MERCHANT FINANCE

Talk to us first

Annual Report 2014

Our world of financing & investments.

Vision, Mission & Our Products

Our Vision

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

Our Mission

We provide innovative financial solutions in ways that:

- Exceed customers' expectations
- Safeguard depositors' funds
- Maintain our corporate social responsibility while preserving the loyalty of our people and maximizing shareholder's value.

Our products

1. Commercial Loans
2. Personal Loans
3. High Notes

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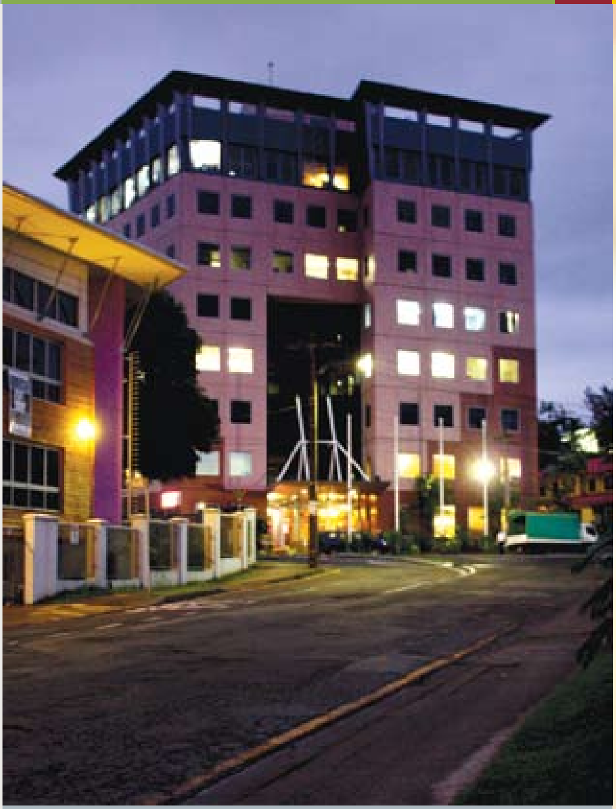
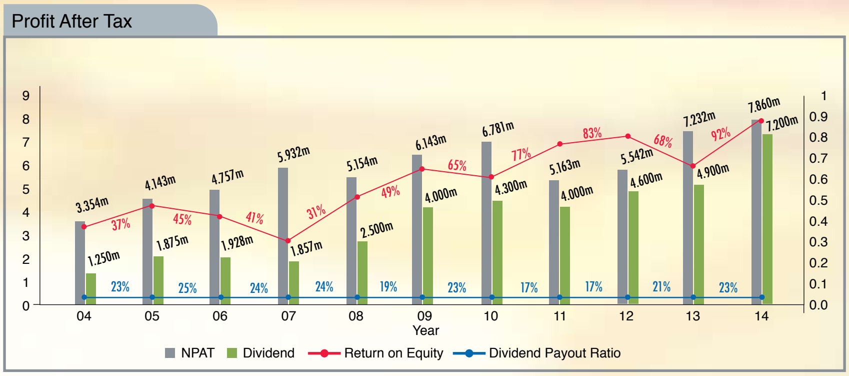
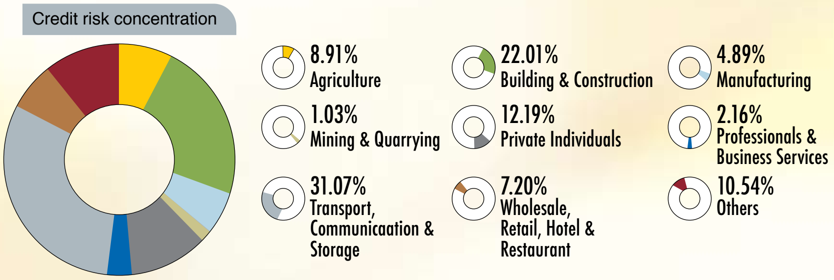
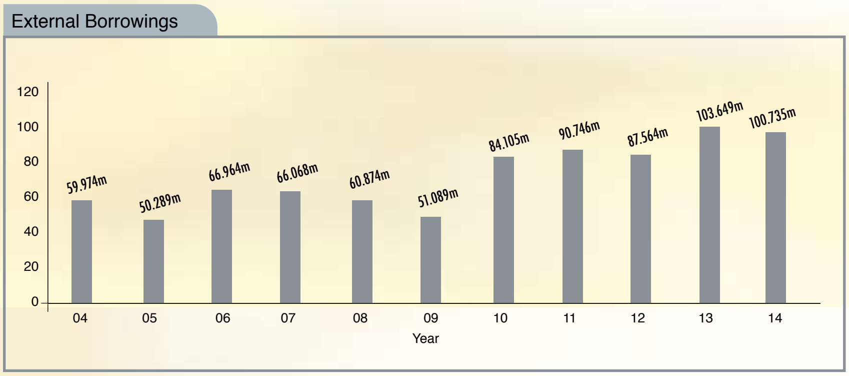
Company History

Financial Highlights









Merchant Finance & Investment Company Limited (Merchant Finance) formerly known as Merchant Bank of Fiji Limited was officially established in 1986, as a joint initiative between Australian Guarantee Corporation (AGC), International Finance Corporation (IFC) and the Fiji Development Bank primarily to offer an array of financing facilities.

