TOURISM INDUSTRY COMMERCIAL TRANSPORT

MERCHANT FINANCE

Talk to us *first*

12/13

ANNUAL REPORT 2013

VISION

To be the Preferred Provider of Financial Services in the South Pacific.

MERCHANT FINANCE
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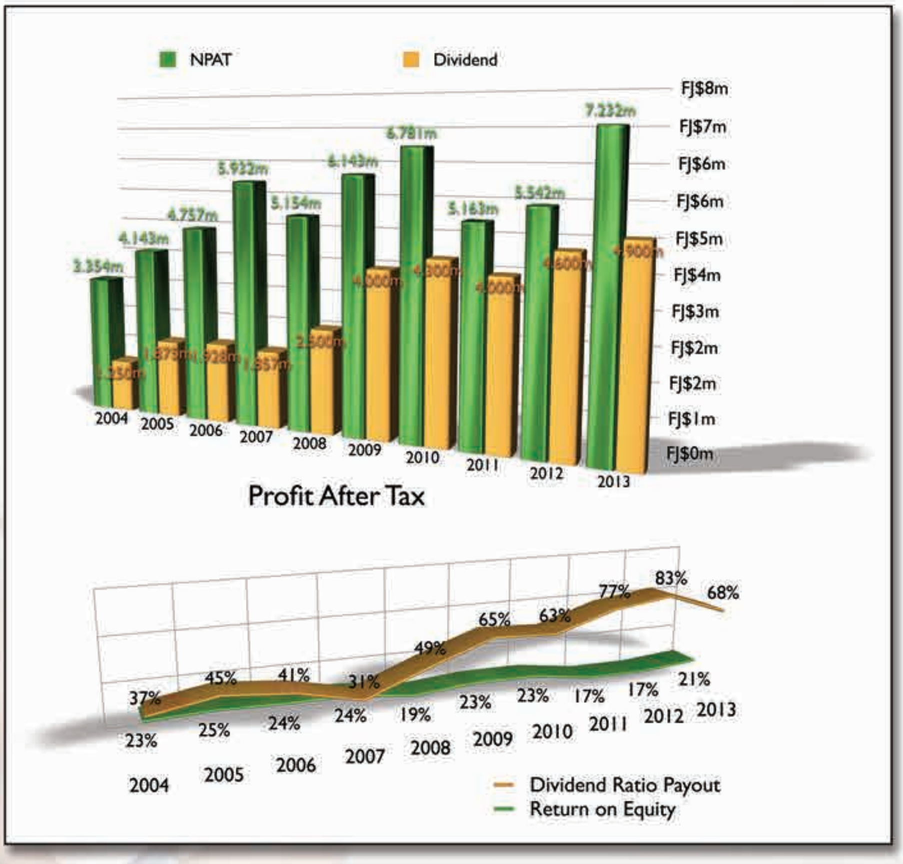
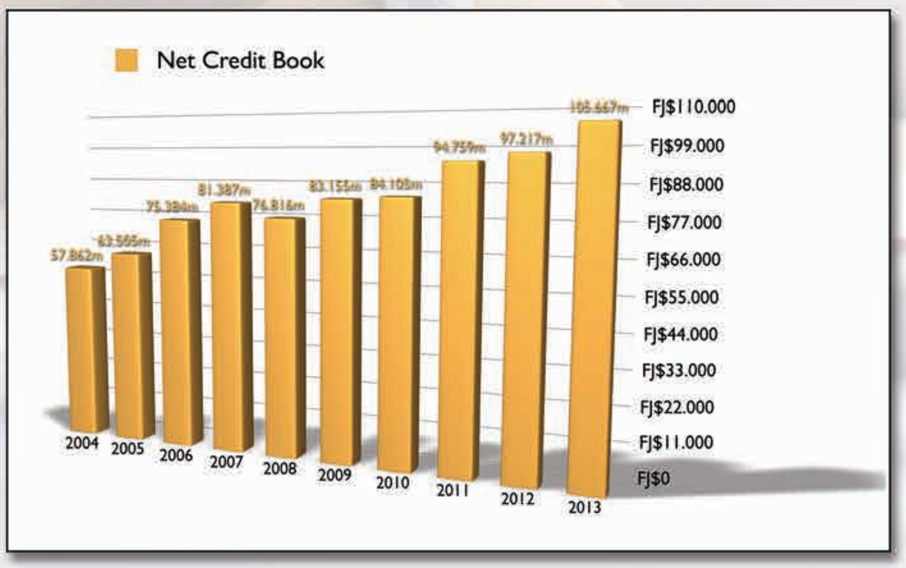
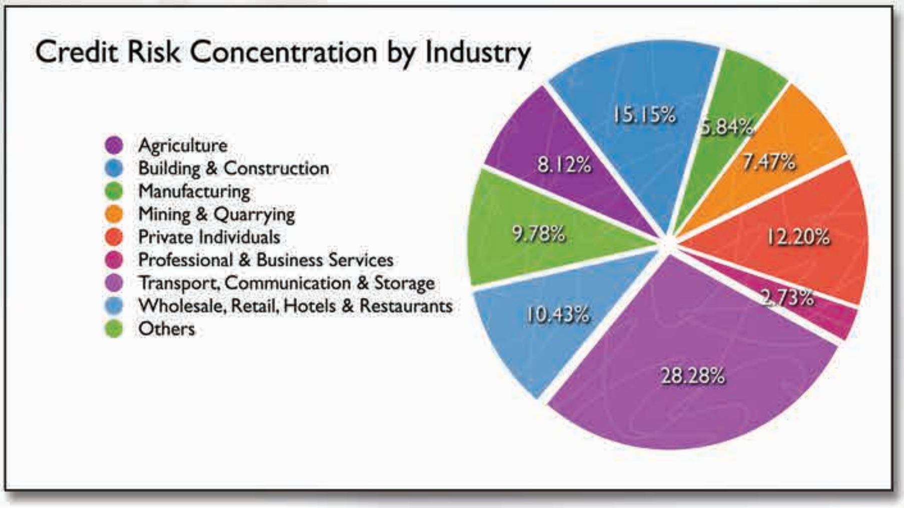
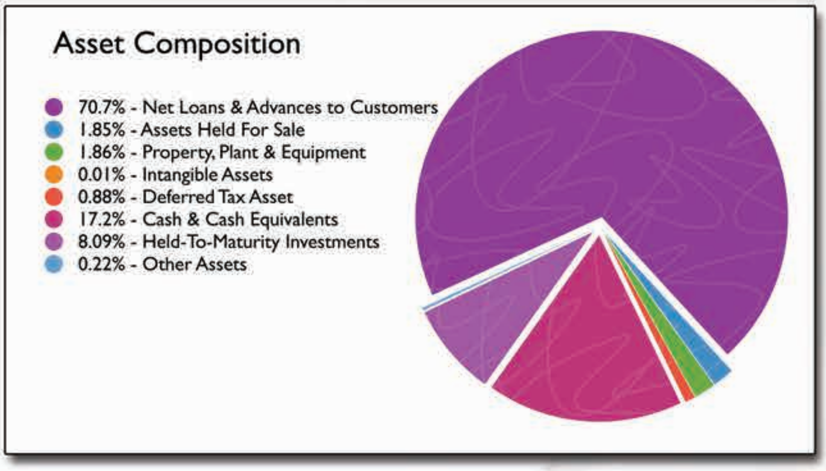
CONTENTS

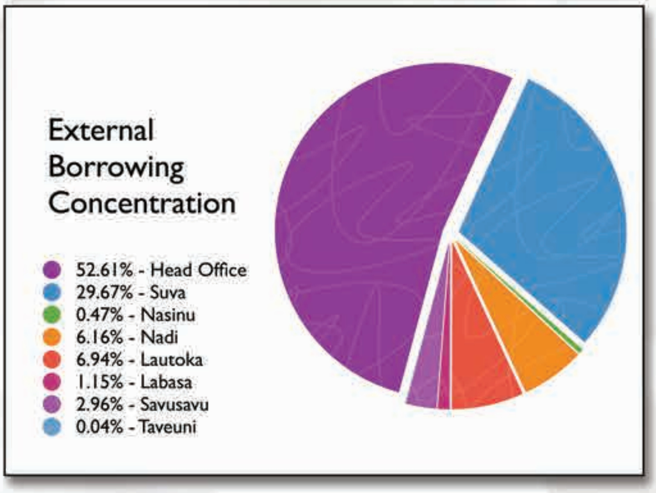
FINANCIAL HIGHLIGHTS

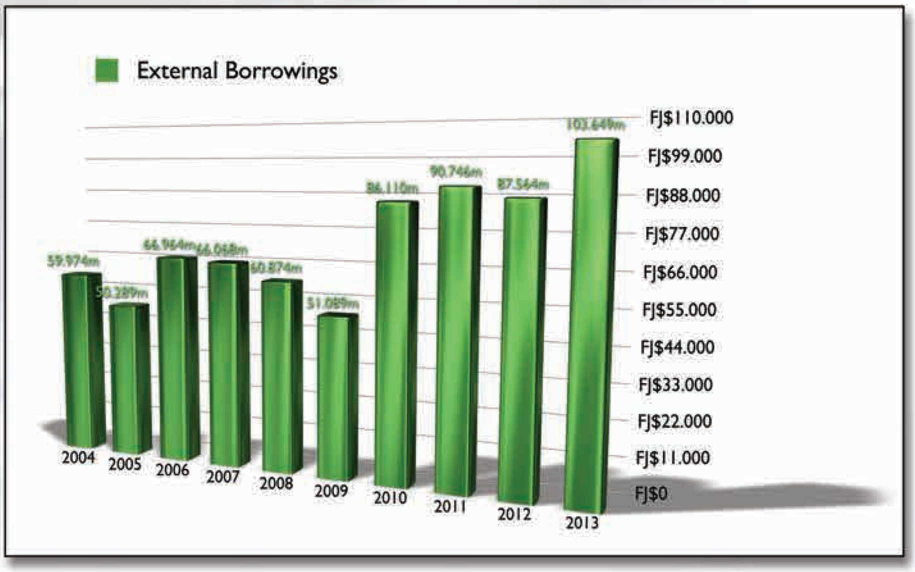







Asset Composition
70.7% - Net Loans & Advances to Customers
1.85% - Assets Held For Sale
1.86% - Property, Plant & Equipment
0.01% - Intangible Assets
0.88% - Deferred Tax Asset
17.2% - Cash & Cash Equivalents
8.09% - Held-To-Maturity Investments
0.22% - Other Assets


