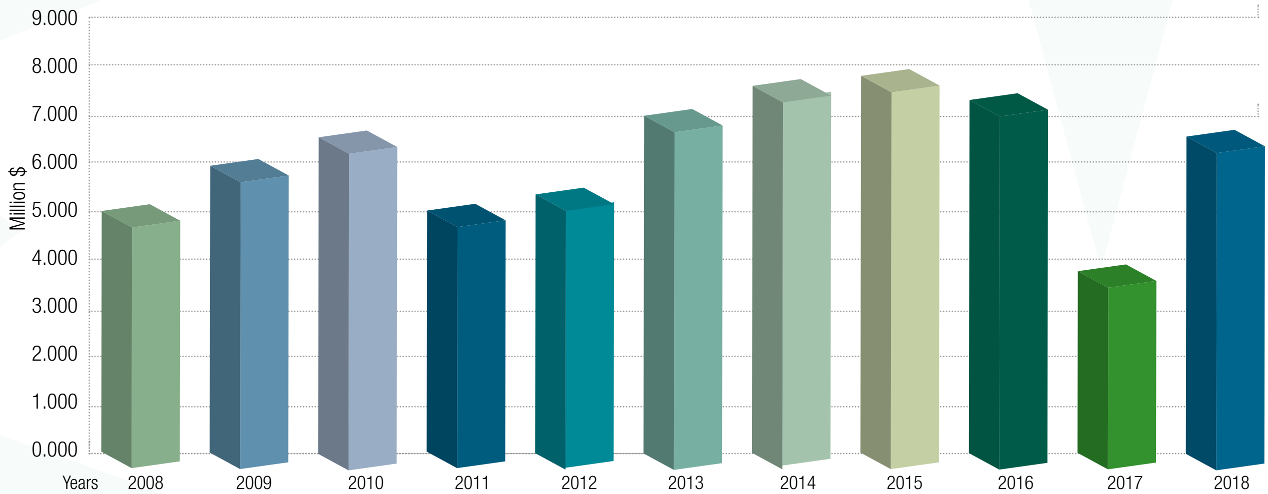
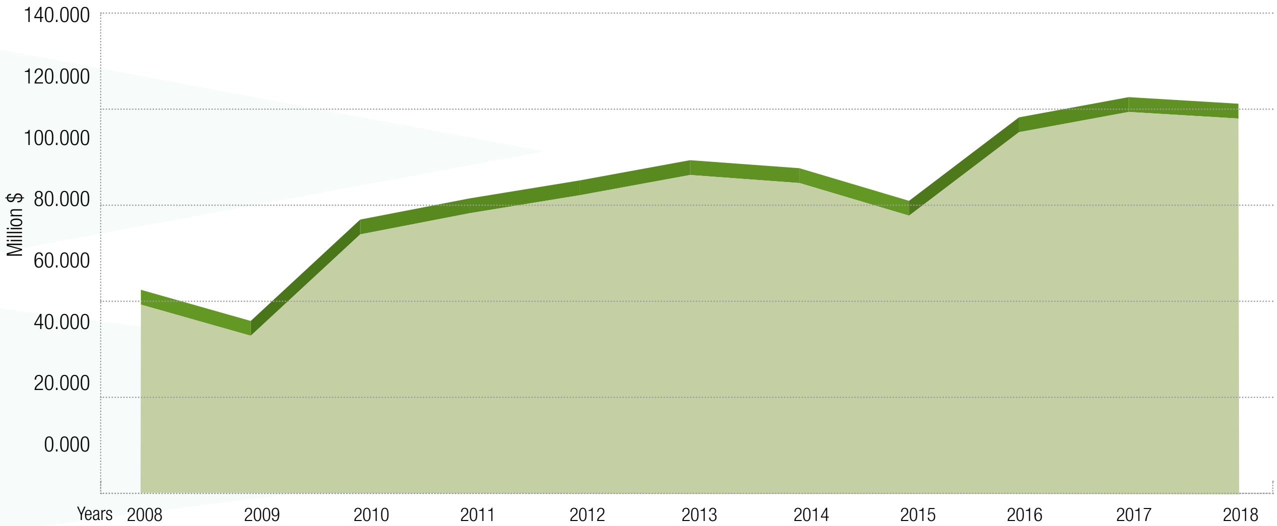
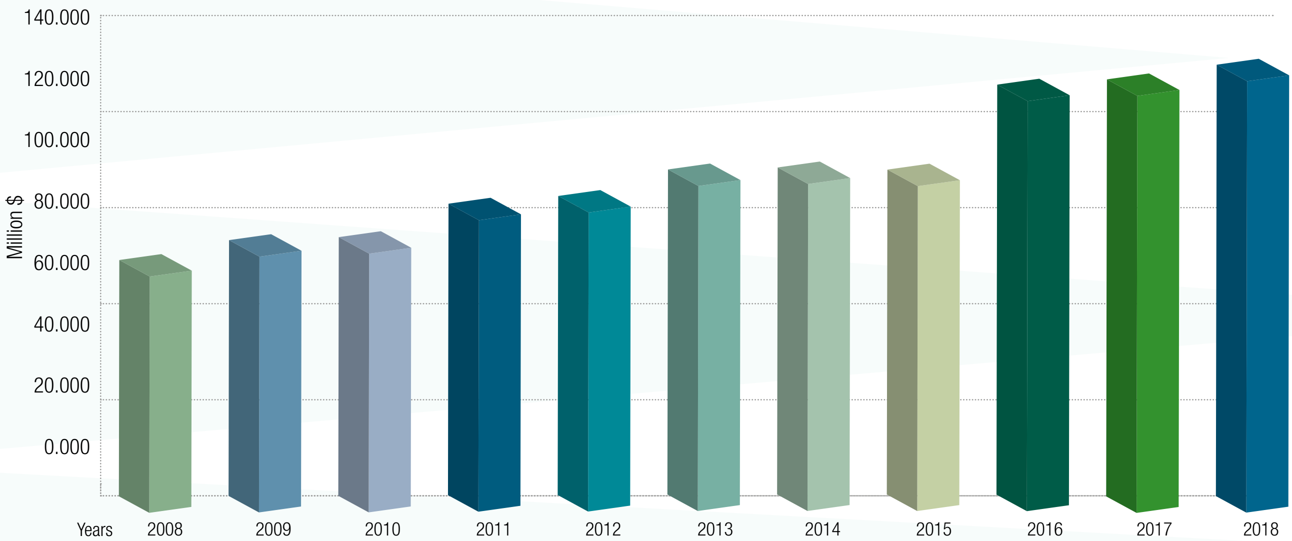
Net Profit After Tax



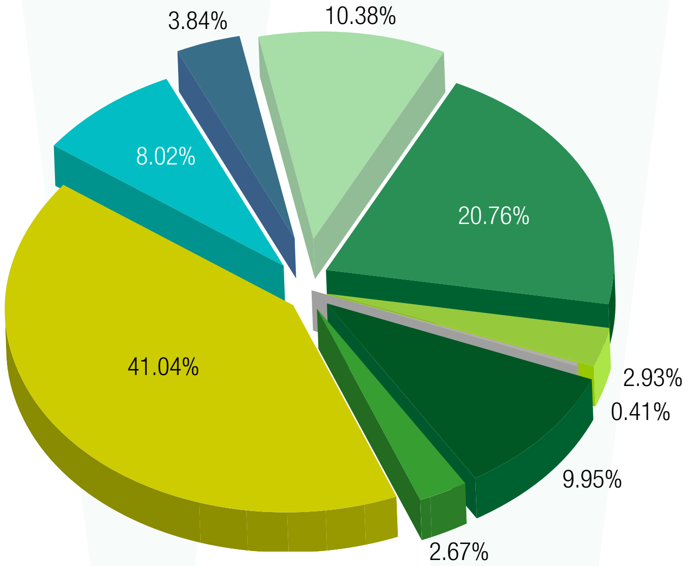
External Borrowings



Total Loans

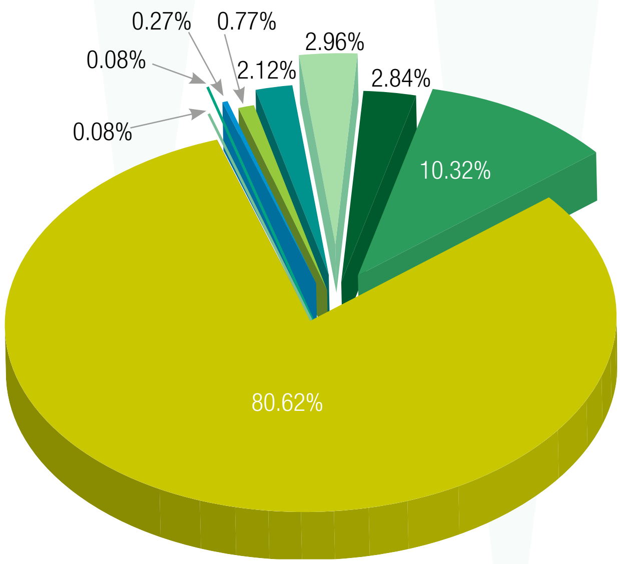


FINANCIAL HIGHLIGHTS



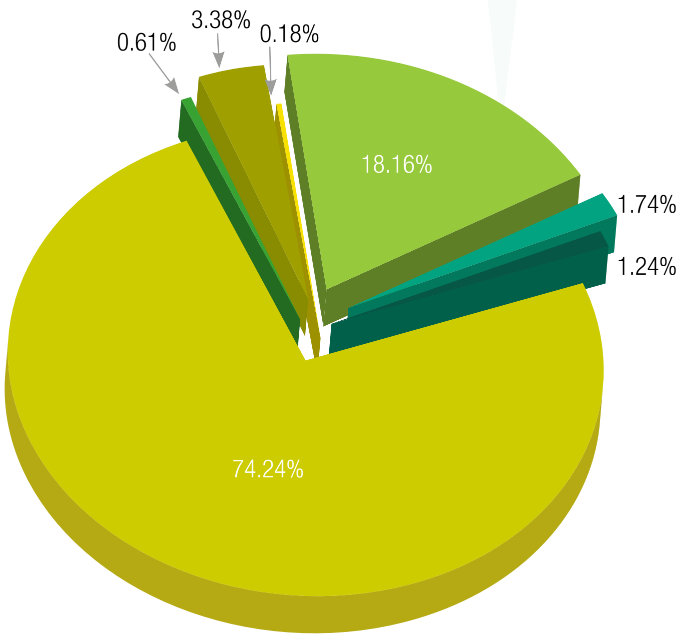
Credit Risk Concentration

- Agriculture
- Building and construction
- Manufacturing
- Mining and quarrying
- Private individuals
- Professional and business services
- Transport, communication and storage
- Wholesale, retail, hotel and restaurants
- Others



Asset Composition

- Debt securities
- Net Loan and advances to customers
- Intangible assets
- Current tax asset
- Other assets
- Deferred taz asset
- Property, plant and equipment
- Cash and cash equivalents
- Investment property



Funding Composition

- Share captial
- Credit loss reserve
- Retained earnings
- Deposits from customers
- Lease liability
- Other liabilities
- Employee entitlements

CORPORATE GOVERNANCE

Merchant Finance Limited is a licensed financial institution, guided by the RBF Corporate Governance Supervision Policy for Licensed Financial Institutions and governed by the Companies Act and Banking Act. As one of the leading Credit Institutions in Fiji, it is committed to delivering best practice in corporate governance, transparency in reporting and maintaining compliance.