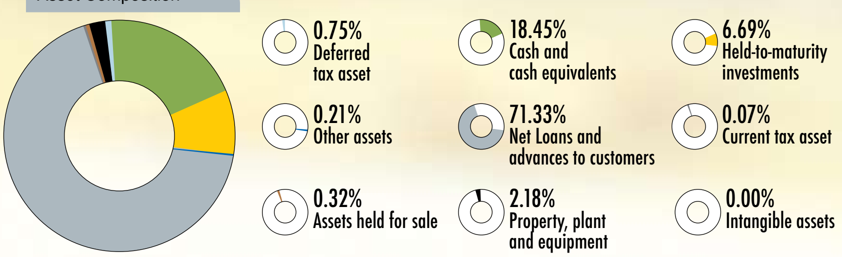
In April of 1992, the company was licensed as a Credit Institution expanding their capabilities as a financial institution in permitting the company to issue investment products, primarily term deposits.

After the divesture of their shareholdings in August 1997 by AGC and IFC, Merchant Finance can now claim to be a 100% Fijian owned corporation. The current shareholdings of the company are held in part by Fijian Holdings Limited (80%) and FHL Trustees Limited (20%), as trustee to Fijian Holdings Unit Trust.

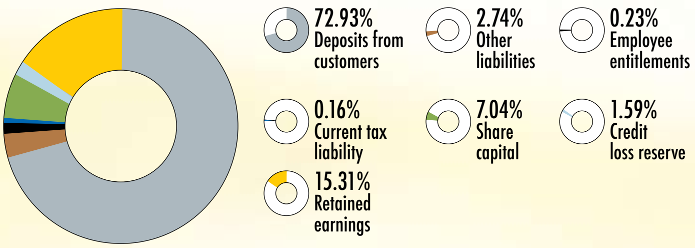
Financial Highlights

Net Credit Book

Asset Composition



Funding Composition



Corporate Governance

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 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 (managed by FHL Trustees Management Limited).

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.

At the beginning of the financial year, the Board had three Committees that help with carrying out its functions. The Committees were : the Asset, Audit, Liability, Risk Committee; the Credit Committee; and the Human Resources Committee. By the end of the 2013 calendar year, one of the Committees was split into two to meet a recomm-endation from the Reserve Bank of Fiji. The Committees at the beginning of January 2014 were : the Asset, Liability & Risk Committee; the Audit & Compl-iance Committee; the Credit Comm-ittee; and the Human Resources Comm-ittee.

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. As part of this, corporate sponsorships are considered and provided by the company.

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

Issues covered under corporate governance are outlined in our 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 nine (9).

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.

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 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 annually assessed by our parent company Fijian Holdings Limited.

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

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

Meetings

Board meetings are normally held 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.

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.

Audit & Reporting

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

The Committee assesses the compliance of the Company's external reporting, the internal processes and controls that support the external reporting, coordination with the external auditors and ensuring the yearly audits and half year reviews are conducted in an effective manner. The Committee makes recommendations for the appointment or removal of the external and internal auditors, annually assess the performance and independence of the auditors and monitor the coordination of their audits as the scope of the internal audit shall

not overlap with the scope of work performed by the external auditors.

The external auditors are required to rotate off the audit after a maximum of three years.

Communication and Public Disclosures

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

External stakeholders

External stakeholders play an important role in any company and our relationship with them is covered in our under Corporate Social Responsibility (CSR) in our Corporate Governance policy. We maintain our CSR at our utmost because it improves our community standing or reputation in the public.

During the year as part of our social responsibility Merchant Finance sponsored school projects; joined rural expositions (organized by RBF and Asco) and participated in community sporting events with an objective of building our relationship with the members of society.

Conclusion

We take our role as custodian of other people's funds very seriously. Our work is supervised thoroughly by the Board and its professional Sub-committees. Independent directors who are part of the Board provide an added mechanism of oversight. Board approved policies provide guidance and direction to the day-to-day operations and running of the company.

We will continue to review our corporate governance policies and procedures to ensure that they meet best practices in the area and are the best for the type of business we operate in.

Sub Committees Report

- Report of the Asset, Audit, Liability & Risk (AALR) Committee
- Report Of The Audit & Governance Committee

Report of the Asset, Audit, Liability & Risk (AALR) Committee

The Asset, Audit, Liability, Risk (AALR) Committee is responsible for overseeing the company's financial performance, risk management, as well as audit, asset and liability management and pricing.

During its terms the Committee reviewed in-house audit reports, internal audit reports, external audit reports and the RBF Onsite Examination report. In addition the Committee reviewed the internal liquidity reports and put in place feedback mechanisms to ensure that audit recommendations were implemented.

The Committee was dissolved at the end of December 2013 was split into two committees i.e. the Asset, Liability & Risk Management (ALRM) Committee and the Audit & Governance Committee. This was done in compliance with the recommendations from the Reserve Bank of Fiji. The separation was recommended to improve the independency and transparency of the important roles that the two Committees play in overseeing the operations of Merchant Finance.

The Committee members during the financial year are:

Name	Capacity
Mereia Volavola	Chairperson
Cama Raimuria	Member
Sakiusa Raivoce	Member
Saleshni Warran	Member

Report Of The Audit & Governance Committee

The Audit & Governance Committee was created at the end of December 2013 after the dissolution of the Asset, Audit, Liability & Risk (AALR) Committee. The Committee is responsible for overseeing the company's audit and compliance areas.

During its term the Committee reviewed all the audit reports (in house, internal and external auditors) and RBF onsite examination report. The issues highlighted by the respective reports were discussed with Management and the importance of compliance and implementation were emphasized.

These issues were then incorporated into an Audit Issues Tracking Register that was reported to the Committee to ensure that issues are being addressed. The success of the Tracking register is reflected in the compliance status of the company in keeping up with implementation/addressing of issues as and when they arise.

The Committee received a Risk Consulting Report prepared by Marsh Limited that identified risks for Merchant Finance, categorized those risks and proposed strategies to mitigate each risk. The Marsh Report was then used by Management to derive the Risk Register for Merchant Finance; this of which the Committee was responsible for providing oversight. The Risk Register is utilized as a tool of registering risk, elevating risk awareness and strengthening the current mitigation controls.