External Borrowing Concentration
52.61% - Head Office
29.67% - Suva
0.47% - Nasinu
6.16% - Nadi
6.94% - Lautoka
1.15% - Labasa
2.96% - Savusavu
0.04% - Taveuni


External Borrowings
59.974m
50.289m
66.964m
66.068m
60.874m
51.089m
86.110m
90.746m
87.544m
103.649m
FJ$110.000
FJ$99.000
FJ$88.000
FJ$77.000
FJ$66.000
FJ$55.000
FJ$44.000
FJ$33.000
FJ$22.000
FJ$11.000
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2004
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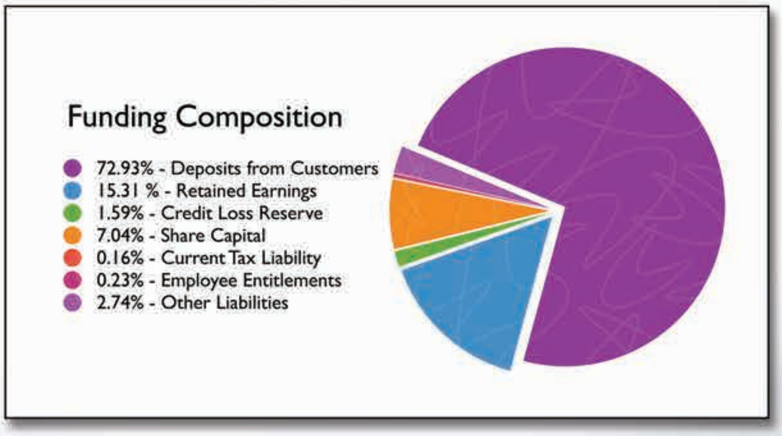
Funding Composition
72.93% - Deposits from Customers
15.31 % - Retained Earnings
1.59% - Credit Loss Reserve
7.04% - Share Capital
0.16% - Current Tax Liability
0.23% - Employee Entitlements
2.74% - Other Liabilities

What is Corporate Governance?

Corporate Governance is concerned with the rights and responsibilities of a company's management, its board, shareholders and other stakeholders, including those outside a company. Narrowly defined, it relates to the relationships between managers, directors and providers of a firm's capital.

With the rise in corporate failures in the last ten years, increasing internationalisation of economies, the growth of large companies, deregulation and globalisation on a global level, and local developments in the Fiji financial sector and the local corporate and business sector, there has been a rise in interest in corporate governance.

In Fiji, the requirements relating to corporate governance for deposit taking institutions are provided for under the Companies Act, the Banking Act, and a corporate governance policy issued by Fiji's financial sector regulator, the Reserve Bank of Fiji, for financial institutions. Financial institutions in Fiji include the licensed banks and credit institutions such as Merchant Finance & Investment Company Limited.

The Corporate Governance structure within Merchant finance

As with any other companies, Merchant Finance has shareholders to whom it is ultimately accountable. At present, there are only two shareholders. These are: Fijian Holdings Limited, and Fijian Holdings Unit Trust.

Representing the shareholders' interests in the company are directors that they nominate, and appoint after clearance with the Reserve Bank of Fiji. As part of global corporate governance trends, the Board also has "independent" directors. An "independent" director is defined under Reserve Bank of Fiji policy as someone is "independent of management and free from any business or other relationship with" Merchant Finance.

The Board has three Committees that help with carrying out its functions. The Committees are : the Asset, Audit, Liability, Risk Committee; the Credit Committee; and the Human Resources Committee.

Below the Board and Board Committees is the General Manager of the company. The General Manager is responsible for the day-to-day management of the company.

Whilst Fijian Holdings Limited (FHL) has certain stipulations for the company given that it operates within the FHL Group, Merchant Finance's Board operates independently and is the ultimate authority for the strategic direction and operation of the company.

The company's relationship with other external stakeholders, an element included under corporate governance, is governed by the Board. This covers activities designed to promote a good corporate image for the company as a citizen within Fiji's wider community. Corporate sponsorships are considered carefully as part of this.

What issues are covered under the company's Corporate Governance policy?

The policy was developed to ensure the company's compliance with the laws relating to crimes in Fiji, the Companies Act including the Articles of Association of the company and the Reserve Bank of Fiji's policies on corporate governance and fit and proper persons for licensed financial institutions. Some topics covered are summarised below.

Composition of Board

The structure of the Board, its composition and procedures for appointing and removing directors are detailed in the company's Memorandum and Articles of Association and also outlined in our corporate governance policy. With regard to the number of Board Directors, at present the maximum number is put at nine.

Selection & Induction of Directors

Directors are appointed on the basis of their professional qualifications, business experience and expertise, as well as their standing in the Fijian community and to meet the Reserve Bank of Fiji's Fit and Proper Policy requirements. The composition of the Board is intended to ensure an optimum representation of business skills and specialists.

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

Ethical Standards and Codes of Conduct

The Board carries out its legal duties in accordance with the company's values of **M**otivation, **E**mpowerment, **R**eliability, **C**ommitment, **H**onesty, **A**ffection, **N**urture and **T**ransparent. This is done having regard to the interest of the customers, shareholders, people and the broader community in which the company operates.

Policies and codes of conduct have been established by the Board and respective Committees to support the company's vision, mission and values.

The Company's Code of Ethics sets standards of behaviour required of all directors and employees including the need to :

- act properly and efficiently in pursuing the objectives of the company;
- avoid situations which may give rise to a conflict of interest;
- know and adhere to the Group's Equal Employment Opportunity policy and programs;
- maintain confidentiality in the affairs of the Company and its customers; and
- being honest in all professional activities.

Independence of Directors and Conflicts of Interest

The independence of each director is regarded as important so that he/she may be able to, objectively

- make decisions on matters that are presented to the Board or its Committees,
- set policy for the company and
- carry out his/her role as a director.

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

Directors are expected to avoid any action, position or interest that conflicts or appears to conflict with

COMPANY HISTORY

Merchant Finance & Investment Company Limited (Merchant Finance) formerly known as Merchant Bank of Fiji was officially established in 1986 as a joint initiative between Australia Guarantee Corporation (AGC), International Finance Corporation (IFC) and the Fiji Development Bank.

On the 21st April 1992, the company was given formal authority to operate as a licensed credit institution by the Reserve Bank of Fiji.

By June 1997, Fijian Holdings Group gradually acquired all the share in Merchant Finance. Merchant Finance can now claim to be a 100% Itaukei owned corporation with its current share holding of the company held in part by Fijian Holding Limited (80%) and FHL Trustees Ltd (20%), as trustee to Fijian Holdings Unit Trust.

While Merchant Finance is constrained by its competitiveness on interest rate, the challenge is to maintain competitiveness through efficient customer services, instant credit approval and enhancement of new business relationship.

Providing finance for asset purchase and personal loan continues to be Merchant Finance core business. The company currently provides financing facilities via Hire Purchase and Bill of Sale instruments, together with Term Deposit (High Notes) and Insurance products underwritten by New India Assurance Co. Limited.

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

Remuneration Arrangement

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

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

Performance Review, Training and Advice

Each director's performance is assessed annually by the Chairperson, or at a time when a director is being considered for re-election. The performance of the Chairperson is reviewed and assessed each year by the other Directors.

Directors are provided with proper information in relation to the Company before accepting appointment. A director is also entitled to seek any additional information that he/she may require to be able to carry out his/her duties.

Each Director has the right to seek independent legal or other professional advice at the Company's expense. Prior approval from the Chairman is required but may not be unreasonably withheld or delayed.

Meetings

Board meetings are normally held each month. Directors are expected to prepare adequately for, attend and participate at Board meetings and meetings of Board Committees.

Delegation of Authority

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

The General Manager carries out his day-to-day work within the delegations and boundaries set for him by the Board. Details on the General Manager's function and his relationship with the Board and Board Subcommittees are contained in the Companies Act, the in-house corporate governance policy, his contract, and detailed delegations of authority from the Board.

Communication and Public Disclosures

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

Relationships with external stakeholders

Relationships with external stakeholders are covered in the corporate governance and our other policies. These encompass issues such as outsourcing and our corporate social responsibility.

Our outsourcing policy deals with all processes relating to the use of third party service providers by Merchant Finance. The policy provides a definition for outsourcing, its benefits, procedures to be followed when outsourcing is considered, due diligence processes that are to be adhered to, including the details on what should be included under an outsourcing agreement and its monitoring.

We are also involved in community activities, both charitable and those that encourage a healthy lifestyle. Refer to the section, "What we dealt with during the year", below for details on activities that we took part in during the year.