The Structure

The MFL Board is responsible for the overall Corporate Governance of the Company. These are clearly set out in the Board Charter as listed below:

- To have a clear understanding of their role in corporate governance and be able to exercise sound judgement about the operations of MFL;
- Approve and oversee MFL's strategic objectives and corporate values;
- Set and enforce clear lines of responsibility and accountability;
- Ensure that there is appropriate oversight by Management;
- Ensure that management effectively implements the recommendations by the internal and external audit;
- Ensure that MFL is governed in a transparent manner;
- Understand MFL's operational structure and authorities that foster transparency and good governance;

Delegation of Authority

Through the above, the Board also delegates its duties to six subcommittees to help carry out its core functions. The committees are: the Board Asset, Liability & Risk Subcommittee, the Board Credit Subcommittee, the Audit, Risk & Governance Subcommittee and the Board Human Resources Subcommittee. There were two more committees that were formed in the 2018 financial year, these are; Board Information Technology (IT) Subcommittee and the Board Asset Management Subcommittee.

The Board has delegated the responsibility of operating and adminstration to the Chief Executive Officer, who is accountable to the Board for the performance of the Company. The Executive Management team directly reports to the CEO. Each Manager is responsible for the running of their respective departments or branches as they deal with various stakeholders on a daily basis. For all regulatory and statutory dealing, these are all taken by the Head Office team. The regulatory & statutory dealings of the Company are handled by the Head Office Team. In ensuring community involvement, management is also responsible for organizing corporate sponsorship and social responsibility activities under the guidance of the Chief Executive Officer.

Constitute an Effective Board

The RBF Corporate Governance Supervision Policy outlines the number of Directors to a minimum of five Directors at all times. The MFL Board currently comprises of five Directors.

The RBF Corporate Governance Supervision Policy requires that the Board must have at least two independent Directors of which one must be Fiji citizen with relevant experience in banking and finance. The Directors of MFL are appointed by the Fijian Holdings Limited Board Nomination and Remuneration Committee. Each Director is appointed on the basis of their professional qualification, business experience and relevant expertise and which they are further assessed by the RBF Fit & Proper Policy.

A Directors duty is to also avoid any action, position or interest that conflicts or appears to conflict with the interests of Merchant Finance. Every year as part of conflict of interest checks, the Directors declare their interest (if any) which is noted on the Register of Interest and during meetings; it is recorded by the Company Secretary.

The Directors of MFL Board as at the date of this report are as follows:

Name	Appointment Date	Type	Representing
Sanjit Patel	13/02/17	Chairman	FHL Nomination
Nouzab Fareed	19/05/10	Deputy Chairman	FHL Nomination
Mereoni Matavou	13/02/17	Director	FHL Nomination
Arun Narsey	19/10/15	Director	Independent
Sunil Sharma	13/02/17	Director	Independent

Performance Review, Training and Advice

Director induction is a formal process whereby the Chief Executive Officer presents a comprehensive corporate profile of the organisation to the incoming Director. The induction is compulsory for all new directors. On an annual basis, each Director's performance is individually assessed by the Chairman where by and the Chairman will be assessed by the Fijian Holdings Limited people and Nomination Committee.

During the term of their Board tenure, a Director or a Committee may engage an independent external adviser in relation to any Board matter at the expense of the Company.

Meetings
The Board met nine times during the financial year ended on 30th June 2018. Attendance was as follows:

Director	Capacity	No. of Meetings Entitled to Attend	No.of Meetings Attended
Sanjit Patel	Chairman	9	7
Nouzab Fareed	Deputy Chairman	9	9
Arun Narsey	Director	9	9
Sunil Sharma	Director	9	9
Mereoni Matavou	Director	9	6

Audit and Reporting
The Board Audit, Risk and Governance Committee comprises of two independent directors. The committee meets on a quarterly basis and their role is to assist the Board to independently verify and safeguard the integrity of the Company's financial reporting and internal control process. The Committees primary roles are to:

- Ensure Company regulatory & statutory reporting is complaint;
- Review and continues improvement in the internal control processes;

Risk Management
The Company does not have a separate risk management committee as it is looked after by the Audit, Risk and Governance Subcommittee.
Annually, the Risk and Compliance department conduct continuous assessment on material business and operational risks and report it to the Board. In consultation with the Audit, Risk and Governance Subcommittee Management, ensures that proper controls and procedures are in place to administer these risks.

Register of Interest
A register of interest is maintained by the Company in line with the Code of Conduct.

Communication and Public Disclosures
Merchant Finance strives to ensure that through a fair and transparent manner it releases information which will help our stakeholders make informed decision as we believe that trustworthy communication is very important to our growth.

External Stakeholders
The Company Corporate Social Responsibility is an important part of MFL's cultural identity, customer relationship and strategic direction. The Company and staff are proud of its community service programs that is effectively involved in giving back to the community. These programs enables MFL employees to continue to give their time and resources to the community.

Conclusion
As a guardian of investors' funds, Merchant Finance will ensure that its policies are is up to date with latest changes in the corporate world. The Board will ensure right mechanisms are implemented and continue to provide oversight in the review of the Corporate Governance Policy. This policy was last reviewed and approved by the Board in November 2017.

SUBCOMMITTEE REPORTS

West Roadshow

Audit, Risk & Governance Subcommittee

The Audit, Risk and Governance Committee has the mandate to provide a structured, systematic oversight of the company's governance, risk management and internal control practices. It currently consists of a total of five members and Chaired by an independent director. The Chief Executive Officer and Management team also attend these meetings to ensure that proper controls and appropriate risk management are implemented and maintained by the Company.

Committee meetings are scheduled once every quarter; however, frequent meetings may be called if required. Throughout the financial year various in-house, internal, external and investigation audit reports were presented to the Committee, deliberated and course of action recommended and implemented.

A number of internal policies were reviewed during the year and were recommended for Board approval. The Committee is committed to upholding governance best practices, regulatory compliance and maintaining risk at acceptable levels.

The Committee met five times during the financial year and attendance was as follows:

Name	Capacity	Status	No. Of Meetings Entitled To Attend	No. Of Meetings Attended
Sunil Sharma	Chairman	Current	5	5
Amrish Lal	Member	Current	5	4
Abilash Ram	Member	Current	5	4
Saleshni Warran	Member	Current	5	5
Nouzab Fareed	Member	Appointed (13/04/18)	-	-
Tarlochan Singh	Member	Appointed (13/04/18)	-	-

West Roadshow

Credit Subcommittee

The Credit Committee is responsible for overseeing the assessment of credit standing and repayment ability of prospective borrowers of Merchant Finance. Additionally, they supervise and review the credit policy and implementation of its 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:

Name	Capacity	Status	No. Of Meetings Entitled To Attend	No. Of Meeting Attended
Arun Narsey	Chairman	Current	5	5
Abilash Ram	Member	Current	5	5
Ashmin Haroon	Member	Appointed (27/03/18)	4	3
Shaleshma Singh	Member	Appointed (17/04/18)	2	2
Prasanna Samarakoon	Member	Appointed (17/04/18)	2	2
Navin Raj	Member	Resigned (05/04/18)	3	-

In the course of the year the Committee revised internal processes and management delegated approval limits were reviewed to help strengthen the lending and recovery function. The Committee was also influential in implementing 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 in order to have it maintained within its acceptable levels. Meetings of the Credit Committee are held quarterly however this has been amended to monthly or such other frequency as necessary.

Asset & Liability Risk (ALR) Subcommittee

The ALR Subcommittee is responsible for overseeing the Company's financial management of assets and liability to achieve sustainable profit, business growth and maximize shareholders value. This includes addressing and consideration of issues in liquidity, balance sheet mismatch, market competition, term deposit, investment, interest spread, cash flow and other risks.

The Committee members during the financial year are:

Name	Capacity	Status	No. Of Meetings Entitled To Attend	No. Of Meeting Attended
Murgessan Pillay	Chairman	Current	3	3
Kavin Rathod	Member	Appointed (13/12/17)	3	3
Shanil Patel	Member	Appointed (13/12/17)	3	3
Avish Bahadur	Member	Appointed (13/12/17)	3	3

During the year the Committee regularly reviewed the term deposit and loan portfolios and discussed innovative strategies to build on the current portfolios to manage the liquidity risks of the Company, taking into account the increased levels of competition in the market.

The Committee reviewed the monthly financial performance of the Company throughout the year, identifying and recommending areas of improvement and strategies that the Company would implement with regards to improving future financial performance.

In addition, the Committee was instrumental in reviewing and endorsing the 2018/2019 financial year budget prior for presentation to the MFL Board of Directors and reviewing the Committee Charter.

FHL Group Sports Day

Asset Managemnet Unit (AMU) Subcommittee

The AMU Subcommittee is a newly established Committee by the MFL Board with the responsibility of the formulating and monitoring of Asset Management and strategy, providing oversight on review of accounts over 90+ days in arrears, review of loss recovery accounts and the Asset Management policy.

During the financial year, the Committee members were:

Name	Capacity	Status	No. Of Meetings Entitled To Attend	No. Of Meeting Attended
Tanuj Patel	Chairman	Appointed (01/10/17)	2	2
Aqib Razak	Member	Appointed (01/10/17)	2	-
Viliame Cakacaka	Member	Appointed (01/10/17)	2	2
Gurmindar Singh	Member	Appointed (01/10/17)	2	2

Meetings of the Asset Management Subcommittee are held quarterly and the Committee has since met twice since its establishment in October 2017.

Over the nine months, the Committee has reviewed in detail the arrears position, the overall debt recovery system, loss recovery process and also the Committee Charter.

Information Technology (IT) Subcommittee

The Information Technology Subcommittee 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 were:

Name	Capacity	Status	No. Of Meetings Entitled To Attend	No. Of Meeting Attended
Arun Narsey	Chairman	Current	2	2
Abilash Ram	Member	Resigned (24/10/17)	2	1
Kalum Perera	Member	Resigned (24/10/17)	2	1
Joel Mastapha	Member	Appointed (24/10/17)	2	2
Avish Bahadur	Member	Appointed (01/05/18)	-	-

Meetings of the IT Subcommittee are held quarterly. During the year the Committee reviewed the internal and external IT audit reports and fully complied with all recommendations, reviewed the IT Subcommittee Charter, approved the implementation of Document Management System, installation of CCTV Projects and upgrade to a Cloud PABX System.

In the new financial year the Committee has targeted the development of the new CRM (Customer Relationship Management) software which is expected to significantly enhance MFL's IT system.

Central & West Staff Training

Human Resource (HR) Subcommittee

The Human Resource Committee role is to provide oversight and effective management of all MFL's Human Resource Management functions including long term growth and success of MFL staffing, benefits, reviewing and administrating policies relating to MFL's people capital.

The Committee members during the financial year were:

Name	Capacity	Status	No. Of Meetings Entitled To Attend	No. Of Meeting Attended
Mereoni Matavou	Chairperson	Appointed (13/02/17)	3	3
Abilash Ram	Member	Resigned (06/04/18)	3	2
Laisa Leqeiwai	Member	Appointed (20/11/17)	1	1
Kavin Rathod	Member	Appointed (01/05/18)	3	3
Shivneel Chetty	Member	Appointed (12/04/18)	1	-
Catherine Grey	Member	Resigned (20/11/17)	-	-
Nesbitt Hazelman	Member	Resigned (20/11/17)	-	-

During the year the Committee reviewed the HR Charter and succession plan which will ensure that employees are prepared to fill key roles within the Company when it becomes vacant.