Meetings of the Audit & Governance Subcommittee are generally held quarterly. If necessary, additional meetings may be convened.

The Committee members during the financial year are:

Name	Capacity
Mereia Volavola	Chairperson
Cama Raimuria	Member
Salesh Dayal	Member
Saleshni Warran	Member

MVolavola
....
Mereia Volavola
(Chairperson (AALR/Audit & Governance Committee)

Sub Committees

- Report of the Asset, Liability & Risk Management (ALRM) Committee
- Report Of The Credit Committee

Report of the Asset, Liability & Risk Management (ALRM) Committee

The Asset, Liability & Risk Management (ALRM) Committee was established at the end of December 2013 after the dissolution of the Asset, Audit, Liability & Risk (AALR) Committee.

The Committee is responsible for overseeing the company's asset and liability management and risk management.

During the year the Committee looked at issues that relate to the asset and liability management. In terms of liquidity, the Committee noted that the company held surplus funds available for lending. The Committee encouraged the Company to invest its surplus funds in high yield liquid assets to be able to generate the best return to the company.

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

Sefanaia Rayawa
Chairperson

The Committee members during the financial year are:

Name	Capacity
Sefanaia Rayawa	Chairman
Arun Narsey	Member
Sowani Tuidrola	Member
Nitesh Lal	Member

Report of the Credit Committee

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

In the beginning of the financial year, the former Chairman Mr. Isireli Koyamaible passed away suddenly due to illness. He worked diligently with the Committee in fulfilling the role of overseeing the credit functions of the Company. The Committee is grateful for his invaluable input and leadership during his term.

The Committee continued its role under new leadership from 29th January 2014 and closely monitored problematic and non-performing loans. Detailed scrutiny was implemented for the proper classification of loan accounts to ensure that adequate provisions are sustained on loans that require it. Part of the work the Committee did was to review audit comments relating to credit and address the issues.

The Committee has discretionary limits to consider issues relating to loans beyond the limits given to the General Manager. For loan applications that are above the Committee's limits, the Committee reviews submissions and tables its position to the Board for decision.

Merchant Finance's lending function continued to be monitored by the Committee's review of the Credit Policy, the Collection Policy and development of a Lending Procedures Manual. The reviewed policies and the new procedures manual will help direct and strengthen the lending and recovery functions when they are implemented.

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

Aseri Radrodro
Chairperson

The Committee members during the financial year are:

Name	Capacity	Term
Isireli Koyamaibole	Chairperson	Deceased
Arun Narsey	Member	Resigned
Ulaiasi Taoi	Member	Resigned
Joel Mastapha	Member	Resigned
Nitesh Lal	Member	Resigned
Sefanaia Rayawa	Member	Resigned
Aseri Radrodro	Chairperson	Current
Jone Vatukela	Member	Current
Jerry Volavola	Member	Current
Nitesh Chand	Member	Current

Sub Committees

- Report of the Human Resources (HR) Committee

Report of the Human Resources (HR) Committee

The Human Resources Committee looks after human resource management, recruit-ment, remuneration, staff performance reviews, manpower planning and deve-lopment, and succession planning.

During the year the Committee provided oversight on a number of issues which included recommendations on staff recruitment, promotions, increments, bonuses and staff discipline that were presented by Management.

The Committee continued to encourage up-skilling of managers and staff. Some managers and staffs are continuing formal and professional qualification at tertiary institutions including the University of the South pacific and the Fiji National University. Managers and staffs also attended a number of short courses in diverse technical areas including risk assessment and risk management.

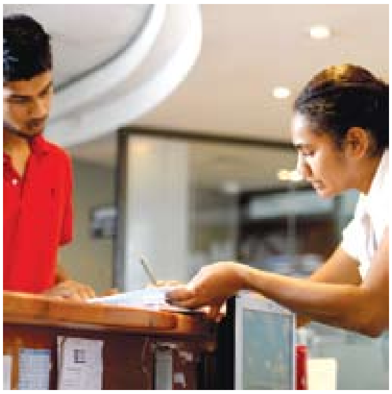
Meetings of the HR Subcommittee are generally held quarterly. If necessary, additional meetings may be convened.

Emitai Boladuadua
Chairperson

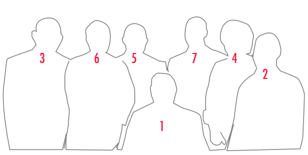
The Committee members during the financial year are:

Name	Capacity	Term
Apakuki Kurusiga	Chairperson	Resigned
Emitai Boladuadua	Chairperson	Current
Sakiasi Seru	Member	Current
Sakiusa Raivoce	Member	Current
Catherine Grey	Member	Current



Board of Directors



1. **Apakuki Kurusiga**
Chairman

2. **Nouzab Fareed**
Director

3. **Sefanaia Rayawa**
Director

4. **Mereia Volavola**
Director

5. **Sowani Tuidrola**
Director

6. **Elenoa Lalabalavu**
Director

7. **Napolioni Batimala**
General Manager

Management Team

Napolioni Batimala
General Manager

Dineshwar Lal
Manager Credit/
Manager Suva

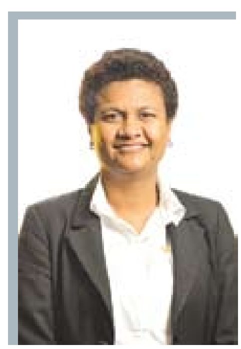
Semanta Naiker
Assistant Manager Credit

Bobby Dayal
Manager Nasinu

Nilesh Chand
Manager Corporate

Alipate Radrodro
Team Leader Rural

Bobby Ali
Manager Lautoka

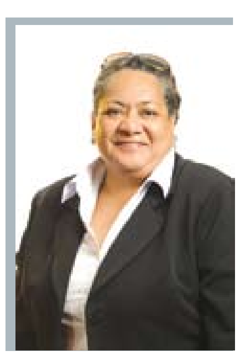


Leonore Naivaluwaqa
Assistant Manager Nadi

Anil Prasad
Manager North

Pio Nataniela
Assistant Manager Finance
& Administration

Beatrice Mar
Risk & Compliance Officer



Louisa John
Human Resource Officer

Navin Prakash
IT Administrator

This year was another good one for Merchant Finance after we registered another record profit before tax of $9.8 million for the year, compared to $9.1 million recorded the year earlier.