Whistleblowing

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

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

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

What we dealt with during the year?

Some of the corporate governance related issues that we faced over the year are outlined below.

In relation to our corporate governance structure, a new Board was appointed towards the end of the financial year which led to changes to the membership of our Board Committees.

As part of a review of our corporate governance structure, the shareholders restructured the Board Committees and reduced the number of Committees to three, from four. The Asset Liability Risk Management Committee and the Audit & Governance Committee have been merged into one Committee, the Asset, Audit, Liability, Risk Committee (AALR). The Committee is responsible for overseeing the company's financial performance, risk management, as well as asset and liability management and pricing. The other two Committees that remain are the Credit Committee, which is responsible for credit policy and lending decisions including loan classifications and provisioning, and the Human Resources Committee, which looks after human resource policy and related decisions including staff recruitment, remuneration and employment conditions.

Whilst the new Board has taken a determined approach to ensure that vital corporate governance policies and practices are implemented and observed within the company, it also acknowledges that Merchant Finance needs to get business and to keep running. Finding the right balance between the two will be a challenge for management and staff.

During the year the company commissioned an independent review of its corporate governance policy to ensure that it met with Reserve Bank of Fiji's requirements, other related laws and regulations. After the necessary amendments and improvements were done, the policy was approved and implemented.

Our engagement with the community saw us participating in various community initiatives. Refer to the General Manager's address in this Annual Report for a summary of activities that we took part in during the year.

Conclusion

As a custodian of other people's funds, one will find that more stringent corporate governance requirements are applied to Merchant Finance, as with other businesses that operate in the sector.

We will work continuously on strengthening our corporate governance policy and processes and remain committed to observing rigorous corporate governance requirements and oversight in future.

REPORT OF THE ASSET, AUDIT, LIABILITY, RISK COMMITTEE

The Asset, Audit, Liability, Risk Committee is responsible for overseeing the company's financial performance, risk management, as well as audit, asset and liability management and pricing. The Committee was formed towards the end of the financial year after the merging of the Asset Liability Risk Management Committee and the Audit & Governance Committee.

The current Committee members are : Mereia Volavola (Chairperson), Raimuria Cama, Sakiusa Raivoce and Saleshni Warran. The former Committee members were: Pita Mawi (Chairperson), Jone Vatukela, Samuela Nawalowalo, Tevita Gonelevu, Joel Mastapha and Sowani Tuidrola.

During the year, the Committee discussed a number of policy issues, including operational issues where oversight is required from the Committee. Some of the issues discussed and cleared by the Committee included :

- the company's financial performance against budget targets or benchmarks;
- internal and external audit reports for the company;
- reports on spot checks of branches carried out by the Risk & Compliance Department;
- policies including those for :
  - finance and administration,
  - fit and proper,
  - financial transactions reporting, and
  - outsourcing.
- some of these policies were revised and improved from earlier versions that were in place.
  - the Board Asset, Audit, Liability, Risk Committee Charter.

The Committee oversaw interest rate movements and the weighted average interest rates of the company's loans and cost of funds. Pricing decisions on interest rates were supervised by the Committee, although it was largely driven by competition. During the year, the Committee discussed and cleared a change in the methodology for calculating interest the company pays on customers' deposits.

To manage liquid assets holdings against requirements set by the Reserve Bank of Fiji, the Committee agreed to change the composition of liquid assets holdings to hold a little more long term securities at appropriate rates. This strategy enabled the company to earn the interest income whilst still meeting the requirements of the Reserve Bank of Fiji, rather than the earlier strategy of maintaining more cash holdings which either do not earn interest or do so at much lower rates.

In recent months, the Committee discussed ways to better risk management within the company. A change in the pricing structure of deposits resulted in the company attracting more long term deposits than it had over the years. This contributed to more positive mismatches and cumulative mismatches of the company's assets against its liabilities. At end June 2013, the company had 8% of its total deposits in maturities of over five years, from none at all at end June 2012. At the same time, long term investments maturing over five years has almost doubled compared to the year earlier. Overall, the change in pricing strategy has resulted in better matching of maturities of the company's assets and liabilities; a significant risk in a financial institution. As part of better managing risks, the Committee requested management to look at ingraining risk management into staff work habits e.g. aligning rectification of audit issues to staff performance and emphasising the importance of staff complying with internal controls, policies and procedures.

Towards the end of the financial year, the Committee discussed and cleared the selection of Marsh Limited to carry out a formal risk management consultancy for the company. The work will look at identifying risks that the company engages in, assessing those risks and identifying strategies to manage each risk.

MVolavola

Mereia Volavola (Chair Person)

REPORT OF THE CREDIT COMMITTEE

The Credit Committee is responsible for overseeing credit policy and practices, lending decisions above limits delegated to management, and all decisions relating to non-performing loans and provisioning.

The current Committee members are: Isireli Koyamaibole (Chairperson), Arun Narsey, Ulaiasi Taoi, Joel Mastapha. The former Committee members were: Ulaiyasi Baya (Chairperson), Jone Vatukela, Nouzab Fareed, Samuela Nawalowalo, Mosese Volavola and Rowena Fong.

Issues reported to and discussed by the Committee include those on the company's largest borrowers, accounts with significant arrears, all problem and non-performing loans as well as loan classifications and provisioning on problem and non-performing loans.

As part of their work, the Committee discusses and instructs management on actions to be undertaken on problem and non-performing loans, including whether provisions are adequate on those accounts.

The Committee noted training for staff on credit assessment that was given to staff and managers to up-skill them in managing loans.

Isireli Koyamaibole (Chair Person)

REPORT OF THE HUMAN RESOURCES COMMITTEE

The Human Resources Committee oversees strategic planning, general human resource policy, recruitment decisions, remuneration, staff performance reviews, manpower planning and development, and succession planning.

The current Committee members are: Colonel Apakuki Kurusiga (Chairperson), Emitai Boladuadua, Sakiasi Seru and Serai Roxburgh. The former Committee members were : Ulaiyasi Baya (Chairperson), Jone Vatukela, Pita Mawi and Samuela Nawalowalo.

During the year, the Committee discussed a number of policy issues, including operational issues where oversight is required from the Committee. Some of the issues discussed and cleared by the Committee included : a newly developed strategic plan; the company's revised human resource policy; and a revised succession plan.

The new Strategic Plan that is now in place provides a clearer Vision, Mission and strategies that the company will implement over the next five years.

The company now has a succession plan for all important senior positions. As part of this, there are proper plans in place to provide capacity building and development for staff members that have been identified to fill each of the positions identified.

During the year, the Committee discussed recommendations on staff recruitment, promotions, increments and bonuses that were presented to it by management.

The Committee continued to encourage up-skilling of managers and staff. Apart from the training attended by some managers and staff to acquire formal and professional qualifications at tertiary institutions including the University of the South Pacific and the Fiji National University, managers and staff attended a number of courses in diverse technical areas including money laundering, credit assessment, and an awareness on the use of the data bureau.

Col. Apakuki Kurusiga (Chair Person)

BOARD OF DIRECTORS

PICTURED (clockwise from left)

Semanta Naicker (Co. Sec), Sefanaia Rayawa, Isireli Koyamaibole, Nouzab Fareed, Mere Samisoni, Napolioni Batimala (GM), Col. Apakuki Kurusiga, Mereia Volavola, Salesh Dayal (Mgr Finance)

Colonel Apakuki Kurusiga

CHAIRMAN'S REPORT

"The new Board is creating a more attractive and enabling environment for the growth of the company ..."

Merchant Finance made a record performance over the financial year ending 30 June 2013. For the year, we registered a Net Profit before Tax of $9.1 million despite operating in a challenging environment contributed by high banking system liquidity and the entrant of another competitor in the Fiji financial sector. The Net Profit this year was a healthy increase from $8.4 million made in the previous year.

The company maintained its capital adequacy ratio well above the Reserve Bank of Fiji's minimum requirement for licensed credit institutions.

Over the year, the company maintained other prudential ratios above minimum requirements set by the Reserve Bank of Fiji. These reflect well on our performance. The ratios are used by the Reserve Bank of Fiji to gauge and compare the performance of different credit institutions. They also provide indicators for important areas of risks that are overseen by financial sector regulators.

As a Board, we are aware of the many risks that are part of our business and the necessity for stringent risk controls and tight management strategies that need to be in place. We are also mindful that, as a company, we need to compete well in the market. The new Board is taking a futuristic and progressive approach with balancing all these requirements but also creating a more attractive and supporting environment for the growth of the company.

Economic Background

The Fiji economy is expected to have grown by 2.2% in the 2012 calendar year, slightly lower than the forecasted growth of 2.5%. The lower growth is attributed to lower than expected tourism arrivals and declines in gold and sugar production.

A slight hike in inflation during the month of March was the result of higher food prices caused by floods including adverse weather patterns in the Western Division and a recent drought in New Zealand. These pushed up domestic dairy and meat prices. Inflation fell from 3.2% in June 2012 to 1.7% in June 2013 due to weaker global growth over the period generally reducing commodity and food prices.

During the year, the Reserve Bank of Fiji continued to maintain low interest rate conditions to encourage lending, investment and business.

The high supply and ease of availability of funds in the banking system continued throughout the year which together with the low interest rate environment led to a sustained reduction in the cost of our borrowings. The weighted average interest we pay on customer's deposits fell in line with the industry average during the financial year, from 4.0% in June 2012 to 3.0% in February 2013.