North Team Training

West Roadshow

Team Building

CHAIRMAN'S REPORT

I am pleased to report there has been a significant improvement for Merchant Finance Limited in the 2018 financial year. The year was a very challenging one however, the Company recorded $8.52m in profit before tax, an increase of 74% in comparison to $4.90m in the previous year. The improved performance is a result of the ongoing changes, continuous improvements and efforts to become more customer driven, simple and efficient financial institution. This was driven by the Board with a new management team and a highly dedicated staffing complement who truly excelled under these changes.

As disclosed in my last report, the year began with a significant number of changes from an organisation restructure, business refocus, market rebranding, new divisions and improved technology to better serve our customers and stakeholders.

In spite of strong competition, high banking system liquidity and unfavourable weather conditions being our key challenges during the year, the Company recorded improved profit and 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 continues to emphasize on the importance of RBF compliance requirements and tight management strategies that need to be in place while steering the Company forward.

Future Outlook

As consumer preferences continue to change, it is important for financial institutions to continue to evolve to meet and or exceed customer expectations. In line with our vision to be 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 loyal and new clients.

In the new financial year, there will be a significant number of ongoing changes. With the focus on our core products, MFL will continue to place emphasis on quality of loans and not quantity thus allowing us to build strong customer relationship. We are also planning to conduct aggressive marketing awareness, to the untapped market of customers, to raise financial literacy and availability of financial assistance with our products.

As mentioned in my last update, the Board has approved a large investment in information technology for the Company. Over the year, we have upgraded our IT infrastructure for more robust security and accessibility, installed a new PABX system and upgraded our Website to allow better connectivity with our customers and procured a new Document Management System which we are in the process of digitising all our records. We are also in the process of procuring a new system for MFL which will cover all aspects of our business to improve overall efficiency and a move to a more paperless operation.

Our Management team has also developed an intensive training program for our staff to strengthen their skills and for further development to better serve our customers.

In light of our improved performance over the financial year we are highly geared to make FY19 an even better year in all aspects of our business through the implementation of our new strategies together and the continued support of our key stakeholders.

Acknowledgement

There are a number of key stakeholders I wish to acknowledge and the first and most importantly being our customers, as well as all of our key stakeholders for your continued support and confidence in Merchant Finance. We look forward to strengthening our business relationship in the new financial year.

I take this opportunity to thank the shareholders for having confidence and support in the Board and my fellow Board members to their commitment, wise counsel and unwavering support during the financial year.

Finally I wish to sincerely thank the Executive Management and staff for their dedication, commitment, and hard work during the financial year. On behalf of the Board we acknowledge your sincere contribution and efforts in achieving our results for the financial year. I trust that this year's results prove and further challenge the team to a new and even greater and improved performance in the coming year.

Sanjit Patel
Chairman

BOARD OF DIRECTORS

Sanjit Patel - Chairman

Is a businessman and a former member of parliament from Nadi. He holds a Bachelor of Commerce Degree from University of Canberra and a member of Australian Institute of Companies Directors (AICD). During his term is parliament Mr. Patel served as the head of Fiji delegation to ACP – EU, Chairman of Emolument Committee, and Government Deputy Whip, member of Public Accounts committee and also member of Economics Affairs Committee. Mr. Patel also the Mayor of Nadi.

He is currently the Chairman of Merchant Finance and member of FHL Investment & Strategy Committee and director of Fiji Hardwood Corporation Limited. He is the Chairman for Fiji Education Society and Soham Investment Pte. Ltd.

Nouzab Fareed - Deputy Chairman

Nouzab Fareed is the Group Chief Executive Officer for Fijian Holdings Group and he also serve as the Chairman of Life Cinema Ltd, FHL Media Ltd and FHL Retailing Ltd. He is the Deputy Chairman of Merchant Finance Ltd and Fiji Television Ltd. Fareed sits as a director on the board of all FHL Group of companies in addition to being a non-executive director on Marsh Fiji Ltd, Goodman Fielder Ltd and Pernix Fiji Ltd.

Fareed is the President of newly established Pacific Corporate Governance Institute as well as the Acting President of Fiji Chess Federation. He is the Vice President for Fiji Chamber of Commerce & Industry as well as for CPA Fiji Branch. He is a Past - President of Fiji Institute of Accountants as well as Fiji – PNG Business Council and Australian Institute of Company Directors – Fiji Branch.

Fareed posses more than 27 years of Executive management experience covering diverse sectors from Education, IT, Travel & Tourism, Media, Insurance, Commodity Broking, Corporate Finance, Mergers & Acquisitions, Investment Research, Management Services, Fund Management, Stock Broking, Leasing, Courier & Manufacturing. In the past, he also held the position of the Director Business Development for FedEx and Western Union in Sri Lanka.

Fareed is a Chartered Accountant (Fiji), Chartered Management Accountant (UK), Chartered Certificate Accountant (UK), a Graduate of Australian Institute of Company Directors and a Fellow of CPA (Australia). He is a Fellow of British Computer Society as well as a Fellow of Financial Services Institute of Australasia. He is also Chartered Marketer (UK), a Licensed Investment Advisor (Fiji), a Certified Fraud Examiner (CFE) of USA.

Fareed holds 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), and AOTS (Japan).

Nouzab Fareed is the only Distinguished Toastmaster (DTM) in South Pacific as well as the only Travel Centurion. He is also the Secretary for Rotary Club of Suva.

Fareed is an accomplished facilitator and a presenter at various forums at national and international level. He is also a mentor for aspiring directors and business

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

FRCS, Fiji Television Limited and was the Manager Legal and Company Secretary of Fijian Holdings Limited. She is now Acting General Manager for FHL Fund Management Limited, the Fund Manager for Fijian Holdings Unit Trust. Mrs Matavou is the Chairperson of MFL HR Sub-Committee, while her professional membership includes being a member of the Fiji Law Society, High Court Roll and the Australian Institute of Company Directors.

Sunil Sharma - Director

Is a Senior Partner of Aliz Pacific, Chartered Accountants and Business Advisers with over 28 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), FRCS Registered Tax Agent, Registered Auditor & Liquidator with the Ministry of Justice and a Member of Australian Institute of Company Directors.

He is currently the Chairman of Fiji Public Trustee Corporation Limited and the University of the South Pacific Grants Committee, an Executive Board member and Treasurer of the 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 South Sea Cruises Limited, Blue Lagoon Cruises Limited, Amalgamated Telecom Holdings Ltd, and Telecom Fiji Limited, Fiji Directories Ltd (Chairman), ATH Kiribati Ltd (Chairman). He is an 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. He has previously served as a Board Member of Maritime & Ports Authority of Fiji.

Rowena Fong - Chief Executive Officer

Rowena Fong was recently appointed the Chief Executive Officer of Merchant Finance Limited. She has been with Fijian Holdings Group for the past thirteen years and has held various senior positions and directorships within the Group. She holds a Master's in Business Administration from the University of the South Pacific (USP), a Post Graduate Certificate in Applied Finance & Investment from FINSIA and a Bachelor of Arts in Management & Public Administration and Information Systems from USP. She is also a Member of the Australian Institute of Company Directors and is currently a Director for the South Pacific Stock Exchange and FHL Media Limited.

CHIEF EXECUTIVE OFFICER'S REPORT

It is with great pleasure I greet the stakeholders of Merchant Finance Limited at the end of another financial year.

The 2018 financial year was yet another challenging one for MFL with the continued aggressive competition in the financial market, however our strategies implemented for the year paid off with the refocus on our key three core products: commercial lending, personal lending and high notes.

It is important to highlight that MFL is the first financial institution in Fiji to be compliant with IFRS 9 and 16. IFRS 16 relates to leases and specifies how MFL will recognize, measure present and disclose leases it holds. Whilst IFRS 9 specifies how MFL recognizes a financial asset or liability in its statement of financial position when it becomes party to the contractual provisions of the instrument. MFL has worked on the adoption of these new Standards throughout the last financial year in order to properly understand the Standards and specifically the impact on our profit & loss statement and balance sheet.

Operating Environment

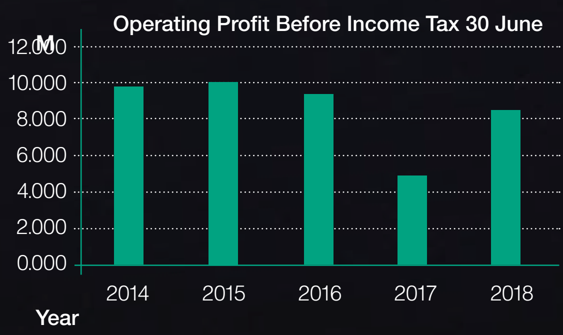
In line with global growth, the Fijian Economy is likely to achieve its ninth year of consecutive growth in 2018, which is from a moderate growth of 3.4%. The growth in production and related manufacturing sector was affected due to natural disasters in early April, while the positive outcomes prevailed in the public administration and defense, wholesale and retail trade, construction and the information and communication sectors became major contributors to growth by 3.2% in 2018.

The unfavorable and unpredictable weather patterns with Cyclone Josie & Keni and the floods in the Western Division also had an impact on financial institutions and its customers, especially in the agriculture industry.

Financial Performance

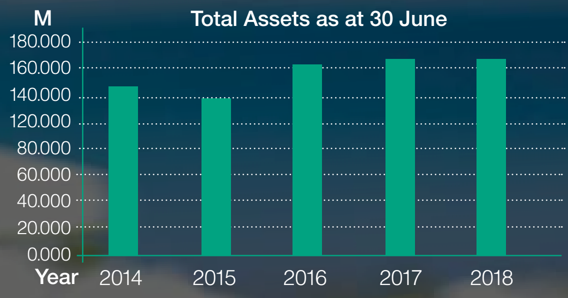
The year was marked by significant progress where MFL recorded a profit before tax of $8.5 million compared to $4.9 million in 2017, a significant increase of 73%.

This was achieved through a significant decrease in loan impairment expenses from $6.4 million in 2017 to $2.2 million in 2018. The focus of the FY18 year was to improve our loan book with the establishment of our Asset Management Unit which proved to significantly improve our collection throughout the financial year.



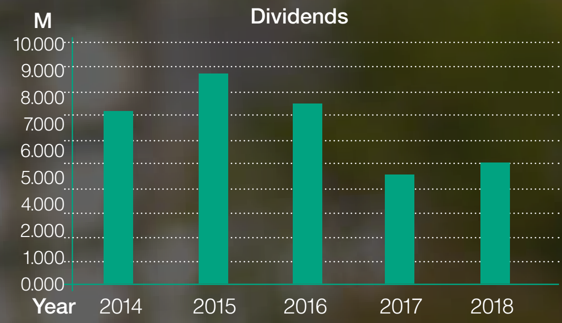
Interest income decreased slightly by 4.2% compared to the same period last year whilst interest expense also decreased by 2.7% resulting in a 4.7% decrease in net interest income.