During the year, Merchant Finance continued to be well capitalised and met all prudential requirements set by the Reserve Bank of Fiji for licensed credit institutions. These requirements are used by the Reserve Bank of Fiji to gauge the health of a financial institution. They are also used by analysts to compare the performance of one financial institution against another, or of the same financial institution over a number of years.

Credit risk is an area that has been closely monitored by the company, given the impact of challenging business conditions in Fiji. Where necessary, the company has, as would another financial institution, made provisions for specific loans and also a general provision cover for the whole loan portfolio.

The company restructured its capital by increasing its authorised share capital from $10 million to $50 million; this was done to meet the company's increasing business needs.

Economic background

The economy is estimated to have grown by 3.6% in the 2013 calendar year based on the Reserve Bank of Fiji's figures. Growth forecasted so far for 2014 is 3.8%. Sectors that contributed to growth during the year were manufacturing, communication, wholesale and retail trade, agriculture, construction, financial intermediation and transport and storage.

Inflation stood at 1.1% in June 2014 compared to 1.7% last year. The rate fluctuated over the year and a major contributing factor was infrastructural changes done to reflect Government's free education policy for primary and secondary schools. Furthermore low inflation rates reflected subdued global demand.

Banking system liquidity fell over the year to June 2014. While liquidity fell, banks still held high levels of liquid assets. This meant that the cost of funds for financial institutions, including Merchant Finance, continued to reduce.

Lending for consumption and investment remained strong most of the year from June 2013, although lending for investment weakened for a few months in early 2014. The low lending rates and favourable remittance in-flows were two contributing factors to strong lending for consumption and investment.

For the company, holding high levels of liquid assets presented a continued challenge of finding avenues to lend or invest these funds to earn a return. The





solid competition it faced from other financial institutions within its primary business area, i.e. vehicle financing, contributed added pressures on the company. However having an established customer base and the continued inflow of new customers helped counter this challenge.

Challenges in the Fiji Financial Sector

High banking system liquidity presents challenges and increase competition of lending in Fiji. Apart from contributing to low cost of funds for financial institutions, there is an added dimension of funds not returning adequate earnings to depositors.

In recent years, banks have been aggressive entering the product spaces offered by credit institutions such as Merchant Finance, in a bid to utilise the excess funds they receive from depositors. The performance of the financial system in Fiji over the last decade indicates a need for a more strategic vision for the companies in the financial sector. This challenge has existed over many years however Merchant Finance has manoeuvred its business to avail accessible funds to our customers and earn the best returns for our investors.

Strategic Direction

The company has completed its first year implementing its new Strategic Plan. The Strategic Plan provides a clear Vision, Mission and strategies that the company will implement over the next five years.

Merchant Finance is reviewing its current Strategic Plan to ensure it is relevant and sustainable in every economic and political development. This progressive review will make certain that the company's development remains on course and able to forge a leading position within the sector while satisfying its customers and other stakeholders.

Corporate Governance

The company has undertaken measures to strengthen corporate governance in the last two years. Whilst a new corporate governance structure was put in place last year, there were changes to memberships of the Board and Board Committees during the year.

A number of professionals and technical experts were brought it in to serve within the Committees. They complement the Board members who are also part of these Committees.

At the end of the first half of the financial year, the company carried out a further restructuring of its Board Committees as required by the Reserve Bank of Fiji. The restructure saw the number of committees increase from three to four. The Board Committees are now : the Audit and Governance Committee; the Asset, Liability and Risk Committee; the Credit Committee; and the Human Resource Committee. Membership of the Committees is made up of Board members and a number of professionals and technical experts.

To improve accountability and transparency from the Board and its Subcommittees, all members declared their interests and accepted the code of conduct specifically tailored for Directors and Committee Members.

On building capacity for corporate governance, two managers from the company attended training organized by the Australian Institute of Directors during the year. In addition the Corporate Governance policy is available for all staffs to increase awareness of the governance framework. The current policy is being reviewed to emphasize the importance of good corporate governance and improve Merchant Finance's existing governance framework.

Conclusion

I wish to thank the past Board Chairperson Ms. Mere Samisoni and the Board of Directors; those that completed their terms during the year, those that joined us and the others that have continued. A serving Board member, Mr Isireli Koyamaibole, passed away during the year. He had been very diligent with carrying out his role for which the company is very grateful.

Additionally I would like to thank the General Manager, management and staff of the company for the efforts that they have put in individually and together as a group to deliver another record year for the company despite the increasingly challenging times the company operated in.

Over the next year, I am sure that we all look forward to the challenges and developments that will present themselves and are ready to tackle them.

My very best wishes to everyone.

Colonel Apakuki Kurusiga
Chairman

Financial performance

Merchant Finance made another record profit before tax of $9.8 million for the year ending 30 June 2014, an increase of 7.7% from the $9.1 million recorded at 30 June 2013. This was mainly due to the reduction in Interest Expense which fell by 5.0% to $3.9 million and Loan Impairment Expense, which fell by 73.7% to $0.5 million by end of June.