The high demand for loans from our customers also continued over the year. Improvement in investments and strong consumption by consumers contributed to the strong demand for both investment and consumption related loans during the year. With regard to interest rates, the weighted average interest rate we charge on Customers' loans fell consistently, as with the industry average, from 11.22% in June 2012 to 10.65% in February 2013. This is expected to fall further over the coming months.

As with any other financial institution, we had some issue with the quality of our loans, which is also expected to continue into the next financial year. In this regard, the newly appointed Board has set specific directions for closer and more focused management of our classified loans, with the objective of reducing it over the next financial year.

Challenges in the Fiji Financial Sector

The Fiji financial sector continued to face challenges during the year. The high levels of funds available in the banking system contributed to downward pressure on interest rates for financial institutions. Whilst this benefits customers on the loans side, it hinders them with their deposits lowering their returns. In such an environment, all financial institutions are pushed to search for innovative ways to utilise or lend surplus funds that they have available.

Competition amongst financial institutions remained a challenge. However, where healthy, competition benefits customers. For us, the entry of another competitor during the financial year and the continued focus of all our competitors on our primary target product/market, i.e. vehicle financing, underscored the challenges we faced as a business.

Adverse and unpredictable weather patterns, a result of climate change, had both global and local impact, particularly on financial institutions and their customers. A hurricane that hit Fiji in December 2012 adversely affected our customers in the Western Division. To assist our customers, we extended their repayment terms or accommodated delayed payments.

The company also faced a notable challenge in the Construction sector where our customers had done work on subcontract for overseas companies and have had to endure delayed payments for their work. This affected their ability to service their loan obligations with us. At the end of June 2013, Merchant Finance's lending to the Construction sector and to part of the Transport sector amounted to almost a quarter of its total loan portfolio. In this regard, we are reviewing loans on a case-by-case basis with a view to offer advice to assist problem accounts. We have also suspended further advances to some of these accounts.

Strategic Direction

Having a clear strategic direction is necessary for a financial institution operating in the economic situation and demanding environment that has been referred to earlier.

During the last financial year, we have developed a new Strategic Plan that outlines a clear Vision, Mission and strategies that we will undertake over the next five years.

Continued competitive pressures from other financial institutions has emphasised the need to strengthen our strategic outlook for our business and target markets. We continue to review our long term direction and strategies to ensure that we are on top of our game and to provide innovative products and services for our customers.

Future Outlook

The ease of supply and availability of funds in the banking system is expected to remain high into the next financial year. With strong consumption and promising investment activity expected to be sustained, the onus will be on us

to seek out niche products and markets and tap into those for lending.

Competing in the same market space as we currently do will impose pressures on the business. Therefore, it will become imperative for us to review and modify our current products, create, tailor and introduce new products and to establish a vigorous marketing strategy to maintain our presence in the financial sector.

Conclusion

I wish to thank the two outgoing Board Chairpersons, Mr Padam Lala who completed his term in February 2013, and Ms Mere Samisoni, who left us at the end of the financial year, the Board members, the General Manager, Mr Napolioni Batimala, the management team and staff who all contributed to another record year for the company despite operating in very challenging times. I also thank our new Board members and look forward to working with you in the coming year.

Colonel Apakuki Kurusiga
Chairperson

GENERAL MANAGER'S REPORT

Financial Performance

Merchant Finance made another record profit before tax of F$9.1 million in the year to 30 June 2013, an increase by 8.3% from F$8.4 million recorded for the year ended 30 June 2012. The major contributing factor to this out turn was an increase of 28.9% to F$14.4 million in Net Interest Income compared to the previous year.

Our total assets grew by 14.5% to F$142.1 million at end June 2013, from F$124.0 million the year earlier. This out turn was largely due to a 44.0% growth in Cash and Cash Equivalents to F$24.2 million at end June 2013, from F$16.8 million the year earlier. Significant growth was also recorded in Held-to-Maturity Investments of 21.0% from F$9.5 million to F$11.5 million, and Loans and Advances which grew by 9.3% from F$91.1 million to F$99.6 million between the two dates.

> *"Merchant Finance made another Record Profit in the year to 30 June 2013..."*

Napolioni Batimala
General Manager

The large cash balances, whilst good in terms of keeping our business liquid, has also given us an added challenge of finding useful application of those funds, in an economic climate where the banking system endured high liquidity levels.

On the liabilities side, deposits from customers grew by 18.3% to F$103.6 million at end June 2013, from F$87.6 million, the year earlier. These deposits contributed directly to the large cash balances held by us at year end, particularly when a major application of funds, i.e. loans to customers, only grew by 9.4% as mentioned above.

Towards year end, our Board has directed that we put in place strategies to more actively manage our classified loan exposures as well as to more keenly pursue retail depositors, rather than focus only on wholesale depositors.

Human Resources and Capacity Development

We continued to build our human resources capacity during the year with training provided in various technical areas including credit assessment. Staff members were also encouraged to undertake relevant courses or tertiary education to upskill themselves. New recruits now spend two weeks in Suva as part of their induction where they can acquire an understanding of the company's business. Part of this induction includes training on social skills that is considered essential for a staff member's work, both inside and outside Merchant Finance.

An updated Human Resources Policy was developed, approved and implemented. Recruitment of the best possible person continued. Staff performance was also monitored with regular appraisal reviews. Staff and managers that met or exceeded their performance targets were paid bonuses and/or salary increments.

A Succession Plan for senior staff and management was also implemented. As part of this, the strategy we have adopted is to provide capacity development to staff identified to fill in senior positions to ensure that they can do so with ease when the need arises.

With a view to ensuring that staff members are fit and healthy to carry out their roles, each staff member had a thorough medical examination. Staff members were given their medical reports and were asked to work on areas of health concern or risk.

A number of disciplinary cases were handled during the year. Appropriate cautionary action was taken to ensure that a desirable precedent was set for other staff. The need for staff training on all policies and an emphasis on their need to adhere to policies and approved practices was highlighted to staff, including a more general need to ensure that policies, practices and controls were adequate.
With physical resources, the company continued upgrading resources provided to staff so that they have access to adequate and up-to-date physical resources to carry out their work.

Services and Market Segment

We continued to serve our target market with vehicle financing. As mentioned earlier, the market space for this product is reducing with most financial institutions offering enticing pricing to gain market share.

We also made inroads into the rural finance market with products and services particularly designed for our rural based customers. Part of this strategy included setting up a new branch at Taveuni and plans to establish other branches at Sigatoka and Rakiraki/Tavua. The company also took part in Reserve Bank of Fiji's financial inclusion initiatives to encourage the provision of financial services in the rural areas.

As part of efforts to bring our services closer to where they are needed the most by our customers – both current and potential, we moved our Lautoka and Nabua branches to more convenient locations for our customers. We are also completing a new office at Damodar City, Laucala Bay, a location that has a growing business market and offers more parking and convenience for customers.

As part of strategies in our newly developed Strategic Plan, we continued work on product development to identify products and services or modifying our current products to best serve our customers.

Towards the end of the financial year, we made adjustments to our deposits rates in an effort to redirect our focus from wholesale customers to the more stable retail customers. Individuals will expect to see more attractive pricing of our deposit products into the next financial year.

Rural based citizens and retail customers will also expect a closer focus from us as we continue our attempts to make inroads in those market segments.

We will be working to introduce a more customer friendly and Internet based system which customers can access to find out information on services provided by Merchant Finance, their account balances and other features.

Good Corporate Citizen

As part of our corporate social responsibility, we undertook community projects that ranged from assistance in publication of rural schools' magazines, sponsorship for live games soccer commentaries in the media, sponsorship of activities at the Fiji Institute of Accountants Annual Congress, the CPA Australia Fiji Branch and donations to the Fiji Cancer Society for its WOW Cancer Appeal, the Deaflympic Games, the Fiji Society of the Blind and the Fiji Bowling Association.

Merchant Finance was also a corporate sponsor for the Bainimarama Trophy Challenge, an annual sporting event in which all companies, statutory organisations and government departments coming under the Ministry of Finance take part.

We also sponsored the Queen Victoria School Under 18 Rugby team and the Fiji Under 20 Netball team by purchasing and supplying them with uniforms.

We also took part in financial literacy campaigns undertaken by the Reserve Bank of Fiji.

Our staff participated in business house competitions (soccer and paddling) in an effort to encourage community engagement and as team bonding and building activities for them.

Conclusion

Staffing is an important resource in a business and I thank our staff for their individual efforts in generating our record profits this year, despite the very challenging environment that we had endured. I look forward to their continued excellent efforts over the next financial year.

I would like to thank our outgoing Board Chairperson and members for their contribution over seven months of this financial year. I also welcome our new Board members who have served for five months of this year and I look forward to working with them.

Napolioni Batimala
General Manager

MANAGEMENT TEAM

Dineshwar Lal
Manager Suva

Pio Nataniela
Accountant

Semanta Naicker
Assistant Manager Credit

Bobby Dayal
Manager Nasinu

Nilesh Chand
Manager Corporate

Leonore Naivaluwaqa
Assistant Manager Nadi

Anil Prasad
Manager North

Beatrice Mar
Risk & Compliance Officer

Bobby Ali
Manager Lautoka

Alipate Radrodro
Rural Department

Louisa John
HR Officer

Navin Prakash
IT Administrator

FINANCIAL STATEMENTS

MERCHANT FINANCE
Talk to us *first*

MERCHANT FINANCE

Talk to us first

CONTENTS

In accordance with a resolution of the board of directors, the directors herewith submit the statement of financial position of Merchant Finance & Investment Company Limited (the "Company") as at 30 June 2013 and the related statement of 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	Resigned
Mere Samisoni (Chairman)	12/02/2013	Current
Apakuki Kurusiga	12/02/2013	Current
Isireli Koyamaibole	12/02/2013	Current
Mereia Volavola	12/02/2013	Current
Sefanaia Rayawa	02/05/2013	Current
Tevita Gonelevu (alternate director)	04/11/2011	Current
Nouzab Fareed	27/02/2009	Current
Jone Vatukela	04/11/2011	12/02/13
Padam Raj Lala	04/02/2011	12/02/13
Pita Mawi	23/06/2008	12/02/13
Ulaiasi Baya	31/07/2008	12/02/13

State of affairs

In the opinion of the directors, the accompanying statements of financial position give a true and fair view of the state of affairs of the Company as at 30 June 2013 and the accompanying statement of comprehensive income, statement of changes in equity and statement of cash flows give a true and fair view of the results, changes in equity and cash flows of the Company for the year then ended.