Total Assets was maintained at $165m, our Cash and Cash Equivalents weakened by 15.4%, from $5.2 million to $4.4 million in 2018 while our loan portfolio for the year ended with a satisfactory improvement of 2.3%, $133.6 million compared to the previous year.



There was a slight decrease in our term deposits which was sufficient for our lending purposes over the financial year.

Our dividends to Shareholders grew with a total of $5.0 million from $4.5 million the previous year an increase of 11%.



During the year, our independent directors in consultation with our minority shareholders, Reserve Bank of Fiji and other regulatory bodies approved the implementation of a new management fee agreement with our parent Company, Fijian Holdings Limited. This agreement was effected from 1 July 2018.

Our Reach

MFL continues to maintain its 9 branches Fiji wide with 3 in the central division: Suva, Nabua and our newly opened Nakasi branch at the Rups Mega Complex. This was opened in September after we had relocated our Damodar Branch. This has allowed our customers in the Nabua to Nausori corridor better accessibility to our services. Our Nakasi branch opens 6 days a week: Monday to Friday from 8.30am to 5.00pm and on Saturdays from 9.00am to 1.00pm.

Our West branches cover: Sigatoka, Nadi and Lautoka whilst our reach in the North is in Labasa, Savusavu and Taveuni.

All our services/products are offered at all our branches: asset financing, personal financing and term deposit investment. Customers are encouraged to visit their nearest branch for any assistance or queries on their account.

Overview of Operations

Over the year, MFL has undertaken a number of information technology upgrades to its infrastructure to ensure more robust security and improved accessibility. This included a new cloud based PABX system and the procurement a new Document Management System. We are now in the process of digitizing all our records. Management is also in the process of procuring a new system for MFL which will cover all aspects of our business to improve overall efficiency and a move to a more paperless operation.

In October 2018, as part of our review process the Asset Management Unit was established. The unit targets all accounts in more than 90 days and has achieved remarkable results over the past nine months.

During the year, some of our policies were reviewed and advanced to cover all aspects of MFL. Some of these policies are in the process of being executed to provide a better standard guideline to our employees on the different processes and procedures of MFL.

These included:

- Corporate Governance Policies
- Compliance Policies
- Financial Transaction Reporting Policies
- Intergroup Policies
- New Product Policies
- Outsourcing Policies

Our People

At the beginning of the financial year, the Company underwent a huge restructure. This was done to realign our divisions and branches for more efficient operations. This has proven to be a success with the Company now only have four key divisions: East, West, North and Headquarters. Our staff have adjusted well to the changes and this has been reflected in the improved results in the 2018 financial year.

MFL has continued its Graduate Trainee program where fresh graduates are given a 12 month internship program which included on-the job training in the various divisions to attain the desired work experience. After successful completion of the program, these trainees are then allocated to be part of our vibrant team.

I acknowledge two of our Senior Managers who graduated with a Masters in Commerce and a few staff graduated with Post Graduate and Degrees in respective fields. Other staff also attained Professional Membership in CPA Australia. Additionally, staff attended a number of short course trainings and workshops for the purpose of further development and gaining more knowledge in our area of work.

Community Involvement

Our community plays a vital role in MFL success as it is part of our identity and strategic direction. During the year, MFL has contributed to a number of events in the community including:

Central Team

North Team


West Team

- In kind donation to Saint Christopher Homes;
- In kind donation to Arya Samaj;
- In kind donation to Fiji Blind Society;
- Sponsorship at the Sabeto Horse Races;
- Sponsorship for iTaukei Affairs Board Awards Night;
- Sponsorship for Fiji Military Forces First Military Tattoo;
- Sponsorship for Fiji Bus Operators Associates AGM;
- Participation in the FNPF Retirement Expo;
- Participation in the Annual Duavata Crime Prevention Festival;
- Participation in the Annual Fiji Show Case;
- Participation in the North awareness campaign with SPSE and FHUT.

As part our community development, we took in eight students during the year under our Attaché Program. This program provides them with the necessary 6 months job training experience needed in their respective programs to successfully complete the requirements of their program. For the first time this year, MFL included two disabled students to the program which proved to be a success.

Future Outlook

Moving forward the 2019 year is expected to be another challenging one for the team. We will however implement key strategies for the New Year to ensure we continue on our growth path. Our focus will continue on strategies to exceed our customers' expectations, improving stakeholder relationships and building our people.

I am encouraged by the promise of tomorrow and MFL's aspirations of another new financial year as we aim to create more financial awareness and provide financial assistance with our products.

Conclusion

My sincere gratitude, respect and praise is extended to the supportive and positive direction of the Chairman and our Board of Directors.

Similarly to our customers and suppliers, I would like to convey my gratitude for the immense trust and confidence in us to provide favorable investment returns and financial resolutions aligned to suite your needs. We look forward to your continued confidence in the next financial year.

Finally, my sincere appreciation to the management team and staff for their untiring efforts and continued support. I am confident that with this we will achieve much more in the New Year.

Rowena Fong
Chief Executive Officer


Sabeto Horse Race

MFL MANAGEMENT TEAM

BOBBY ALI
Divisional General
Manager West

ANIL PRASAD
Divisional General
Manager North

ROWENA FONG
Chief Executive
Officer

BOBBY DAYAL
Divisional General Manager Eastern

PIO NATANIELA
Head of Corporate

DINESHWAR LAL
Deputy General Manager Asset Management Unit

Merchant Finance Limited

FINANCIAL STATEMENTS

For the year ended 30th June 2018

Contents

Directors' report

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 2018 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:

Director's Name	Appointed	Status
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

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 2018 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 profit for the year after income tax expense of $1,725,806 (2017: $1,010,358) amounted to $6,795,126 (2017: $3,891,274).

Dividends
An interim dividend of $1,500,000 (at the rate of $0.05 per share) in respect of the 2018 financial year was declared on 14 December 2017 and paid during the year.

A final dividend of $3,500,000 (at the rate of $0.12 per share) was declared on 21 June 2018 out of which $700,000 was paid and $2,800,000 was unpaid as at 30 June 2018.

Reserves
The Directors do not recommend any transfers to or from reserves and retained earnings in the 2018 financial year.

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

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.

Directors' report (continued)

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 17th day of August 2018.

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 2018;

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 2018;

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 2018;

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 2018;

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 17th day of August 2018.

Signed in accordance with a resolution of the Directors.

Director **Director**

KPMG

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Merchant Finance Limited

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 2018, 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 29.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 30 June 2018, 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, International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) 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 and the IESBA Code. 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 are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS, and for such internal control as directors and management determine 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 are 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:

KPMG

INDEPENDENT AUDITORS' REPORT - CONTINUED

To the Shareholders of Merchant Finance Limited – continued

Report on the Audit of the Financial Statements – continued

Auditors' Responsibilities for the Audit of the Financial Statements - continued

- 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.

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

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
17 August **, 2018**
Suva, Fiji

Steve Nutley, Partner

KPMG

INDEPENDENCE DECLARATION
FOR THE YEAR ENDED 30 JUNE 2018

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 2018 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
17 August**, 2018**
Suva, Fiji

Steve Nutley, Partner

Statement of profit or loss and other comprehensive income
For the year ended 30 June 2018

	Note	2018 $	2017 $
Interest income	3	20,758,805	21,675,455
Interest expense	4	(5,248,111)	(5,393,428)
Net interest income		15,510,694	16,282,027
Fee and other income	5	832,426	1,227,894
Change in fair value of investment property	17	1,128,828	89,450
Loan impairment expenses	6	(2,172,133)	(6,382,873)
Personnel expenses	7	(2,802,880)	(2,857,402)
Depreciation, impairment and amortisation	18(a), 19 & 20	(933,310)	(592,798)
Other operating expenses	8	(2,971,925)	(2,864,666)
Finance cost		(70,768)	-
Operating profit before income tax		8,520,932	4,901,632
Income tax expense	9 (a)	(1,725,806)	(1,010,358)
Profit for the year		6,795,126	3,891,274
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			(24,245)
Total comprehensive income for the year		6,795,126	3,867,029

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.

Statement of changes in equity
For the year ended 30 June 2018

	Share capital	Credit loss reserve	Available for sale reserve	Retained earnings	Total
	$	$	$	$	$
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 ($0.09 per share) in respect of 2017 financial year	-	-	-	(1,500,000)	(1,500,000)
Final dividend declared ($0.25 per share) in respect of 2017 financial year	-	-	-	(3,000,000)	(3,000,000)
Issue of ordinary shares (Note 21)	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
Balance at 1 July 2017	30,000,000	2,875,936	775,283	629,440	34,280,659
Adjustment on initial application of IFRS 9 net of tax (Note 1(c)(B)(iii))	-	-	(775,283)	(373,472)	(1,148,755)
Adjusted balance at 1 July 2017	30,000,000	2,875,936	-	255,968	33,131,904
Total comprehensive income for the year					
Profit	-	-	-	6,795,126	6,795,126
Total comprehensive income for the year	-	-	-	6,795,126	6,795,126
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 2018 financial year	-	-	-	(1,500,000)	(1,500,000)
Final dividend declared ($0.12 per share) in respect of 2018 financial year	-	-	-	(3,500,000)	(3,500,000)
Total distributions to owners of the Company	-	-	-	(5,000,000)	(5,000,000)
Balance at 30 June 2018	30,000,000	2,875,936	-	2,051,094	34,927,030

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

Statement of financial position
As at 30 June 2018

	Note	2018	2017
		$	$
Assets			
Cash and cash equivalents	10	4,893,999	5,218,213
Debt securities	12	17,050,305	21,532,872
Other assets	13	446,825	487,038
Loans and advances to customers	11 (a)	133,157,013	130,282,495
Current tax asset	9 (b)	139,487	590,327
Assets held for sale	24	-	1,416,172
Investment property	17	4,695,000	2,150,000
Property, plant and equipment	18	3,504,109	2,666,362
Intangible assets	20	11,956	33,045
Deferred tax assets	9 (c)	1,267,800	1,162,178
Total assets		165,166,494	165,538,702
Liabilities			
Deposits from customers	15	122,612,787	124,005,299
Lease liability	18	1,002,660	
Other liabilities	14	6,319,198	7,003,473
Employee entitlements	16	304,819	249,271
Total liabilities		130,239,464	131,258,043
Shareholders' equity			
Share capital	21	30,000,000	30,000,000
Credit loss reserve	22	2,875,936	2,875,936
Available for sale reserve	1 (c)(B)(iii)		775,283
Retained earnings		2,051,094	629,440
Total shareholders' equity		34,927,030	34,280,659
Total liabilities and equity		165,166,494	165,538,702
Commitments and contingent liabilities	23		

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.