Over the year, total assets fell by 0.1% to $141.9 million at 30 June 2014, from $142.1 million recorded the year earlier. This was a result of a reduction in most categories of assets, even though the company's loan portfolio grew by 1.7% from the previous financial year. Cash and Cash Equivalents and Property, Plant and Equipment also recorded growths over the year by 8.3% and 17.1%, respectively.

Our high cash balances indicate a recurring challenge faced across all financial institutions of finding appropriate avenues to invest those funds to earn a return from them.

With regard to liabilities, deposits from customers fell by 2.8% during the year to $100.7 million at end June 2014, from $103.6 million the year earlier. Total Shareholders' Funds grew by 1.9% to $34.7 million at 30 June 2014, from $34.0 million, the year earlier.

Policy, Human Resources and Capacity Development

We continued to build staff capacity, by providing training for our staffs with in-house and external training. The company ensured that the training programs attended by staffs will assist them in enhancing their skills and broadening their knowledge. New staffs were put through an induction program where they are briefed on issues relating to the company, culture, its future plans and strategies.

Staff and management attended risk management workshops and training as part of the risk assessment and policy development that the company had undergone during the year.

Selected staff members were given higher responsibility where suitable to fill in at higher positions which were vacant or where the incumbent was on leave. One of these included the promotion of a staff member to assume the responsibilities of Manager Finance and Administration after the predecessor joined our parent company, Fijian Holdings Limited.

Staff performance continues to be monitored closely and regularly with formal appraisals done. Given the record performance last financial year, staff and managers were paid bonuses in recognition of their contribution.

Services and Market Segment

The company continued to serve its target market segment with vehicle financing. However, as mentioned by our Chairman, competition in this segment with banks and other credit institutions was very stiff. Financial institutions are reducing their pricing of loans and conditions to be able to attract customers. During the year, we also continued to make inroads into financing targeted for customers based in the rural areas.

We continued to reduce our deposit rates and have also started reducing lending rates to customers with a view to passing on the benefits of the reduction in our cost of funds, given surplus liquidity held in the financial sector.

Given the stiff competition that we face, we recognise a need to continuously review our suit of products to ensure that they are marketable and attractive to customers. Over the coming year, we will be reviewing our business model to ensure that what we have in place will prepare us for the tough competitive environment we will be competing in over the next few years.

Good corporate citizen

The company continued its corporate social responsibility initiatives during the year through participation at the Reserve Bank of Fiji's Financial Inclusion and Literacy workshops. We also sponsored and participated at community organised sporting events to build rapport with the community and promote a healthy lifestyle.

As part of our corporate social responsibility, we hired attachees who are brought in and given on-the-job training. While they assist with delivery of our operations, they also benefit by being given an opportunity to learn technical skills on-the-job which will benefit them in the long run.

Future Outlook

Merchant Finance is here to stay. Customers will continue to see us providing services to the general public who wish to access financial services.

The on-going review of our suit of products as well as our business model will ensure that we will continue to play a role in the provision of financial services in Fiji and to do it well for the target market segment that we serve.

Conclusion

Whilst the year has been a tough one with regard to business, the hard work of our managers and staff together with direction and guidance provided by our Board members has resulted in another record profit this year.

The upcoming year will bring the same or even more challenges and we are prepared to tackle it together. I commend the staffs individually and as a group for their hard work during throughout this challenging year.

I would like to express my gratitude to our Board Chairman, Board members (both the past and current members) for their contribution to another good year for the company. My appreciation is also extended to our loyal customers for their continued confidence in our product and service.

Merchant Finance is prepared to embrace the future by adapting to and encouraging sustainable business while generating genuine and long-lasting value for our stakeholders.

Napolioni Batimala
General Manager

Vision
TEAM

Talk to us first.

& Unity WORK

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Directors' Report

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 2014 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
Apakuki Kurusiga (Chairperson)	12/02/2013	Current
Mere Samisoni (Former Chairperson)	12/02/2013	30/07/2013
Nouzab Fareed	27/02/2009	Current
Isireli Komaiyabole	12/02/2013	27/01/2014
Mereia Volavola	12/02/2013	Current
Sefanaia Rayawa	12/02/2013	Current
Tevita Gonelevu	04/11/2011	28/08/2013
Elenoa Lalabalavu	03/09/2013	Current
Sowani Tuidrola	03/09/2013	Current
Aseri Radrodro	27/01/2014	Current

State of affairs

In the opinion of the directors, the accompanying statement of financial position gives a true and fair view of the state of affairs of the Company as at 30 June 2014 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 2014 was $7,860,231 (2013: $7,231,565).

Dividends

A final dividend of $2,900,000 (at the rate of $29 per share) in respect of the 2013 financial year was declared during the 2013 financial year of which $580,000 was paid during the 2013 financial year and the balance of $2,320,000 was paid during the 2014 financial year. The Company declared an interim dividend of $2,300,000 (at the rate of $23 per share) in respect of the 2014 financial year and this was paid during the year ended 30 June 2014. A final dividend of $6,900,000 (at the rate of $69 per share) was declared in respect of the 2014 financial year. An amount of $980,000 was paid in respect of the 2014 final dividend during the year and $2,000,000 was reinvested into share capital.

Reserves

The directors do not recommend any transfers to or from reserves to retained earnings in the 2014 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 31st day of July 2014.

Signed in accordance with a resolution of the Directors.