Trading results

The operating profit after income tax expense for the year ended 30 June 2013 was $7,231,565 (2012: $5,542,462).

Dividends

A final dividend of $2,400,000 (at the rate of $24 per share) in respect of the 2012 financial year was declared during the 2012 financial year of which $480,000 was paid during the 2012 financial year and the balance of $1,920,000 was paid during the 2013 financial year. The Company declared an interim dividend of $2,000,000 (at the rate of $20 per share) in respect of the 2013 financial year and this was paid during the year ended 30 June 2013.

A final dividend of $2,900,000 (at the rate of $29 per share) was declared in respect of the 2013 financial year. An amount of $580,000 was paid in respect of the 2013 final dividend during the year.

Reserves

The directors do not recommend any transfers to or from reserves to retained earnings in the 2013 financial year.

Principal activity

The principal activity 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 for New India Assurance Company Ltd.

Current assets

The directors took reasonable steps before the Company's financial statements were made out to ascertain that the current 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.

Receivables

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

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.

Directors' interests

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 1st day of August 2013.

Signed in accordance with a resolution of the Directors.

Director **Director**

In the opinion of the directors of Merchant Finance & Investment Company Limited:

the accompanying statement of 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 2013;
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 2013;
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 2013;
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 2013;
at the date of this statement there are reasonable grounds to believe the Company will be able to pay its debts as and when they fall due; and
all related party transactions have been adequately recorded in the books of the Company.

Dated at Suva this 1st day of August 2013.

Signed in accordance with a resolution of the Directors.

Director **Director**

To The Members Of Merchant Finance & Investment Company Limited

We have audited the accompanying financial statements of Merchant Finance & Investment Company Limited, which comprise the statement of financial position as at 30 June 2013, and the statement of comprehensive income, statement of changes in equity, and statement of cash flows the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 5 to 33.

Directors' and Management's Responsibility for the Financial Statements

Directors and Management are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and for such internal control as the 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

We draw attention to note 21, which sets out the details of the assets held for sale and the deadline that the Reserve Bank of Fiji has given the Company to dispose of the properties in question.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Merchant Finance & Investment Company Limited as at 30 June 2013 and of its financial performance, its changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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, so far as it appears from our examination of those books;

ii) the financial statements are in agreement with the books of account; and

iii) to the best of our information and according to the explanations given to us the financial statements give the information required by the Banking Act 1995 and Fiji Companies Act, 1983 in the manner so required.

KPMG

Suva, Fiji | **KPMG**

1 August 2013 | Chartered Accountants

Statements of comprehensive income

For the year ended 30 June 2013

	Note	2013	2012
		$	$
Interest income	2	18,457,514	16,222,790
Interest expense	3	(4,099,061)	(5,028,225)
Net interest income		**14,358,453**	**11,194,565**
Fee and other income	4	1,985,991	2,463,338
Loan impairment expenses	5	(2,028,682)	(993,481)
Personnel expenses	6	(2,292,273)	(1,910,112)
Depreciation and amortisation		(429,018)	(324,751)
Other expenses	7	(2,511,481)	(2,027,032)
Operating profit before income tax		**9,082,990**	**8,402,527**
Income tax expense	8 (a)	(1,851,425)	(2,860,065)
Profit for the year		**7,231,565**	**5,542,462**
Other comprehensive income		**-**	**-**
Total comprehensive income for the year		**7,231,565**	**5,542,462**

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 34 to 60.

	Share capital $	Capital loss reserve $	Retained earnings $	Total $
Balance at 1 July 2011	4,000,000	2,254,936	24,486,858	30,741,794
Total comprehensive income for the year				
Profit		-	5,542,462	5,542,462
Total other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	5,542,462	5,542,462
Transactions with owners of the Company, recognised directly in equity Contributions by and distributions to owners of the Company				
Interim dividend declared and paid ($50 per share) in respect of 2012 financial year	-	-	(8,200,000)	(8,200,000)
Contribution to share capital (60,000 shares @ $100)	6,000,000	-	-	6,000,000
Final dividend declared ($50 per share) in respect of 2012 financial year	-	-	(2,400,000)	(2,400,000)
Total contributions by and distributions to owners of the Company	-	-	(10,600,000)	(4,600,000)
Balance at 30 June 2012	10,000,000	2,254,936	19,429,320	31,684,256
Balance at 1 July 2012	10,000,000	2,254,936	19,429,320	31,684,256
Total comprehensive income for the year				
Profit			7,231,565	7,231,565
Other comprehensive income		-	-	-
Total comprehensive income for the year	-	-	7,231,565	7,231,565
Transactions with owners of the Company, recognised directly in equity Contributions by and distributions to owners of the Company				
Interim dividend declared and paid ($20 per share) in respect of 2013 financial year	-	-	(2,000,000)	(2,000,000)
Final dividend declared ($29 per share) in respect of 2013 financial year	-	-	(2,900,000)	(2,900,000)
Total contributions by and distributions to owners of the Company	-	-	(4,900,000)	(4,900,000)
Balance at 30 June 2013	10,000,000	2,254,936	21,760,885	34,015,821

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 34 to 60.

Statement of financial position

For the year ended 30 June 2013

	Note	2013 $	2012 $
Assets			
Cash and cash equivalents	9	24,183,601	16,839,169
Held-to-maturity investments	11	11,501,836	9,502,459
Other assets	12	310,355	341,082
Loans and advances to customers	10 (a)	99,585,905	91,061,597
Assets held for sale	21	2,630,000	2,630,000
Property, plant and equipment	16	2,647,280	2,348,465
Intangible assets	17	7,565	21,190
Deferred tax asset	8 (c)	1,257,046	1,264,623
Total assets		**142,123,588**	**124,008,585**
Liabilities			
Deposits from customers	14	103,648,778	87,563,595
Other liabilities	13	3,895,314	3,123,665
Employee entitlements	15	330,908	272,376
Current tax liability	8 (b)	232,767	1,364,693
Total liabilities		**108,107,767**	**92,324,329**
Shareholders' equity			
Share capital	18	10,000,000	10,000,000
Credit loss reserve	19	2,254,936	2,254,936
Retained earnings		21,760,885	19,429,320
Total shareholders' equity		**34,015,821**	**31,684,256**
Total liabilities and equity		**142,123,588**	**124,008,585**
Commitments and contingent liabilities	20		

Signed on behalf of the Board

Director : ______________________

Director : ______________________

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 34 to 60.

	Note	2013 $	2012 $
Cash flows from operating activities			
Interest received from loans and advances		17,942,127	15,488,953
Interest paid on deposits from customers		(3,370,854)	(5,294,753)
Interest received from short term deposits and investments		433,817	572,144
Other income		2,163,080	2,640,313
Payment to suppliers and employees		(4,919,425)	(3,372,346)
Net (increase) in loans and advances		(10,818,182)	(6,645,400)
Net increase (decrease) in deposits		16,085,183	(3,182,717)
Income taxes paid	8 (b)	(2,975,774)	(1,614,651)
Net cash (used) in operating activities		14,539,972	(1,408,457)
Cash flows from investing activities			
Payment for property, plant and equipment		(723,161)	(287,319)
Proceeds from sale of property, plant and equipment		27,000	-
Net cash (used) in investing activities		(696,161)	(287,319)
Cash flows from financing activities			
Investment securities		(1,999,378)	-
Dividends paid		(4,500,000)	(4,280,000)
Net cash (used in) financing activities		(6,499,378)	(4,280,000)
Net increase/(decrease) in cash held		7,344,433	(5,975,776)
Cash and cash equivalents at beginning of financial year		16,839,168	22,814,945
Cash and cash equivalents at end of financial year	24	24,183,601	16,839,169

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 34 to 60.

1. Significant accounting policies

Merchant Finance & Investment Company Limited is a licensed credit institution incorporated and domiciled in Fiji. 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 ……1st August……..2013.

a. Statement of compliance

The financial statements of the Company have been drawn up in accordance with the provisions of the Banking Act 1995, Fiji Companies Act 1983, and International Financial Reporting Standards ("IFRS").

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 and do not take into account changing money values or, except where stated, current valuations of non-current assets.

The accounting policies have been consistently applied and are consistent with those of the previous year.

c. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, 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, except for IFRS 9 Financial Instruments, which becomes mandatory for the Company's 2015 financial statements and could change the classification and measurement of financial assets. The Company does not plan to adopt this standard early and the extent of the impact has not been determined.

d. 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 includes the following notes:

Note 1(h) – Loans and advances to customers
Note 1(g) – Property, plant and equipment
Note 1(p) – Employee entitlements – Long service leave

e. Foreign currency

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

1. Significant accounting policies (continued)

f. Income tax

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

Current tax is the expected tax payable on the taxable income account for the year using tax rates enacted or substantively enacted at the reporting date and any adjustments to tax payable in respect of previous years.