Statement of cash flows
For the year ended 30 June 2018

	Note	2018	2017
		$	$
Cash flows from operating activities			
Interest received from loans and advances		19,886,453	20,701,723
Interest paid on deposits from customers		(4,918,720)	(5,285,150)
Interest received from debt securities		959,731	945,008
Other income		772,574	1,225,010
Interest paid on leases		(70,768)	
Payment to suppliers and employees		(6,420,181)	(4,479,517)
Net (increase) in loans and advances		(6,261,317)	(7,437,576)
Net (decrease)/increase in deposits		(1,392,512)	5,874,715
Income taxes paid	9 (b)	(1,287,220)	(2,660,312)
Transitional tax paid	9 (b)	-	(28,482)
Net cash provided by operating activities		1,268,040	8,855,419
Cash flows from investing activities			
Payment for property, plant and equipment	19	(418,345)	(259,884)
Payment for intangibles		-	(5,750)
Proceeds from sale of property, plant and equipment		65,720	-
Net cash used in investing activities		(352,625)	(265,634)
Cash flows from financing activities			
Net movement in debt securities		3,707,284	(2,005,000)
Dividends paid	26	(4,600,000)	(6,154,400)
Payment for lease liability		(346,913)	
Net cash used in financing activities		(1,239,629)	(8,159,400)
Net (decrease)/increase in cash held		(324,214)	430,385
Cash and cash equivalents at beginning of financial year		5,218,213	4,787,828
Cash and cash equivalents at the end of financial year	**10**	4,893,999	5,218,213

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

Notes to and forming part of the financial statements
For the year ended 30 June 2018

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 17 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 Investment Property which is measured at fair value (2017: Investment property and available for sale financial assets).

(c) Changes in accounting policies

Except for the changes below, the Company has consistently applied the accounting policies to all periods presented in these financial statements.

(A) IFRS 16 Leases

The Company applied IFRS 16 with a date of initial application of 1 July 2017. It was able to early adapt IFRS 16, since IFRS 9 Financial Instruments was also early adopted. As a result, the Company has changed its accounting policy for lease contracts as detailed below.

The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2017. The details of the changes in accounting policies are disclosed below.

i. Definition of a lease

Previously, the Company determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Company assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 1(q).

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed to determine whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 July 2017.

ii. As a lessee

As a lessee, the Company previously classified leases as operating based on those leases that it assessed did not transfer significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

1 Significant accounting policies (continued)

(c) Changes in accounting policies

(A) IFRS 16 Leases (continued)

iii. Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 July 2017. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

iv. Impacts on financial statements

On transition to IFRS 16, the Company recognised an additional $1,006,263 of right-of-use assets and $1,006,263 of lease liabilities.

When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at 1 July 2017. The weighted-average rate applied is 7%.

	1 July 2017 ($)
Operating lease commitment at 30 June 2017 as disclosed in the financial statements	703,788
Additional commitments at 1 July 2017 following analysis undertaken in accordance with IFRS 16	503,367
	1,207,155
Discounted using the incremental borrowing rate at 1 July 2017	889,522
Finance lease liabilities recognised as at 30 June 2017	-
- Recognition exemption for:	
- Short-term leases	(52,083)
- Leases of low-value assets	-
- Extension and termination options reasonably certain to be exercised	162,546
- Variable lease payments based on an index or a rate	6,278
Lease liabilities recognised at 1 July 2017	1,006,263

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

1 Significant accounting policies (continued)

(c) Changes in accounting policies (continued)

(B) IFRS 9 Financial Instruments

The Company has early adopted IFRS 9 *Financial Instruments* issued in July 2014 with a date of initial application of 1 July 2017. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement*.

The nature and effects of the key changes to the Company's accounting policies resulting from its adoption of IFRS 9 are summarised below.

As a result of the adoption of IFRS 9, the Company adopted consequential amendments to IAS 1 *Presentation of Financial Statements* which requires impairment of financial assets to be presented in a separate line item in the statement of profit or loss and other comprehensive income (OCI). Additionally, the Company adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about 2018 but generally have not been applied to comparative information.

i. Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

For an explanation of how the Company classifies and measures financial assets and accounts for related gains and losses under IFRS 9, see Note 1(c) (B)(iv).

The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies for financial liabilities.

ii. Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets, debt investments at FVOCI and loan commitments issued, but not to investments in equity instruments. Under IFRS 9, credit losses are generally recognised earlier than under IAS 39 – see Note 1(i)(v).

iii. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 (2014) have been applied retrospectively, except as described below.

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 July 2017. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
- The determination of the business model within which a financial asset is held.

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

1 Significant accounting policies (continued)

(c) Changes in accounting policies (continued)

(B) IFRS 9 Financial Instruments (continued)

iii. Transition (continued)

The following table summarises the impact, net of tax, of transition to IFRS 9 on reserves and retained earnings at 1 July 2017:

Available for sale reserve	
Closing balance under IAS 39 (30 June 2017)	775,283
Remeasurement of debt financial assets at amortised cost	(775,283)
Opening balance under IFRS 9 (1 July 2017)	-
Retained earnings	
Closing balance under IAS 39 (30 June 2017)	629,440
Recognition of expected credit losses under IFRS 9	(466,840)
Related tax	93,368
Opening balance under IFRS 9 (1 July 2017)	255,968

iv. Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities as at 1 July 2017:

	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 $	New carrying amount under IFRS 9 $
Financial assets					
Debt securities	12	Available-for-sale	Amortised cost	21,532,872	20,757,589
Loans and advances to customers	11	Loans and receivables	Amortised cost	130,282,495	129,815,655
Other assets	13	Loans and receivables	Amortised cost	487,038	487,038
Cash and cash equivalents	10	Loans and receivables	Amortised cost	5,218,213	5,218,213
Total financial assets				157,520,618	156,278,495
Financial liabilities					
Deposits from customers	15	Other financial liabilities	Other financial liabilities	124,005,299	124,005,299
Other liabilities	14	Other financial liabilities	Other financial liabilities	7,003,473	7,003,473
Total financial liabilities				131,008,772	131,008,772

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

1 Significant accounting policies (continued)

(c) Changes in accounting policies (continued)

(B) IFRS 9 Financial Instruments (continued)

(iv) Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 (continued)

The Company's accounting policies on the classification of financial instruments under IFRS 9 are set out in Note 1(i). The application of these policies resulted in the reclassifications set out in the table above and explained below.

a. The available for sale financial assets previously categorised as available-for-sale under IAS 39 are now classified at amortised cost. The Company intends to hold the assets to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

b. Loans and advances, other assets and cash that were classified as loans and receivables under IAS 39 are now classified at amortised cost.

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 July 2017:

	IAS 39 carrying amount at 30 June 2017 $	Reclassification $	Remeasurement $	IFRS 9 carrying amount at 1 July 2017 $
Financial assets				
Amortised cost				
Cash and cash equivalents				
Brought forward: Loans and receivables	5,218,213			
Remeasurement		-	-	
Carried forward: Amortised cost				5,218,213
Loans and advances to customers				
Brought forward: Loans and receivables	130,282,495			
Remeasurement		-	(466,840)	
Carried forward: Amortised cost				129,815,655
Available for sale financial assets				
Brought forward: Available for sale	21,532,872			
Remeasurement		-	(775,283)	
Carried forward: Amortised cost				20,757,589
Other assets				
Brought forward: Loans and receivables	487,038			
Remeasurement		-	-	
Carried forward: Amortised cost				487,038
Total amortised cost	157,520,618	-	(1,242,123)	156,278,495

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

1 Significant accounting policies (continued)

(c) Changes in accounting policies (continued)

(B) IFRS 9 Financial Instruments (continued)

(iv) Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 (continued)

The following table reconciles:

- the closing impairment allowance for financial assets in accordance with IAS 39 and provisions for loan commitments in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets as at 30 June 2017;
- to the opening ECL allowance determined in accordance with IFRS 9 as at 1 July 2017.

	30 June 2017 (IAS 39/ IAS 37) $	Reclassification $	Remeasurement $	1 July 2017 (IFRS 9) $
Loans and receivables under IAS 39/financial assets at amortised cost under IFRS 9 (includes cash and cash equivalents and loans and advances to customers)	(5,472,121)	-	(466,840)	(5,938,961)
Available-for-sale financial securities under IAS 39 reclassified to amortised cost under IFRS 9	-	-	-	-
Total	**(5,472,121)**	**-**	**(466,840)**	**(5,938,961)**

(d) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 July 2017, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company.

(e) Use of estimates and judgments

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(i)(v) – Impairment of Loans and advances

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

1 Significant accounting policies (continued)

(f) 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.

(g) 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.

(h) Property, plant and equipment

Recognition and measurement

Items of property, 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 machinery	20% - 50%
Buildings	1.25%	Office furniture	20%
Motor vehicles	20% - 50%		

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

1 Significant accounting policies (continued)

(i) Financial assets and liabilities

i. Recognition and initial measurement

The Company initially recognises loans and advances and deposits on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

ii. Classification

Financial assets – Policy applicable from 1 July 2017

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:
- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified and measured at FVTPL.

On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Company makes an assessment of the objective of a business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

1 Significant accounting policies (continued)

(i) Financial assets and liabilities (continued)

ii. Classification (continued)

Business model assessment (continued)

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

Financial assets – Policy applicable before 1 July 2017

The Company classified its financial assets into one of the following categories:
- loans and receivables; and
- available-for-sale.

See notes 1(k) and 1(l).

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

1 Significant accounting policies (continued)

(i) Financial assets and liabilities (continued)

ii. Classification (continued)

Financial liabilities

The Company classifies its financial liabilities, other than loan commitments, as measured at amortised cost or FVTPL.

See note 1(o).

iii. Derecognition

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire (see also (v)), or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

In transactions in which the Company neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Company continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities
The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

iv. Modifications of financial assets and financial liabilities

Financial assets
If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see (iv)) and a new financial asset is recognised at fair value.

Policy applicable from 1 July 2017
If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Company recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower (see 1(v)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income (see 1(t)).

Policy applicable before 1 July 2017
If the terms of a financial asset were modified because of financial difficulties of the borrower and the asset was not derecognised, then impairment of the asset was measured using the pre-modification interest rate (see 1(v)).

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

1 Significant accounting policies (continued)

(i) Financial assets and liabilities (continued)

iv.Modifications of financial assets and financial liabilities (continued)

Policy applicable before 1 July 2017 (continued)

Financial liabilities

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS.

v.Impairment

Policy applicable from 1 July 2017

The Company recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments; and
- loan commitments issued.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Company considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of ‘investment grade’.
12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows; and
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Company if the commitment is drawn down and the cash flows that the Company expects to receive.

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

1 Significant accounting policies (continued)

(i) Financial assets and liabilities (continued)

v. Impairment (continued)

Policy applicable from 1 July 2017 (continued)

Restructured financial assets
If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets
At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Company considers the following factors:

- the market's assessment of creditworthiness as reflected in the bond yields.
- the rating agencies' assessments of creditworthiness.
- the country's ability to access the capital markets for new debt issuance.
- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments: generally, as a provision; and

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

1 Significant accounting policies (continued)

(i) Financial assets and liabilities (continued)

v. Impairment (continued)

Policy applicable from 1 July 2017 (continued)

Presentation of allowance for ECL in the statement of financial position (continued)

- where a financial instrument includes both a drawn and an undrawn component, and the Company cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Company presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Policy applicable before 1 July 2017

Impairment of Loans and Advances

Loans and advances were reviewed at each reporting date for impairment. Credit impairment provisions were raised for exposures that are known to be impaired. Loans and advances were recorded at the recoverable amount after ascertaining the required allowance for impairment. A loan was impaired when there was reasonable doubt that not all of the principal and interest could be collected in accordance with the terms of the loan agreement. Loan accounts were 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 was the difference between the outstanding balance of the loan facilities and recoverable amount based on the collateral held by the Company. There were two components of the Company's impairment allowance assessment - individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

Individually assessed allowances were created to cover for identified doubtful debts arising from individual loan accounts which were impaired. The determination of the amount of individually assessed allowances was 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 were created on the loan balances to cover for the losses that may arise from loan accounts that were facing uncertainty on which individual provisioning is not assessed. Management did a risk analysis taking into account the history of write-off, arrears and adjusted changes in market conditions and an appropriate risk factor was allocated based on this assessment. The risk factor assigned was monitored against the fluctuation in market conditions.