Director

Director

Statement by Directors

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

a) 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 2014;

b) the accompanying statement of changes in equity of the Company is drawn up so as to give a true and fair view of the changes in equity of the Company for the year ended 30 June 2014;

c) the accompanying statement of financial position of the Company is drawn up so as to give a true and fair view of the state of affairs of the Company as at 30 June 2014;

d) the accompanying statement of cash flows of the Company is drawn up so as to give a true and fair view of the cash flows of the Company for the year ended 30 June 2014;

e) 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

f) all related party transactions have been adequately recorded in the books of the Company.

Dated at Suva this 31st day of July 2014.

Signed in accordance with a resolution of the Directors.

Director

Director

KPMG

Independent Auditor's Report

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 2014, 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 information as set out in notes 2 to 26.

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 judgment, 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.

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 2014 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.

Emphasis of Matter

As discussed in Note 21 to the financial statements, assets held for sale consist of two 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 in the process of seeking potential buyers for the remaining properties. The Reserve Bank of Fiji has provided the Company until 13 November 2014 to dispose of these properties. Our opinion is not modified with respect to this matter.

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
15 August 2014

KPMG
Chartered Accountants

Statement of comprehensive income

For the year ended 30 June 2014

	Note	2014 $	2013 $
Interest income	2	18,753,033	18,457,514
Interest expense	3	(3,893,741)	(4,099,061)
Net interest income		14,859,292	14,358,453
Fee and other income	4	1,117,432	1,985,991
Loan impairment expenses	5	(533,395)	(2,028,682)
Personnel expenses	6	(2,368,466)	(2,292,273)
Depreciation, impairment and amortisation		(594,891)	(429,018)
Other expenses	7	(2,661,857)	(2,511,481)
Operating profit before income tax		9,818,115	9,082,990
Income tax expense	8 (a)	(1,957,884)	(1,851,425)
Profit for the year		7,860,231	7,231,565
Other comprehensive income		-	-
Total comprehensive income for the year		7,860,231	7,231,565

The statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 24 to 42.

Statement of changes in equity

For the year ended 30 June 2014

	Share capital $	Capital loss reserve $	Retained earnings $	Total $
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
Total 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
Balance at 1 July 2013	10,000,000	2,254,936	21,760,885	34,015,821
Total comprehensive income for the year				
Profit	-	-	7,860,231	7,860,231
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	7,860,231	7,860,231
Transactions with owners of the Company, recognised directly in equity Contributions by and distributions to owners of the Company				
Interim dividend declared and paid ($23 per share) in respect of 2014 financial year	-	-	(2,300,000)	(2,300,000)
Final dividend declared ($69 per share) in respect of 2014 financial year	-	-	(6,900,000)	(6,900,000)
Contribution to share capital (2,000,000 shares @ $1 each) through dividend reinvestment	2,000,000	-	-	2,000,000
Total contributions by and distributions to owners of the Company	2,000,000	-	(9,200,000)	(7,200,000)
Balance at 30 June 2014	12,000,000	2,254,936	20,421,116	34,676,052

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 24 to 42.

Statement of financial position

As at 30 June 2014

	Note	2014 $	2013 $
Assets			
Cash and cash equivalents	9	26,180,315	24,183,601
Held-to-maturity investments	11	9,501,272	11,501,836
Other assets	12	297,557	310,355
Loans and advances to customers	10 (a)	101,240,352	99,585,905
Current tax asset	8 (b)	103,558	-
Assets held for sale	21	450,000	2,630,000
Property, plant and equipment	16	3,100,395	2,647,280
Intangible assets	17	1,112	7,565
Deferred tax asset	8 (c)	1,060,108	1,257,046
Total assets		141,934,669	142,123,588
Liabilities			
Deposits from customers	14	100,735,216	103,648,778
Other liabilities	13	6,156,182	3,895,314
Employee entitlements	15	367,219	330,908
Current tax liability	8 (b)	-	232,767
Total liabilities		107,258,617	108,107,767
Shareholders' equity			
Share capital	18	12,000,000	10,000,000
Credit loss reserve	19	2,254,936	2,254,936
Retained earnings		20,421,116	21,760,885
Total shareholders' equity		34,676,052	34,015,821
Total liabilities and equity		141,934,669	142,123,588
Commitments and contingent liabilities	20		

Signed on behalf of the Board

Director

Director

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 24 to 42.

Statement of cash flows

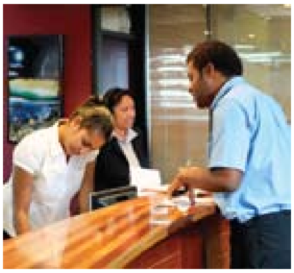
For the year ended 30 June 2014

	Note	2014 $	2013 $
Cash flows from operating activities			
Interest received from loans and advances		18,064,186	17,942,127
Interest paid on deposits from customers		(3,444,442)	(3,370,854)
Interest received from short term deposits and investments		688,847	433,817
Other income		1,459,186	2,163,079
Payment to suppliers and employees		(4,754,635)	(4,919,425)
Net (increase) in loans and advances		(2,683,733)	(10,818,182)
Net increase (decrease) in deposits		(2,913,562)	16,085,184
Income taxes paid	8 (b)	(2,097,271)	(2,975,774)
Net cash (used) in operating activities		4,318,576	14,539,972
Cash flows from investing activities			
Payment for property, plant and equipment		(1,027,726)	(723,161)
Proceeds from sale of property, plant and equipment		150,300	27,000
Proceeds from sale of available for sale assets		2,155,000	-
Net cash (used) in investing activities		1,277,574	(696,161)
Cash flows from financing activities			
Investment securities		2,000,564	(1,999,378)
Dividends paid		(5,600,000)	(4,500,000)
Net cash (used in) financing activities		(3,599,436)	(6,499,378)
Net increase in cash held		1,996,714	7,344,433
Cash and cash equivalents at beginning of financial year		24,183,601	16,839,168
Cash and cash equivalents at end of financial year	24	26,180,315	24,183,601

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 24 to 42.