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 temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

g. Property, plant and equipment

Acquisition

Items of plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Profits and losses on disposal of plant and equipment are taken into account in determining the results for the year.

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:

Computers	33.33%
Land and buildings	1.25%
Motor vehicle, plant, furniture and office machines	20% - 50%

h. Loans and advances to customers

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

1. **Significant accounting policies (continued)**

h. Loans and advances to customers (continued)

Impairment of loans and advances

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

Individually assessed allowances

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

Collective assessed allowances

Collectively assessed allowances are created at a rate of 2.5% on the loan balances to cover for the losses that may arise from loan accounts that are facing uncertainty within industries on which individual provisioning is not assessed. Management does 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. The risk factor assigned to each industry is monitored continuously against the fluctuation in market conditions and management's overall assessment is reviewed annually.

Impaired assets

The Company has disclosed, in Note 10, 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.

1. Significant accounting policies (continued)

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 Statement of Comprehensive Income.

i. Intangible assets

Intangible assets include costs incurred in acquiring software and computer systems ("software"). The proceeds from exploitation of the copyright in an audio visual production are brought to account when received in accordance with the copyright's related Investment Agreement.

Software is amortised using the straight-line method over its expected useful life to the Company. The period of amortisation is 5 years. At each reporting date, software assets are reviewed for impairment.

If any such indication exists, the recoverable amount of the assets are estimated and compared against the existing carrying value. Where the existing value exceeds the recoverable amount, the difference is charged to profit or loss.

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

j. Cash and cash equivalents

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

k. Other liabilities

Other liabilities are stated at their cost.

l. Deposits from customers

Deposits from customers are stated at the gross value of the outstanding balance. Interest is taken to the profit or loss on an accrual basis.

m. Held-to-maturity investments

Held-to-maturity investments comprise government and semi government securities which the company has the positive intent and ability to hold to maturity. These are measured at cost (which equates to face value) less any impairment losses. Interest is taken to the profit or loss when receivable.

n. Assets held for sale

Assets held for sale is stated at the lower of the carrying amount and fair value less costs to sell if its carrying amount is to be recovered principally through a sale transaction rather than through continuing use. Gains and losses on disposals are determined by comparing proceeds with the carrying amounts.

1. Significant accounting policies (continued)

o. Recognition of expenses

i. All expenses are brought to account on an accrual basis.

ii. Losses on loans and receivables are carried at amortised cost.

The charge recognised in the statement of comprehensive income for losses on loans and receivables carried at amortised cost reflects the net movement in the provisions for individually assessed and collectively assessed loans, write-offs and recoveries of losses previously written off.

iii. Leasing

Operating lease payments are recognised in the statement of comprehensive income as an expense on a straight-line basis over the lease term.

p. Employee entitlements

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.

Long service leave - the entitlement is based upon the present value of future benefit payments to be made in respect of the employees' years of service.

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 payment mainly range from 10% - 20%.

q. Interest income

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

r. Impairment

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

		2013 $	2012 $
2	**Interest income**		
	Deposits with other financial institutions	42,834	234,488
	Investment securities	542,610	499,349
	Loans and advances	17,872,070	15,488,953
		18,457,514	16,222,790
3	**Interest expense**		
	High Notes Deposits	4,096,874	5,026,864
	Other	2,187	1,361
		4,099,061	5,028,225
4	**Fee and other income**		
	Credit related fees and commissions	1,642,325	2,267,637
	Repossession and auction administration fees	292,270	180,069
	Gain on sale	18,047	-
	Other fees	33,349	15,632
		1,985,991	2,463,338
5	**Loan impairment expenses**		
	Decrease in impairment	(73,933)	(487,108)
	Amounts written off during the year as uncollectible	2,297,750	1,557,564
	Income received on claims previously written off	(195,135)	(76,975)
		2,028,682	993,481
6	**Personnel expenses**		
	Salaries and wages	1,739,268	1,477,230
	Fiji National Provident Fund	139,490	130,546
	Other staff costs	413,515	302,336
		2,292,273	1,910,112

The number of employees at the end of the financial year was 60 (2012: 59).

		2013 $	2012 $
7	**Other operating expenses**		
	Donations	18,112	5,388
	Advertising expense	298,307	157,536
	External audit fees	31,000	31,000
	Directors fees and allowances	99,029	111,516
	Internal audit	25,749	24,844
	Management fees	110,400	122,850
	Premises expenses	794,237	611,690
	Printing and stationary	167,235	152,500
	Telecommunication expenses	261,186	192,738
	Motor vehicle expenses,	187,965	161,266
	Other expenses	518,261	455,704
		2,511,481	2,027,032
8	**Income tax**		
	(a) Income tax expense		
	Prima facie income tax expense calculated at 20% (2012: 28%) on the operating profit	1,816,598	2,352,708
	Increase/ (decrease) in income tax expense due to:		
	Donations	3,622	1,509
	FNPF employer contribution	13,949	-
	Effect of change in tax rate	-	506,016
	Under/(over) provided in prior years	17,256	(168)
		1,851,425	2,860,065
	Total income tax expense is made up of:		
	Deferred tax expense	7,577	654,471
	Current income tax expense	1,826,592	2,205,762
	Under/(over) provision in prior years	17,256	(168)
		1,851,425	2,860,065
	(b) Income tax payable		
	Movements during the year were as follows:		
	Balance at beginning of year	1,364,693	773,750
	Income tax paid	(2,975,774)	(1,614,651)
	Current year's income tax expense	1,826,592	2,205,762
	Under/(over) provision in prior years	17,256	(168)
	Balance at end of year	232,767	1,364,693
	(c) Deferred tax asset		
	Deferred tax assets reflects the future benefit at future income tax rates of the following items:		
	Allowance for doubtful debts	1,216,277	1,231,064
	Property, plant and equipment	5,183	7,631
	Employee entitlements	35,586	25,928
		1,257,046	1,264,623

		2013 $	2012 $
9	**Cash and cash equivalents**		
	Cash at bank and on hand	14,183,601	8,839,169
	Short term deposits	10,000,000	8,000,000
		24,183,601	16,839,169

The Company has a Standby Overdraft Facility of $4,000,000 (2012: $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 (2012: $Nil).

		2013 $	2012 $
10	**Loan and advances**		
	(a) Individual customers		
	Asset purchase loans	40,863,937	33,101,225
	Personal loans	96,800,966	94,420,457
	Gross loans and advances to customers	137,664,903	127,521,682
	Less: deferred revenue	(31,997,611)	(30,304,765)
		105,667,292	97,216,917
	Less: Individually assessed allowance for impairment	(4,017,099)	(4,547,932)
	Collectively assessed allowance for impairment	(2,064,288)	(1,607,388)
	Net loans and advances	99,585,905	91,061,597
	(b) Maturity analysis		
	Not longer than 3 months	4,036,667	11,250,168
	Longer than 3 and not longer than 12 months	7,070,416	31,841,421
	Longer than 1 and not longer than 5 years	121,689,685	73,609,824
	Longer than 5 years	4,868,135	10,820,269
		137,664,903	127,521,682

(c) (i) Impairment of loans and advances

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

	2013		2012	
	Individual allowance for impairment $	**Collective allowance for impairment $**	**Individual allowance for impairment $**	**Collective allowance for impairment $**
Balance as at 1 July	319,968	486,502	375,978	586,722
Increase / (decrease) in impairment allowances	485,870	240,552	105,928	(100,220)
Reversals of impairment	(503,388)	-	(161,938)	-
Balance at 30 June	**302,450**	**727,054**	**319,968**	**486,502**

10 Loan and advances

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

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

	2013		2012	
	Individual allowance for impairment $	Collective allowance for impairment $	Individual allowance for impairment $	Collective allowance for impairment $
Balance as at 1 July	4,227,964	1,120,886	4,538,623	1,141,105
Increase / (decrease) in impairment allowances	686,348	216,348	561,521	(20,219)
Reversals of impairment	(1,199,663)	-	(872,180)	-
Balance at 30 June	3,714,649	1,337,234	4,227,964	1,120,886

	2013 $	2012 $
(ii) Bad debts expenses	2,297,750	1,557,563
(iii) Non -accrual loans		
Non -accrual loans	21,504,529	23,356,513
Less: Individual allowance for impairment	(3,336,812)	(3,186,959)
	18,167,717	20,169,554
(iv) Restructured loans	2,970,926	3,058,999

11 Held-to-maturity investments

	2013	2012
Government securities	9,500,000	6,500,000
Short-term deposits	2,000,000	3,000,000
Add: unamortised premium	1,836	2,459
	11,501,836	9,502,459

In accordance with note 1(m), investment securities are classified as held to maturity investment and are stated at cost, adjusted for premium and/or discount.