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

1 Significant accounting policies (continued)

(i) Financial assets and liabilities (continued)

v. Impairment (continued)

Policy applicable before 1 July 2017 (continued)

Impairment of Loans and Advances (continued)

Impaired assets

The Company has disclosed, in Note 28 (a), 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.

(j) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(k) Loans and advances

Policy applicable from 1 July 2017

Loans and advances captions in the statement of financial position include:

- loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;

Policy applicable before 1 July 2017

Loans and advances were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. Loans and advances were classified as loans and receivables. Loans and advances were initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

1 Significant accounting policies (continued)

(l) Debt securities

Policy applicable from 1 July 2017

The ‘debt securities’ caption in the statement of financial position includes debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;

Policy applicable before 1 July 2017
Debt securities were initially measured at fair value plus incremental direct transaction costs, and subsequently accounted for as available-for-sale.

(i). 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.

(m) 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.

(n) Other liabilities

Other liabilities are stated at amortised cost.

(o) Deposits from customers

Deposits from customers are stated at amortised cost using the effective interest method.

(p) Assets held for sale

Assets held for sale are 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.

(q) Leases

Prior to 1 July 2017, operating lease payments were recognised in the profit or loss as an expense on a straight-line basis over the lease term.
The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately where different from those under IFRS 16 and the impact of changes is disclosed in Note 1(c).

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

1 Significant accounting policies (continued)

(q) Leases (continued)

Policy applicable from 1 July 2017

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:
  - the Company has the right to operate the asset; or
  - the Company designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after 1 July 2017. At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Policy applicable before 1 July 2017

For contracts entered into before 1 July 2017, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
  - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
  - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
  - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

i. As a lessee

Policy applicable after 1 July 2017

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

1 Significant accounting policies (continued)

(q) Leases (continued)

i. As a lessee (continued)

Policy applicable after 1 July 2017

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined; the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position (see note 18).

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

1 Significant accounting policies (continued)

(q) Leases (continued)

i. As a lessee (continued)

Policy applicable before 1 July 2017

Assets held under other leases were classified as operating leases and were not recognised in the Company's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

ii. As a lessor

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Company applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, the Company applies IFRS 15 to allocate the consideration in the contract.

The Company recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other income'.

The accounting policies applicable to the Company as a lessor in the comparative period were not different from IFRS 16. However, when the Company was an intermediate lessor the sub-leases were classified with reference to the underlying asset.

(r) 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.

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

1 Significant accounting policies (continued)

(s) 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%.

(t) 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.

(u) 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.

(v) Loan commitments

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

The Company has issued no loan commitment that are measured at FVTPL.

For other loan commitments:

- from 1 July 2017: the Company recognises loss allowance (see (i)B(v));
- before 1 July 2017: the Company recognises a provision in accordance with IAS 37 if the contract was considered to be onerous.

Liabilities arising from loan commitments are included within provisions.

(w) Comparatives

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

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

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.

Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Valuation technique	***Significant unobservable inputs***	***Inter-relationship between key unobservable inputs and fair value measurement***
Sales (Direct Comparison) whereby the comparable developments are compared to the subject properties on a common denominator with equated adjustments made to allow for differences and comparability. This approach considers the sale price levels of similar and comparable properties in the localities.	Not applicable	Not applicable

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

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:

	Carrying amount		Fair value			
	Amortised cost $	Other financial liabilities $	Level 1 $	Level 2 $	Level 3 $	Total $
Balance as at 30 June 2018						
Financial assets not measured at fair value						
Cash and cash equivalents	4,893,999	-	-	-	4,893,999	4,893,999
Debt securities	17,050,305	-	-	10,281,358	7,500,305	17,781,663
Loans and advances to customers	133,157,013	-	-	-	133,157,013	133,157,013
	155,101,317	-	-	10,281,358	145,551,317	155,832,675
Balance as at 30 June 2018						
Financial liabilities not measured at fair value						
Deposits from customers	-	122,612,787	-	-	122,612,787	122,612,787
	-	122,612,787	-	-	122,612,787	122,612,787

	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	-	-	-	5,218,213	5,218,213
Loans and advances to customers	-	130,282,495	-	-	-	130,282,495	130,282,495
	-	135,500,708	-	-	-	135,500,708	135,500,708

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

2. Fair value estimation (continued)

	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 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

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 • Cash and cash equivalents	Discounted cash flows- The valuation model considers the present value of expected payment, discounted using a risk-adjusted discount rate.	Not applicable	Not applicable

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

	2018	2017
	$	$
3. Interest income		
Deposits with other financial institutions	245,978	336,441
Debt securities	626,374	637,293
Loans and advances	19,886,453	20,701,721
	20,758,805	21,675,455
4. Interest expense		
High Notes Deposits	5,246,868	5,392,183
Other	1,243	1,245
	5,248,111	5,393,428
5. Fees and other income		
Credit related fees and commissions	234,895	529,576
Income received on loans previously written off	118,170	303,687
Repossession and auction administration fees	191,759	157,064
Gain on sale of property, plant and equipment	47,770	-
Rental income	93,247	26,253
Other fees	146,585	211,314
	832,426	1,227,894
6. Loan impairment expenses		
Increase in impairment	1,912,547	6,124,133
Amounts written off directly to profit or loss during the year as uncollectible	259,586	258,740
	2,172,133	6,382,873
7. Personnel expenses		
Salaries and wages	2,226,080	2,281,748
Fiji National Provident Fund	209,049	237,353
Other staff costs	367,751	338,301
	2,802,880	2,857,402

The number of employees at the end of the financial year was 76 (2017: 73).

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

	2018 $	2017 $
8. Other operating expenses		
Advertising expense	310,555	245,135
Computer expenses	42,873	55,247
Donations	3,891	1,500
Directors fees and allowances	78,797	83,166
External audit fees	47,500	54,500
Internal audit fees	61,105	22,500
Management fees	687,314	117,720
Legal costs	187,253	255,414
Insurance expense	33,348	33,440
Motor Vehicle Expense	164,517	142,570
Loss on disposal	-	1,493
Other expenses	608,298	723,520
Premises	457,035	862,061
Printing and stationary	117,647	108,343
Telecommunication expenses	171,792	158,057
	2,971,925	2,864,666

9. Income tax

(a) Income tax expense

	2018 $	2017 $
Prima facie income tax expense calculated at 20% (2017: 20%) on the operating profit	1,704,186	980,326
Increase/ (decrease) in income tax expense due to:		
FNPF employer contribution	20,905	23,163
Other permanent differences	777	300
(Over)/under provision in prior years	(62)	6,569
	1,725,806	1,010,358
Total income tax expense is made up of:		
Deferred tax credit	(12,254)	(281,798)
Current income tax expense	1,738,122	1,287,282
Under/(Over) provision in prior years	(62)	4,874
	1,725,806	1,010,358

(b) Current tax liability/(asset)

	2018 $	2017 $
Movements during the year were as follows:		
Balance at beginning of year	(590,327)	806,311
Income tax paid	(1,287,220)	(2,660,312)
Transitional tax paid	-	(28,482)
Current year's income tax expense	1,738,122	1,287,282
(Over)/under provision in prior years	(62)	4,874
Balance at end of year	(139,487)	(590,327)

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

9. Income tax (continued)

	2018 $	2017 $
(c) Deferred tax asset		
Allowance for doubtful debts	1,418,674	1,094,424
Property, plant and equipment	28,120	35,790
Employee entitlements	60,964	49,854
Investment property	(248,460)	(17,890)
Lease liability	200,532	
Right of use asset	(192,030)	
	1,267,800	1,162,178

Movement in temporary differences during the year

	30 June 2017	Adjustment on initial application of IFRS 9	1 July 2017	Recognised in profit or loss	30 June 2018
Allowance for doubtful debts	1,094,424	93,368	1,187,792	230,882	1,418,674
Property plant and equipment	35,790	-	35,790	(7,670)	28,120
Employee entitlements	49,854	-	49,854	11,110	60,964
Revaluation of investment property	(17,890)	-	(17,890)	(230,570)	(248,460)
Lease liability				200,532	200,532
Right of use asset				(192,030)	(192,030)
	1,162,178	93,368	1,255,546	12,254	1,267,800

10. Cash and cash equivalents

Cash at bank and on hand	2,823,072	3,647,429
Short term deposits	2,070,927	1,570,784
	4,893,999	5,218,213

The Company has a Standby Overdraft Facility of $4,000,000 (2017: $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 (2017: $ Nil).

11. Loan and advances to customers

(a) Individual customers

Asset purchase loans	96,852,901	87,352,554
Personal loans	76,418,340	76,646,122
Trade finance loans	917,408	3,355,583
Gross loans and advances to customers	174,188,649	167,354,259
Less: Deferred revenue	(33,938,266)	(31,599,643)
	140,250,383	135,754,616
Less: ECL allowance (2017: Impairment allowance)	(7,093,370)	(5,472,121)
Net loans and advances	133,157,013	130,282,495

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

	2018	2017
	$	$
11. Loan and advances to customers (continued)		
(b) Maturity analysis		
Not longer than 3 months	14,769,557	19,809,180
Longer than 3 and not longer than 12 months	46,404,061	41,623,724
Longer than 1 and not longer than 5 years	102,590,232	95,247,403
Longer than 5 years	10,424,799	10,673,952
	174,188,649	167,354,259
(c) Bad debts written off		
Represented as :		
Write off from provision	758,138	4,722,813
Write off charged to profit and loss	259,587	258,740
	1,017,725	4,981,553
12. Debt securities		
Government securities	9,550,000	10,275,283
Short-term deposits	7,500,305	11,257,589
	17,050,305	21,532,872
Investment maturity analysis		
Not more than 3 months	4,500,305	-
Longer than 3 and not longer than 12 months	7,000,000	11,257,589
Longer than 1 and not longer than 5 years	4,750,000	5,318,199
Longer than 5 years	800,000	4,957,084
	17,050,305	21,532,872
13. Other assets		
Prepayments	59,775	24,691
Accrued income	248,483	335,862
Other receivables	138,567	126,485
	446,825	487,038
14. Other liabilities		
Dividend payable (note 26)	2,800,000	2,400,000
Accrued expenses	505,030	868,044
Accrued interest on deposits from customers	2,679,694	2,350,303
Other	334,474	1,385,126
	6,319,198	7,003,473

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

	2018 $	2017 $
15. Deposits from customers		
High Notes term deposits	122,612,787	124,005,299
Maturity analysis		
No longer than 3 months	28,644,621	26,981,417
Longer than 3 and not longer than 12 months	57,370,892	59,513,756
Longer than 1 and not longer than 5 years	35,747,274	36,510,126
Longer than 5 years	850,000	1,000,000
	122,612,787	124,005,299
16.Employee entitlements		
Accrual for annual leave	44,300	76,749
Accrual for bonus	210,793	-
Accrual for gratuity	42,415	159,481
Accrual for Fringe Benefit Tax	7,311	13,041
	304,819	249,271
17.Investment property		
Opening balance	2,150,000	2,060,550
Change in fair value	1,128,828	89,450
Acquisitions	-	-
Reclassification from Asset held for sale	1,416,172	-
Closing balance	4,695,000	2,150,000

18.Leases

(a) As a lessee

Property, plant and equipment comprise owned and leased assets that do not meet the definition of investment property.