Notes to and forming part of the financial statements

For the year ended 30 June 2014



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 31st July 2014.

(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(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.

(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.

1 Significant accounting policies (continued)

(f) Income tax (continued)

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

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

(g) Property, plant and equipment

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.

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 **1** 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.

Notes to and forming part of the financial statements

For the year ended 30 June 2014

1. Significant accounting policies (continued)

(h) Loans and advances to customers (continued)

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.

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.

1. Significant accounting policies (continued)

(l) Deposits from customers

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

(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.

Notes to and forming part of the financial statements

For the year ended 30 June 2014

		Note	2014 $	2013 $
2	**Interest income**			
	Deposits with other financial institutions		54,591	42,834
	Investment securities		634,256	542,610
	Loans and advances		18,064,186	17,872,070
			18,753,033	18,457,514
3	**Interest expense**			
	High Notes Deposits		3,892,339	4,096,874
	Other		1,402	2,187
			3,893,741	4,099,061
4	**Fee and other income**			
	Credit related fees and commissions		686,894	1,642,325
	Repossession and auction administration fees		173,310	292,270
	Gain on sale of property plant and equipment		154,137	18,047
	Other fees		103,091	33,349
			1,117,432	1,985,991
5	**Loan impairment expenses**			
	Decrease in impairment		(1,012,659)	(73,933)
	Amounts written off during the year as uncollectible		2,041,945	2,297,750
	Income received on loans previously written off		(495,891)	(195,135)
			533,395	2,028,682
6	**Personnel expenses**			
	Salaries and wages		1,845,647	1,739,268
	Fiji National Provident Fund		153,285	139,490
	Other staff costs		369,534	413,515
			2,368,466	2,292,273

The number of employees at the end of the financial year was 62 (2013: 60).

		2014 $	2013 $
7	**Other operating expenses**		
	Advertising expense	190,492	298,307
	Directors fees and allowances	87,456	99,029
	Donations	4,244	18,112
	External audit fees	35,139	31,000
	Internal audit	46,990	25,749
	Management fees	110,400	110,400
	Motor Vehicle Expense	213,880	187,965
	Other Expenses	763,279	518,261
	Premises expenses	781,792	794,237
	Printing and stationary	183,534	167,235
	Telecommunication expenses	244,651	261,186
		2,661,857	2,511,481

			2014 $	2013 $
8	**Income tax**			
	(a)	**Income tax expense**		
		Prima facie income tax expense calculated at 20% (2013: 20%) on the operating profit	1,963,623	1,816,598
		Increase/ (decrease) in income tax expense due to:		
		Donations	-	3,622
		FNPF employer contribution	15,329	13,949
		(Over)/under provision in prior years	(21,068)	17,256
			1,957,884	1,851,425
		Total income tax expense is made up of:		
		Deferred tax expense	196,938	7,577
		Current income tax expense	1,780,500	1,826,592
		(Over)/under provision in prior years	(19,554)	17,256
			1,957,884	1,851,425
	(b)	**Current tax (asset)/ liability**		
		Movements during the year were as follows:		
		Balance at beginning of year	232,767	1,364,693
		Income tax paid	(2,097,271)	(2,975,774)
		Current year's income tax expense	1,780,500	1,826,592
		(Over)/under provision in prior years	(19,554)	17,256
		Balance at end of year	(103,558)	232,767
	(c)	**Deferred tax asset**		
		Deferred tax assets reflects the future benefit at future income tax rates of the following items:		
		Allowance for doubtful debts	1,013,746	1,216,277
		Property, plant and equipment	6,408	5,183
		Employee entitlements	39,954	35,586
			1,060,108	1,257,046
9	**Cash and cash equivalents**			
	Cash at bank and on hand		10,612,064	14,183,601
	Short term deposits		15,568,251	10,000,000
			26,180,315	24,183,601

The Company has a Standby Overdraft Facility of $4,000,000 (2013: $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 (2013: $Nil).

	2014 $	2013 $
10 Loan and advances		
(a) Individual customers		
Asset purchase loans	51,162,068	40,863,937
Personal loans	85,513,951	96,800,966
Gross loans and advances to customers	136,676,019	137,664,903
Less: deferred revenue	(30,366,938)	(31,997,611)
	106,309,081	105,667,292
Less: Individually assessed allowance for impairment	(2,966,947)	(4,017,099)
Collectively assessed allowance for impairment	(2,101,782)	(2,064,288)
Net loans and advances	101,240,352	99,585,905
(b) Maturity analysis		
Not longer than 3 months	4,292,214	4,036,667
Longer than 3 and not longer than 12 months	6,957,941	7,070,416
Longer than 1 and not longer than 5 years	117,513,996	121,689,685
Longer than 5 years	7,911,868	4,868,135
	136,676,019	137,664,903

(c) (i) Impairment of loans and advances

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

	2014		2013	
	Individual allowance for impairment	Collective allowance for impairment	Individual allowance for impairment	Collective allowance for impairment
	$	$	$	$
Balance as at 1 July	302,450	727,054	319,968	486,502
Increase / (decrease) in impairment allowances	209,920	203,655	485,870	240,552
Reversals of impairment	(415,632)	-	(503,388)	-
Balance at 30 June	**96,738**	**930,709**	**302,450**	**727,054**

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

	2014		2013	
	Individual allowance for impairment	Collective allowance for impairment	Individual allowance for impairment	Collective allowance for impairment
	$	$	$	$
Balance as at 1 July	3,714,649	1,337,234	4,227,964	1,120,886
Increase / (decrease) in impairment allowances	498,766	(166,161)	686,348	216,348
Reversals of impairment	(1,343,206)	-	(1,199,663)	-
Balance at 30 June	**2,870,209**	**1,171,073**	**3,714,649**	**1,337,234**