Investment maturity analysis		
Not longer than 3 months	-	-
Longer than 3 and not longer than 12 months	2,001,836	4,501,418
Longer than 1 and not longer than 5 years	4,250,000	-
Longer than 5 years	5,250,000	5,001,040
	11,501,836	9,502,458

		2013 $	2012 $
12	**Other assets**		
	Prepayments	56,220	38,071
	Accrued income	151,627	161,693
	Other receivables	102,508	141,318
		310,355	341,082
13	**Other liabilities**		
	Dividend payable	2,320,000	1,920,000
	Accrued expenses	334,509	255,249
	Accrued interest on deposits from customers	728,099	266,420
	Other	512,706	681,996
		3,895,314	3,123,665
14	**Deposits from customers**		
	High Notes term deposits	103,648,778	87,563,595
	Maturity analysis		
	Not longer than 3 months	19,599,829	13,014,380
	Longer than 3 and not longer than 12 months	54,576,743	51,830,448
	Longer than 1 and not longer than 5 years	21,448,759	22,718,767
	Longer than 5 years	8,023,447	-
		103,648,778	87,563,595
15	**Employee entitlements**		
	Accrual for annual leave	131,460	85,533
	Accrual for bonus	152,980	142,734
	Accrual for gratuity	28,920	11,375
	Accrual for long service leave	17,548	32,734
		330,908	272,376

16 Property, plant and equipment

	Land & buildings	Motor vehicles	Office alterations
Cost	**$**	**$**	**$**
Balance at 1 July 2011	1,377,984	861,000	707,507
Acquisitions	24,157	58,000	13,661
Transfer (out)/in	-	-	-
Balance at 30 June 2012	1,402,141	919,000	721,168
Balance at 1 July 2012	1,402,141	919,000	721,168
Acquisitions	-	359,700	-
Transfer (out)/in	15,511	-	-
Disposals	-	(59,000)	(89,116)
Balance at 30 June 2013	1,417,652	1,219,700	632,052
Accumulated Depreciation			
Balance at 1 July 2011	-	316,713	605,948
Depreciation charge for the year	25	175,100	35,864
Disposals	-	-	-
Balance at 30 June 2012	25	491,813	641,812
Balance at 1 July 2012	25	491,813	641,812
Depreciation charge for the year	763	212,542	29,128
Disposals	-	(52,117)	(89,116)
Balance at 30 June 2013	788	652,238	581,824
Carrying amount			
At 1 July 2011	1,377,984	544,287	101,559
At 30 June 2012	1,402,116	427,187	79,356
At 30 June 2013	1,416,864	567,462	50,228

16 Property, plant and equipment con't

Office furniture	Office machine	Work in Progress	Total
$	$	$	$
264,384	1,030,666	118,370	4,359,911
14,102	127,588	49,811	287,319
-	(13,538)	(29,999)	(43,537)
278,486	1,144,716	138,182	4,603,693

278,486	1,144,716	138,182	4,603,693
179,545	149,393	34,523	723,161
-	-	(15,511)	-
(651)	-	(2,070)	(150,837)
457,380	1,294,109	155,124	5,176,017

249,848	780,317	-	1,952,826
8,428	104,779	-	324,196
	(21,794)		(21,794)
258,276	863,302	-	2,255,228
258,276	863,302	-	2,255,228
26,757	146,203		415,393
(651)	-	-	(141,884)
284,382	1,009,505	-	2,528,737

14,536	250,349	118,370	2,407,085
20,210	281,414	138,182	2,348,465
172,998	284,604	155,124	2,647,280

		$	$
17	**Intangible assets**		
	F1 AVP investment1	1,150,538	1,150,538
	Provision for FI AVP impairment	1,150,536	1,150,536
	Net book value	2	2
	Software costs		
	Cost :		
	Balance at the beginning of the year	43,537	-
	Acquisition	-	-
	Transfers from property, plant and equipment	-	43,537
	Balance at the end of the year	43,537	43,537
	Accumulated amortisation :		
	Balance at the beginning of the year	22,349	-
	Amortisation charge for the year	13,625	555
	Transfers from property, plant and equipment	-	21,794
	Balance at the end of the year	35,974	22,349
	Carrying amount :		
	Balance at the beginning of the year	21,188	-
	Balance at the end of the year	7,563	21,188
	Total	7,565	21,190

Investments in movie productions have been valued at cost, which is the amount the company expects to recover from the exploitation of the copyright in accordance with the Production Investment Agreement.

18	**Share capital**		
	Authorised capital		
	100,000 ordinary shares of $100 par value each	10,000,000	10,000,000
	Issued and paid up capital		
	100,000 ordinary shares of $100 par value each, fully paid	10,000,000	10,000,000

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.

	2013	2012
	$	$
19 Reserves		
Credit loss reserves	2,254,936	2,254,936

No further amounts (2012:nil) were considered necessary to be transferred during the year to the Credit Loss Reserve from retained earnings pursuant to the requirements of the Reserve Bank of Fiji. 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.

20 Commitments and contingent liabilities

Operating lease expenditure and commitments contracted for are payable as follows:

i. On 1 May 2013 the Company re-entered into an agreement with Nands Pharmacy Ltd to rent its premises in Nabua for 3 years ending 1 May 2016. Under the agreement, rent is payable at $2,500 per month.

ii. On 1 October 2012 the Company entered into an agreement with FHL Properties Limited to rent its premises in Suva for 3 years ending 30 September 2015. Under the agreement, rent is payable at $12,717.08 per month.

iii. On 1 June 2012 the Company entered into an agreement with Chitra Singh to rent its premises in Taveuni for 3 years ending 1 June 2017. Under the agreement, rent is payable at $450 per month.

iv. On 26 March 2012 the Company entered into an agreement with Challenge Engineering to rent its premises in Lautoka for 3 years ending 26 March 2015. Under the agreement, rent is payable at $6,326.15 per month.

v. On 20 April 2010 the Company entered into an agreement with Marimuttu & Sons Ltd to rent its premises in Savusavu for 10 years ending 30 December 2020. Under the agreement, rent is payable at $2,000 per month.

vi. On 1 June 2009, the Company entered into an agreement with R Daud & Co to rent its premises in Nadi for 5 years ending 30 April 2014. Under the agreement, rent is payable at $1,568.18 per month.

vii. On 1 July 2004 the Company entered into an agreement with Just Jeans Ltd to rent its premises in Labasa for 10 years ending 1 July 2014. Under the agreement, rent is payable at $2,700 per month.

viii. On 17 November 2003 the Company entered into an agreement with Stands (South Pacific) Ltd to rent its premises in Vatuwaqa yard for 10 years ending 1 December 2013. Under the agreement, rent is payable at $2,862 per month.

20 Commitments and contingent liabilities (continued)

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

	2013 $	2012 $
Due not later than one year	350,311	172,713
Due later than one year but not later than 5 years	438,442	182,391
Due later than five years.	36,000	60,000
	824,753	417,104

b) Commitments

Commitments in respect of loans and approved credit commitments offered but not yet advanced as at balance date amounted to approximately $ 9,038,426 (2012: $13,107,826).

c) Contingent liabilities

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

21 Assets held for sale

Assets held for sale consist of five land titles acquired from Western Wreckers Limited during May 2012 in exchange for debt forgiveness for loans and advances owed to the Company. Management is currently negotiating the selling price with potential buyers. The Reserve Bank of Fiji has provided the Company until 30 November 2013 to dispose of these properties.

	2013 $	2012 $
Land	2,630,000	2,630,000

22 Related party transactions

Directors

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

Mere Samisoni (Chairman) - current
Apakuki Kurusiga- current
Isireli Koyamaibole - current
Mereia Volavola- current
Mr. Nouzab Fareed- current
Mr. Tevita Gonelevu (alternate director) - current
Sefanaia Rayawa - current

Mr Padam Lala- resigned on 12/02/2013
Mr. Pita Mawi- resigned on 12/02/2013
Mr. Ulaiasi Baya- resigned on 12/02/2013
Mr. Jone Vatukela- resigned on 12/02/2013
Mr. Samuela Nawalowalo- resigned on 12/02/2013

Amounts paid to directors are disclosed in Note 23.

22 Related party transactions (continued)

Identity of related parties

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

Loans to Directors

As at 30 June 2013, no amounts (2012: $nil) were outstanding from the directors. Any advances are made in the ordinary course of the Company's business, and are on normal commercial terms and conditions no more favorable than those which would have been adopted if dealing with the related parties at arms length in the same circumstances.

Transactions with related parties

	2013 $	2012 $
Loan advances		
FHL Logistics	133,109	216,387
Purchase of fixed assets		
FHL Logistics	-	4,600
Basic Industries Limited	-	1,400
High notes issued		
FHL Properties Limited	514,224	481,034
Fijian Holdings Property Trust Fund	-	264,224
FHL Stockbrokers Limited	225,262	225,262
Fiji Industries Limited	-	532,161
Fijian Holdings Trust Management Limited	617,323	600,000
FHL Properties Limited Cyclone Reserve Account	238,289	-
Dividend payable		
Fijian Holdings Limited	2,320,000	1,920,000
Dividend paid		
Fijian Holdings Limited	3,520,000	3,360,000
Fijian Holdings Unit Trust	980,000	920,000
Revenue		
Interest:		
FHL Logistics Limited	22,634	22,184

22 Related party transactions (continued)

	2013 $	2012 $
Service provider fees:		
FHL Logistic	2,760	-
Fijian Holdings Trust Management	5,319	-
Expenses		
Rent:		
Fijian Holdings Trust Company Limited	25,434	-
FHL Properties Limited	127,171	-
Guardian Trustee Limited	-	182,430
Interest:		
FHL Stockbrokers Limited	-	11,536
FHL Properties Limited	20,110	21,052
Fijian Holdings Property Trust Fund	-	10,609
Fijian Holdings Unit Trust	-	-
Fiji Industries Limited	6,795	9,425
Fijian Holdings Trust Management Limited	25,578	28,103
FHL Properties Limited Cyclone Reserve Account	9,069	-
FHL Stockbrokers Limited	8,804	-
Directors Allowance		
Basic Industries Limited	300	-
FHL Securities Limited	300	-
Fijian Holdings Limited	13,325	-
Directors Fees		
Fijian Holdings Limited	44,932	-
Facility Charges		
FHL Properties Limited	45,672	-
Management fees		
Fijian Holdings Limited	110,400	110,400
Others		
Fijian Holdings Limited	11,556	-
FHL Logistics	250	-
FHL Properties Limited	4,610	-
RB Patel Group Limited	6,180	-