		2018 $	2017 $
Property, plant and equipment (excluding right of used assets)	19	2,543,960	2,666,362
Right of use assets		960,149	-
		3,504,109	2,666,362

The Company leases assets including land and buildings and IT equipment. Information about lease for which the Company is a lessee is presented below.

Balance at 1 July 2017	1,006,263
Additions for the year	343,310
Depreciation charge for the year	(389,424)
Balance as at 30 June 2018	960,149

Lease liabilities

Maturity analysis – contractual undiscounted cash flows

Less than one year	360,668
One to five years	784,524
More than five years	-
Total undiscounted lease liabilities at 30 June 2018	1,145,192

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

18. Leases (continued)

	2018 $
(a) As a lessee (continued)	
Lease liabilities (continued)	
Lease liabilities included in the financial position as at 30 June 2018	
Current	301,407
Non-current	701,253
	1,002,660
Amounts recognised in profit and loss	
Interest on lease liabilities	70,768
Variable lease payments not included in the measurement of lease liabilities	67,217
Expenses relating to leases of low-value assets excluding short-term leases of low-value assets	82,087
Amounts recognised in the statement of cash flows	
Total cash outflow for leases	566,985

i. Real estate leases

The Company leases land and buildings for its office space and retail stores. The leases of office space typically run for a period ranging from 2 to 10 years. Some leases include an option to renew the lease for an additional period of the same duration after the end of the contract term.

Some leases provide for additional rent payments that are based on changes in local price indices. Some also require the Company to make payments that relate to the property taxes levied on the lessor and insurance payments made by the lessor; these amounts are generally determined annually.

ii. IT Equipment

The Company leases multifunctional devices for its offices across various locations, with a term of five years.

Extension options

Some leases of office buildings contain extension options exercisable by the Company up to three months before the end of the non-cancellable contract period. Where practicable, the Company seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Company and not by the lessors. The Company assesses at lease commencement whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

Notes to and forming part of the financial statements (continued)

For the year ended 30 June 2018

19. Property, plant and equipment (excluding right of use assets)

	Land & buildings $	Motor vehicles $	Office alterations $	Office furniture $	Office machinery $	Work in Progress $	Total $
Cost							
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
Balance at 1 July 2017	1,346,280	1,402,093	787,072	782,481	1,984,011	242,005	6,543,942
Acquisitions	-	247,200	13,292	118,338	38,316	1,199	418,345
Transfer (out)/in	-	-	16,625	-	-	(16,625)	-
Disposals	-	(133,000)	-	(59,999)	(10,261)	-	(203,260)
Balance at 30 June 2018	1,346,280	1,516,293	816,989	840,820	2,012,066	226,579	6,759,027
Accumulated Depreciation							
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
Balance at 1 July 2017	15,925	913,836	620,687	624,058	1,703,074	-	3,877,580
Depreciation charge for the year	8,498	214,714	43,896	87,295	168,394	-	522,797
Disposals	-	(129,250)	-	(46,108)	(9,952)	-	(185,310)
Balance at 30 June 2018	24,423	999,300	664,583	665,245	1,861,516	-	4,215,067
Carrying amount							
At 1 July 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
At 30 June 2018	1,321,857	516,993	152,406	175,575	150,550	226,579	2,543,960

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

	2018 $	2017 $
20. Intangible assets		
Software costs		
Cost :		
Balance at the beginning of the year	106,809	95,309
Acquisition	-	5,750
Transfer from WIP	-	5,750
Balance at the end of the year	106,809	106,809
Accumulated amortisation :		
Balance at the beginning of the year	(73,764)	(54,271)
Amortisation charge for the year	(21,089)	(19,493)
Balance at the end of the year	(94,853)	(73,764)
Carrying amount :		
Balance at the beginning of the year	33,045	41,038
Balance at the end of the year	11,956	33,045

21. Share capital

	2018 $	2017 $
Authorised capital		
50,000,000 ordinary shares (2017: 50,000,000 ordinary shares)	50,0000,000	50,000,000
Issued and paid up capital		
Balance at the beginning of the year	30,000,000	28,500,000
Dividend re-investment through special resolution on 23 June 2017	-	1,500,000
Balance at the end of the year	30,000,000	30,000,000

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.

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

22. Credit loss reserve

	2018 $	2017 $
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.

23. Commitments and contingent liabilities

a) Commitments

Commitments in respect of loans and approved credit commitments offered but not yet advanced as at balance date amounted to approximately $4,506,547 (2017: $2,783,173).

The Company is committed to incur other capital expenditure of $154,958 (2017:$ 7,000).

b) Contingent liabilities

Contingent liabilities amounted to $nil (2017:$nil).

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

24. Assets held for sale

	2018 $	2017 $
Opening balance	1,416,172	1,416,172
Additions	-	-
Disposals	-	-
Reclassification to investment property	(1,416,172)	-
Closing balance	-	1,416,172

25. Related party transactions

Directors

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

Sanjit Bhai Patel
Nouzab Fareed
Arun Narsey
Sunil Sharma
Mereoni Matavou

Amounts paid to Directors are disclosed below under Directors allowance and Directors fees.

Holding company

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

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

25. Related party transactions (continued)

Loans to Directors

As at 30 June 2018, $Nil (2017: $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 $150,538 (2017:$174,820).

	2018 $	2017 $
Transactions with related parties		
High notes issued		
FHL Properties Limited	-	264,386
FHL Stockbrokers Limited	25,262	25,262
R B Patel Limited	412,135	205,814
FHL Fund Management Limited	600,000	600,000
Fijian Holdings Unit Trust	7,000,000	5,000,000
FHL on SPSE account	20,000	20,000
Fijian Property Trust Company Limited Cyclone Reserve Account	497,012	488,434
Dividend payable		
Fijian Holdings Limited	2,800,000	2,400,000
Interest payable		
FHL Properties Limited	-	1,420
FHL Fund Management Limited	25,011	24,491
Fijian Property Trust Company Limited Cyclone Reserve Account	739	766
Fijian Holdings Unit Trust	53,600	77,386
FHL Stockbrokers Limited	94	97
FHLS on Account of SPSE	314	346
RB Patel Limited	8,214	1,722
Other payable		
Fijian Holdings Limited	124,303	
Fiji Television Limited	9,668	-
Dividend paid		
Fijian Holdings Limited	3,600,000	5,254,400
Fijian Holdings Unit Trust	1,000,000	900,000
Service provider fees		
FHL Fund Management Limited	9,743	5,071
Other income		
FHL Fund Management Limited	1,422	3,554

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

25. Related party transactions (continued)

Transactions with related parties (continued)

	2018 $	2017 $
Expenses		
Rent		
FHL Properties Limited	212,336	211,307
Interest expense on High Notes		
FHL Properties Limited	9,518	9,518
FHL Fund Management Limited	22,410	-
Fijian Property Trust Company Limited Cyclone Reserve Account	17,894	16,868
Fijian Holdings Unit Trust	230,012	189,460
FHL Stockbrokers Limited	909	678
FHLS on Account of SPSE	738	615
Life Cinema Limited	-	13,537
RB Patel Limited	4,773	5,926
Directors Allowance		
Basic Industries Limited	594	238
FHL Fund Management Limited	1,037	
Pacific Cement Limited	238	
Fijian Holdings Limited	8,500	7,125
Directors Fees		
Fijian Holdings Limited	49,973	29,041
Facility Charges		
FHL Properties Limited	13,702	23,275
Management fees		
Fijian Holdings Limited	687,314	117,720
Other expenses		
Fijian Holdings Limited	122,415	-
FHL Properties Limited	94,841	-
Fiji Television Limited	22,868	-
RB Patel Limited	3,163	11,792

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

25. Related party transactions (continued)

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 Date	
		Start	End
Rowena Fong	Acting CEO	22/06/2017	Current
Dineshwar Lal	Divisional General Manager Credit and Asset Management	29/12/2014	Current
Bobby Ali	Divisional General Manager West	18/12/2014	Current
Bobby Dayal	Divisional General Manager East	29/03/2015	Current
Anil Prasad	Divisional General Manager North	01/04/2015	Current
Pio Nataniela	Head of Corporate	16/12/2014	Current
Semanta Naicker	Manager Credit	17/12/2014	17/11/2017
Alipate Radrodro	Team Leader Corporate	06/01/2015	04/07/2017
Beatrice Mar	Risk & Compliance Officer	17/12/2014	30/11/2017
Tokasa Seinsinu	IT Administrator	02/03/2015	18/08/2017
Louisa John	Human Resource Officer	16/12/2014	29/09/2017

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

	2018 $	2017 $
Short-term benefits	571,882	1,220,645

26. Provision for Dividends

Dividends declared or paid by the Company are:		
Balance at the beginning of the year	2,400,000	4,054,400
Add: Interim dividend 2018 declared and paid during the year ($0.05 per share) (2017: $0.05)	1,500,000	1,500,000
Add: Final dividend 2018 declared during the year ($0.12 per share) (2017: $0.10)	3,500,000	4,500,000
Less: dividends reinvested as capital	-	(1,500,000)
Less: dividends paid	(4,600,000)	(6,154,400)
Balance at the end of the year	2,800,000	2,400,000

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

27. 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:

	2018	2017
	$	$
Cash and cash equivalents	4,893,999	5,218,213

28. Risk management disclosures

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.

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

28. Risk management disclosures (continued)

a) Credit risk (continued)

Credit quality analysis
The following table sets out the information about the credit quality of loans and advances. Unless specifically indicated, the amounts in the table represents gross carrying amount.

Explanation of the terms: 12-months ECL, lifetime ECL and credit-impaired are included in Note 1(i).

	2018				2017
	12 months ECL $	Lifetime ECL not credit impaired $	Lifetime ECL credit impaired $	Total $	Total $
Loans and advances to customers					
Grade - Standard	89,962,541	-	-	89,962,541	101,865,258
Grade - Special mention	-	25,853,609	-	25,853,609	10,337,224
Grade - Substandard	-	10,335,191	-	10,335,191	4,811,775
Grade - Doubtful	-	-	11,198,341	11,198,341	3,245,524
Grade - Loss	-	-	2,900,701	2,900,701	15,494,835
	89,962,541	36,188,800	14,099,042	140,250,383	135,754,616
Loss allowance	(1,140,048)	(1,523,934)	(4,429,388)	(7,093,370)	(5,472,121)
Carrying amount	**88,822,493**	**34,664,866**	**9,669,654**	**133,157,013**	**130,282,495**

Collateral held and other credit enhancements
The Company holds collateral and other credit enhancements against its credit exposures. The following table sets out the principal types of collateral held against different portfolios of loans and advances.

	Percentage of exposure that is subject to collateral requirements		
	30 June 2018	30 June 2017	Principal type of collateral
Loans and advances to customers			
Motor vehicle	100	100	Motor vehicles
Personal loans	100	100	Property and equipment

At 30 June 2018, the net carrying amount of credit-impaired loans and advances to customers amounted to $14,099,042 (2017: $ 18,740,359) and the value of identifiable collateral (mainly properties and motor vehicles) held against those loans and advances amounted to $21,051,819 (2017: $29,965,889). For each loan, the value of disclosed collateral is capped to the nominal amount of the loan that is held against.