22 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	Appointment Date	
		Start	End
Napolioni Batimala	General Manager Designate	25/11/2011	30/9/2012
	General Manager	01/10/2012	current
Salesh Dayal	Manager Finance & Administration	09/03/2009	current
Dineshwar Lal	Manager Credit	01/07/2011	30/04/2013
	Manager Suva	01/05/2013	current
Bobby Ali	Manager Nadi	04/12/2009	current
Rohit Naidu	Manager Suva	19/09/2011	23/06/2013
Leonore Leweilovo	Assistant Manager Lautoka	01/03/2012	current
Nilesh Chand	Assistant Manager Corporate	01/03/2012	30/04/2013
	Manager Corporate	01/05/2013	current
Bobby Dayal	Assistant Manager Nabua	01/03/2012	30/04/2013
	Manager Nabua	01/05/2013	current
Anil Prasad	Manager North	01/03/2012	current
Semanta Naiker	Assistant Manager Credit	01/05/2013	current

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

	2013	2012
	$	$
Short-term benefits	767,949	822,942
Long-term benefits	5,796	12,602
Termination benefits	67,803	37,755
	841,548	873,299

23 Provision for Dividends

	2013 $	2012 $
Dividends declared or paid by the Company are:		
Balance at the beginning of the year	1,920,000	1,600,000
Add: 2013 final dividend declared and partly paid during the year ($29 per share (2012: $24))	2,900,000	2,400,000
Interim dividend declared and paid during the year ($20 per share (2012: $205)	2,000,000	8,200,000
Less: dividends used to raise capital	-	(6,000,000)
Less: dividends paid	(4,500,000)	(4,280,000)
Balance at the end of the year	2,320,000	1,920,000

24 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:

	2013 $	**2012 $**
Cash and cash equivalents	24,183,601	16,839,169

25 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, funding, price, interest rate) 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 General Manager, 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.

25 Risk management disclosures (continued)

Introduction (continued)

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 Company's external auditors, KPMG, may also review parts of the Company's risk management framework that impact on significant aspects of the financial systems, but only to the extent necessary to form their audit opinion on the Company's annual results.

The following sections describe the risk management framework components:

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 for 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 comprehensive credit screening, including a Data Bureau, check.

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

	2013 $	2012 $
Neither past due nor impaired	87,123,858	63,716,895
Past due but not impaired	33,691,051	38,491,650
Individually impaired	16,849,994	25,313,137
Gross loans and advances	137,664,903	127,521,682
Less: unearned revenue	(31,997,611)	(30,304,765)
Less: allowance for impairment	(6,081,387)	(6,155,320)
Net loans and advances	99,585,905	91,061,597

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.

25 Risk management disclosures (continued)

Credit risk (continued)

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

Collateral

The Company employs a range of policies and practices to mitigate credit risk with the most common practice being the security collateral. The Company implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties.
- Hire Purchase Agreements and Bill of Sale over vehicles and machinery
- Charges over business assets such as premises, inventory and accounts receivable.
- Charges over financial instruments such as debt securities and equities and term deposits.

Longer-term finance and lending to corporate entities are generally secured. Revolving individual credit facilities for FHL Group staff (including MFIL) to a maximum of $2,000 is 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 continues to go into arrears, a credit review is done and the collateral value is reassessed by the company's in-house credit officers or independent valuers.

Impairment and Provisioning Policies

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.

25 Risk management disclosures (continued)

Collectively Assessed Provisions

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

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

Credit risk concentration

	2013		2012	
	Loans and advances	Collective Impairment allowance	Loans and advances	Collective Impairment allowance
Industry	(%)	(%)	(%)	(%)
Agriculture	8.12	5.58	10.46	4.00
Building and construction	15.15	13.53	20.51	14.37
Manufacturing	5.84	4.22	7.79	10.37
Mining and quarrying	7.47	9.27	0.22	6.64
Private individuals	12.20	14.63	12.40	15.89
Professional and business services	2.73	2.57	2.33	1.08
Transport, communication and storage	28.28	31.12	27.65	27.43
Wholesale, retail, hotels and restaurants	10.43	11.26	9.22	14.42
Others	9.78	7.82	9.42	5.80
Total	**100.00**	**100.00**	**100.00**	**100.00**

Credit concentration is determined based on the industry for which the loan is given.

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.

25 Risk management disclosures (continued)

Liquidity Risk (continued)

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 ALCO/Audit 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 $4m with ANZ Bank that is unutilised as at Balance date.

Maturity Analysis for Financial Liabilities

As at 30 June 2013	1 - 3 months	3- 12 months	1 - 5 years	Over 5 Years	Total
	$	$	$	$	$
Deposits from customers	20,099,991	56,468,449	25,017,432	8,023,447	109,609,319
Other liabilities	3,895,314	-	-	-	3,895,314
Total Liabilities	**23,995,305**	**56,468,449**	**25,017,432**	**8,023,447**	**113,504,633**

As at 30 June 2013	1 - 3 months	3- 12 months	1 - 5 years	Over 5 Years	Total
	$	$	$	$	$
Deposits from customers	13,454,961	53,562,251	24,769,170	-	91,786,382
Other liabilities	3,123,665	-	-	-	3,123,665
Total Liabilities	**16,578,626**	**53,562,251**	**24,769,170**	**-**	**94,910,047**

Liquidity exposure is measured by calculating the Company's Net Liquidity Gap and by comparing current ratios with targets. The Board ALCO 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 RSA (not to exceed)	-5%	-7%	-10%	-20%	40%

25 Risk management disclosures (continued)

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 20%
Loans/Deposit Ratio	120-135%	Not to exceed 135%
Loans/Adjusted Deposit Ratio	100-120%	Not to exceed 120%
ULAR	Minimum 12%	Not to fall below 10%

The Cash Reserve ratio is calculated by expressing cash reserves (comprising of cash book balance and short term deposits) as a percentage of total deposits. Other ratios are calculated according to RBF guidelines on liquidity risk management for credit institutions. The loans to deposit ratio and ULAR are monitored daily with other ratios monitored monthly.

Any variance in above ratio is actioned immediately by management.

Market Risks

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 of risk.

The Company has undertaken a sensitivity analysis that measures the potential impact of either an instantaneous increase or decrease of 0.5 – 1.0% (50 – 100 basis points) in market interest with all other variables remaining constant on the following:

- Replacement costs of maturing borrowing
- New business on maturing loan book
- Interest rates on replacement of held to maturity instruments

The impact to the Company's income based on the balances at balance date is estimated to be as follows:

	+50 Basis Points $	+100 Basis Points $	-50 Basis Points $	-100 Basis Points $
Impact on Profit (Change In TD Rate)	(188,840)	(377,681)	188,840	377,681
Impact on Profit (Change In Investment Rate)	13,836	20,753	(6,918)	(6,918)
Impact on Profit (Change In New Business Rate)	81,427	162,855	(81,427)	(162,855)

25 Risk management disclosures (continued)

The following assumptions were taken when calculating the above sensitivity analysis:

- No change in economic conditions
- Only those funds will be replace that are maturing and funding level is maintained at Balance Date level
- New Loans will be issued at levels similar to the portion that is expiring and total loan book will be maintained at Balance Date level
- New Rates will be applicable throughout the year.
- There will be no early termination of contracts
- Not all factors change at once.
- All investments will be reinvested
- No early withdrawal of investment

Interest Rate Risks

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 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.

As the assets and liabilities are all of a fixed interest nature, the Company is not subject to interest rate risk.

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.

25 Risk management disclosures (continued)

Capital Risk Management (continued)

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 ALM policy.

In addition, the Company ensures that its dividend policy for any financial year is capped at a maximum of 85% of its free cash flow, that is, Profit after tax less all capital commitments. The Company also measures its General Reserve Credit Losses (GRCL) requirement on an annual basis and ensures that sufficient allocation is made for it.

26 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, 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.

MERCHANT FINANCE TEAM

Pictured Left to right:
Back Row: *Alipate Radrodro, Pio Nataniela, Ashwin Kumar, Meja Singh, Napolioni Batimala, Vimal Prakash, Navin Prakash, Nilesh Char*
Third Row: *Bobby Dayal, Apakuki Nabanivalu, Louisa John, Sainimili Raiyawa, Losana Raidre, Sazida Nisha, Maraia Vanuaca, Beatrice*
Second Row: *Virginia Elo, Rena Devi, Nikita Karan, Semanta Naiker*
Front Row: *Noa Lasaganibau, Ravinesh Raj, Anil Prasad, Michael Raju, Osea Nawalu, Dineshwar Lal, Roneel Sahai*

nd *Bobby Ali, Sanjay Lal*
Mar *Anaseini Waqabaca, Pricilla Ritova, Leonore Naivaluwaqa, Ritika Ranu, Melania Saravaki*

COMMERCIAL LOANS

We provide access to quicker funds necessary to fund motor vehicles and other specialised equipment, financing of new & existing business and assisting with additional working capital to support business operation growth.

PERSONAL LOANS

We provide a personal loan facility to individuals to purchase their own assets (i.e. vehicle, computers), fund their ongoing studies and borrowing to take a holiday.

HIGH NOTES

We offer the best competitive interest rate and we guarantee the safety and security of your funds.

MERCHANT FINANCE
Talk to us *first*

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