28. Risk management disclosures (continued)

a) Credit risk (continued)

Amounts arising from ECL
Inputs, assumptions and techniques used for estimating impairment.
See accounting policy in Note 1(i)(v).

Significant increase in credit risk
When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:
- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Credit risk grades
The Company allocates each exposure to a credit risk grade based on certain data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades standard and special mention is smaller than the difference between credit risk grades special mention, substandard, doubtful and loss.
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.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.
- Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage and compliance with covenants;
- Payment record – this includes overdue status as well as a range of variables about payment ratios;
- Utilisation of the granted limit;
- Requests for and granting of forbearance; and
- Existing and forecast changes in business, financial and economic conditions.

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

28. Risk management disclosures (continued)

a) Credit risk (continued)

Amounts arising from ECL (continued)

Generating the term structure of PD
Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Company collects performance and default information about its credit risk exposures analysed by type of product and borrower as well as by credit risk grading.

The Company employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For all exposures, key macro-economic indicators used is GDP growth, based on publications by the Reserve Bank of Fiji.

Determining whether credit risk has increased significantly
The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Company's quantitative modelling, the remaining lifetime PD is determined to have increased by more than 30 days past due.

Using its expert credit judgement and, where possible, relevant historical experience, the Company may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. Renegotiation of loans to customers in financial difficulties is a qualitative indicator of a significant increase in credit risk.

As a backstop, the Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Company monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

28. Risk management disclosures (continued)

a) Credit risk (continued)

Amounts arising from ECL (continued)

- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 1(i)(iv).

The Company renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Company's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both personal and motor loans are subject to the forbearance policy. The Audit Committee regularly reviews reports on forbearance activities.

For loans and advances modified as part of the Company's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Company's ability to collect interest and principal and the Company's previous experience of similar forbearance action. As part of this process, the Company evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 1(i)(v)) in default. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Definition of default

The Company considers a loans and advances to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Company.

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

28. Risk management disclosures (continued)

a) Credit risk (continued)

Definition of default (continued)

In assessing whether a borrower is in default, the Company considers indicators that are:
- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Company; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information
The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Audit Committee and consideration of a variety of external actual and forecast information, the Company formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing economic scenarios and considering the relative probabilities of each outcome.

External information includes economic data and forecasts published by Reserve Bank of Fiji.

The base case represents a most-likely outcome and is aligned with information used by the Company for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Company carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of loans and advances and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at 30 June 2018 included the following ranges of key indicators for the years ending 30 June 2019 and 2020.

	2019	**2020**
GDP growth	3.4%	3.2%

Predicted relationships between the key indicators and default and loss rates on loans and advances have been developed based on analysing historical data over the past 4 years.

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

28. Risk management disclosures (continued)

a) Credit risk (continued)

Measurement of ECL
The key inputs into the measurement of ECL are the term structure of the following variables:
- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, and recovery costs of any collateral that is integral to the loans and advances. LGD estimates are recalibrated for different economic scenarios. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a loans and advances is its gross carrying amount. For lending commitments, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for loans and advances for which credit risk has not significantly increased, the Company measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of an advance or terminate a loan commitment.

Loans and advances are grouped on the basis of shared risk characteristics that include loan purpose and credit risk grading. The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

28. Risk management disclosures (continued)

a) Credit risk (continued)

For portfolios in respect of which the Company has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows:

	Exposure	External benchmark used PD
Cash and cash equivalents	$4,893,999	Standard & Poor default study
Debt investment securities	$17,050,305	Standard & Poor default study

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance for loans and advances. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 1(i). Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

	2018				2017
	12-month ECL ($)	Lifetime ECL not credit-impaired ($)	Lifetime ECL credit-impaired ($)	Total ($)	Total ($)
Loans and advances to customers at amortised cost					
Balance at 1 July	1,179,618	1,098,965	3,660,378	5,938,961	4,070,801
Transfer to 12 months ECL	43,953	(43,953)	-	-	
Transfer to lifetime ECL not credit impaired	(341,968)	341,968	-	-	
Transfer to lifetime ECL credit impaired	(61,557)	(216,131)	277,688	-	
Net remeasurement of loss allowance	(123,372)	197,219	2,089,323	2,163,170	6,124,133
New financial assets originated or purchased	775,365	637,053	889,395	2,301,813	
Financial assets that have been derecognized	(319,390)	(435,547)	(1,797,500)	(2,552,437)	-
Write-off	(12,601)	(55,640)	(689,896)	(758,137)	(4,722,813)
Balance at 30 June	**1,140,048**	**1,523,934**	**4,429,388**	**7,093,370**	**5,472,121**

The loss allowance in these table includes ECL on loan commitments because the Company cannot separately identify the ECL on the loan commitment component from those on the loans and advances.

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

28. Risk management disclosures (continued)

a) Credit risk (continued)

Cash and cash equivalents
The Company held cash and cash equivalents of $4,893,999 at 30 June 2018 (2017:$5,218,213). Cash and cash equivalents is held with banks, which are rated B to AA-, based on S&P ratings.

Impairment on cash and cash equivalents has been measured on the 12 month expected loss basis and reflects the short maturities of the exposures. The Company considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

The Company uses a similar approach for assessment of ECLs for cash to those used for debt securities.

On initial application of IFRS 9, the Company recognised an impairment allowance for cash as at 1 July 2017 in the amount of $nil. The amount of the allowance did not change during 2018.

Debt investment securities
The Company held debt investment securities of $17,050,305 at 30 June 2018 (2017: $21,532,872). Debt investment securities are held with banks and the Fiji Government, which are rated B to AA-, based on S&P ratings.

Impairment on debt investment securities held with banks has been measured on the 12 month expected loss basis and reflects the short maturities of the exposures. The Company considers that its debt investment securities held with banks have low credit risk based on the external credit ratings of the counterparties. Impairment on debt investment securities held with the Fiji Government has been measured on the lifetime expected loss basis.

On initial application of IFRS 9, the Company recognised an impairment allowance for debt investment securities as at 1 July 2017 in the amount of $nil. The amount of the allowance did not change during 2018.

Credit-impaired financial assets (2017: impaired financial assets)
See accounting policy in Note 1(i)B(v).

Credit-impaired loans and advances are graded doubtful to loss in the Company's internal credit risk grading system (see Note 28(a)).

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.

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

28. Risk management disclosures (continued)

a) Credit risk (continued)

Collateral

Longer-term finance and lending to corporate entities are generally secured. Revolving individual credit facilities for Company staff to a maximum of $3,000 are unsecured. In addition, in order to further minimise the potential for credit loss, the Company will seek additional collateral from the counterparty 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.

Impaired financial assets – Comparative information under IAS 39

The carrying amount of financial assets represents the maximum credit exposure.

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 were those that had arrears exceeding 60 days and/or those which in the view of management had a higher probability of failure in the near term beyond its control and where a loss was expected to arise

Individually 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.

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

28. Risk management disclosures (continued)

a) Credit risk (continued)

Impaired financial assets – Comparative information under IAS 39

Collectively Assessed Provisions

In addition, for accounts that were 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 exposure of loans and advances

	2017 ($)
Neither past due nor impaired	131,358,703
Past due but not impaired	31,342,206
Individually impaired	4,653,350
Gross loans and advances	167,354,259
Less: unearned revenue	(31,599,643)
Less: allowance for impairment	(5,472,121)
Net loans and advances	130,282,495

Neither past due nor impaired	
Standard	120,635,269
Special mention	3,418,751
Substandard	1,290,171
Doubtful	535,256
Loss	5,479,256
	131,358,703

Past due but not impaired	
Standard	7,824,264
Special mention	9,177,970
Substandard	4,511,322
Doubtful	2,936,937
Loss	6,891,713
	31,342,206

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

28. Risk management disclosures (continued)

Impaired financial assets – Comparative information under IAS 39

a) Credit risk (continued)

Credit risk exposure of loans and advances (continued)

	2017 ($)
Individually impaired	
Substandard	589,848
Doubtful	525,175
Loss	3,538,327
	4,653,350
Allowance for impairment	
Individual	2,686,879
Collective	2,785,242
Total allowance for impairment	5,472,121

Concentration of credit risk

The Company monitors concentrations of credit risk by industry. An analysis of concentrations of credit risk from loans and advances is shown below.

Industry	2018 %	2017 %
Agriculture	10.38	9.68
Building and construction	20.76	22.97
Manufacturing	2.93	3.19
Mining and quarrying	0.41	0.42
Private individuals	9.95	9.74
Professional and business services	2.67	3.05
Transport, communication and storage	41.04	37.71
Wholesale, retail, hotels and restaurants	8.02	8.88
Others	3.84	4.36
	100	100

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

28. Risk management disclosures (continued)

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.

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

As at 30 June 2018	1 - 3 months $	4- 12 months $	1 - 5 years $	Over 5 Years $	Gross nominal outflow $	Carrying amount $
Financial liabilities						
Deposits from customers	28,707,387	56,487,699	44,435,776	1,847,700	**131,478,562**	**122,612,787**
Other liabilities	6,319,198	-	-	-	**6,319,198**	**6,319,198**
Total financial liabilities	**35,026,585**	**56,487,699**	**44,435,776**	**1,847,700**	**137,797,760**	**128,931,985**
Financial assets						
Cash and cash equivalents	4,896,862	-	-	-	**4,896,862**	**4,893,999**
Debt securities	4,508,178	7,065,704	5,034,570	1,052,876	**17,661,328**	**17,050,305**
Loans and advances	14,769,557	46,404,061	102,590,232	10,424,799	**174,188,649**	**140,250,384**
Total financial assets	**24,174,597**	**53,469,765**	**107,624,802**	**11,477,675**	**196,746,839**	**162,194,688**

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

28. Risk management disclosures (continued)

b) Liquidity Risk (continued)

As at 30 June 2017	1 - 3 months $	4- 12 months $	1 - 5 years $	Over 5 Years $	Gross nominal outflow $	Carrying amount $
Financial liabilities						
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 financial Liabilities	**33,852,797**	**57,586,088**	**47,331,961**	**1,348,157**	**140,119,003**	**131,008,772**
Financial assets						
Cash and cash equivalents	5,230,788	-	-	-	**5,230,788**	**5,218,213**
Debt securities	6,294,257	9,174,892	3,171,582	3,938,643	**22,579,374**	**21,532,872**
Loans and advances	19,809,180	41,623,724	95,247,403	10,673,952	**167,354,259**	**135,754,616**
Total financial assets	**31,334,225**	**50,798,616**	**98,418,985**	**14,612,595**	**195,164,421**	**162,505,701**

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%

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

28. Risk management disclosures (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:

Industry	**2018 %**	**2017 %**
Agriculture	10-27	10-27
Building and construction	11-25	11-24
Manufacturing	12-25	8-27
Mining and quarrying	14-24	14-18
Private individuals	7-27	27
Professional and business services	12-24	12-24
Transport, communication and storage	12-27	8-28
Wholesale, retail, hotels and restaurants	12-25	10-25
Others	10-24	10-24

Notes to and forming part of the financial statements (continued)
For the year ended 30 June 2018

28. Risk management disclosures (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.

29. 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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