Notes to and forming part of the financial statements

For the year ended 30 June 2014

				2014 $	2013 $
10	**Loan and advances (continued)**				
	(c)	(ii)	**Bad debts expenses**	2,041,945	2,297,750
		(iii)	**Non -accrual loans**		
			Non-accrual loans	20,796,581	21,504,529
			Less: Individual allowance for impairment	(2,750,883)	(3,336,812)
				18,045,698	18,167,717
		(iv)	**Restructured loans**	1,445,425	2,970,926

		2014 $	2013 $
11	**Held-to-maturity investments**		
	Government securities	9,500,000	9,500,000
	Short-term deposits	-	2,000,000
	Add: unamortised premium	1,272	1,836
		9,501,272	11,501,836

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.

	2014 $	2013 $
Investment maturity analysis		
Not longer than 3 months	-	-
Longer than 3 and not longer than 12 months	1,272	2,001,836
Longer than 1 and not longer than 5 years	4,250,000	4,250,000
Longer than 5 years	5,250,000	5,250,000
	9,501,272	11,501,836

		2014 $	2013 $
12	**Other assets**		
	Prepayments	93,283	56,220
	Accrued income	97,574	151,627
	Other receivables	106,700	102,508
		297,557	310,355
13	**Other liabilities**		
	Dividend payable	3,920,000	2,320,000
	Accrued expenses	192,090	334,509
	Accrued interest on deposits from customers	1,177,398	728,099
	Other	866,694	512,706
		6,156,182	3,895,314
14	**Deposits from customers**		
	High Notes term deposits	100,735,216	103,648,778
	Maturity analysis		
	Not longer than 3 months	18,402,488	19,599,829
	Longer than 3 and not longer than 12 months	54,444,416	54,576,743
	Longer than 1 and not longer than 5 years	22,734,579	21,448,759
	Longer than 5 years	5,153,733	8,023,447
		100,735,216	103,648,778
15	**Employee entitlements**		
	Accrual for annual leave	136,835	131,460
	Accrual for bonus	167,422	152,980
	Accrual for gratuity	44,007	28,920
	Accrual for long service leave	18,955	17,548
		367,219	330,908

16 Property, plant and equipment

	Land & buildings $	Motor vehicles $	Office alterations $	Office furniture $	Office machine $	Work in Progress $	Total $
Cost							
Balance at 1 July 2012	1,402,141	919,000	721,168	278,486	1,144,716	138,182	4,603,693
Acquisitions	-	359,700	-	179,545	149,393	34,523	723,161
Disposals	-	(59,000)	(89,116)	(651)	-	(2,070)	(150,837)
Transfer (out)/in	15,511	-	-	-	-	(15,511)	-
Balance at 30 June 2013	1,417,652	1,219,700	632,052	457,380	1,294,109	155,124	5,176,017
Balance at 1 July 2013	1,417,652	1,219,700	632,052	457,380	1,294,109	155,124	5,176,017
Acquisitions	-	495,424	749	197,693	166,843	167,018	1,027,727
Transfer (out)/in	-	-	-	-	-	-	-
Disposals	-	(375,500)	(43,800)	-	(42,008)	(13,529)	(474,837)
Balance at 30 June 2014	1,417,652	1,339,624	589,001	655,073	1,418,944	308,613	5,728,907
Accumulated Depreciation							
Balance at 1 July 2012	25	491,813	641,812	258,276	863,302	-	2,255,228
Depreciation charge for the year	763	212,542	29,128	26,757	146,203	-	415,393
Disposals	-	(52,117)	(89,116)	(651)	-	-	(141,884)
Balance at 30 June 2013	788	652,238	581,824	284,382	1,009,505	-	2,528,737
Balance at 1 July 2013	788	652,238	581,824	284,382	1,009,505	-	2,528,737
Depreciation charge for the year	497	259,972	26,072	81,535	140,361	-	508,437
Disposals	-	(348,046)	(43,800)	-	(16,816)	-	(408,662)
Balance at 30 June 2014	1,285	564,164	564,096	365,917	1,133,050	-	2,628,512
Carrying amount							
At 1 July 2012	1,402,116	427,187	79,356	20,210	281,414	138,182	2,348,465
At 30 June 2013	1,416,864	567,462	50,228	172,998	284,604	155,124	2,647,280
At 30 June 2014	1,416,367	775,460	24,905	289,156	285,894	308,613	3,100,395

		2014 $	2013 $
17	**Intangible assets**		
	F1 AVP Investment		
	F1 AVP investment	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	43,537
	Acquisition	-	-
	Balance at the end of the year	43,537	43,537
	Accumulated amortisation :		
	Balance at the beginning of the year	35,974	22,349
	Amortisation charge for the year	6,453	13,625
	Balance at the end of the year	42,427	35,974
	Carrying amount :		
	Balance at the beginning of the year	7,563	21,188
	Balance at the end of the year	1,110	7,563
	Total	1,112	7,565

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		
	50,000,000 ordinary shares of $1 par value each (2013: 100,000 ordinary shares of $100 par value each)	50,000,000	10,000,000
	Issued and paid up capital		
	12,000,000 ordinary shares of $1 par value each, fully paid (2013: 100,000 ordinary shares of $100 par value each, fully paid)	12,000,000	10,000,000

On 8 April 2014, the Company by special resolution, converted its authorized capital from 100,000 shares of $100 each to 50,000,000 shares of $1 each by changing the denomination of shares and increasing the authorized capital. The issued share capital was therefore adjusted to 10 million shares of $1 each. Subsequently the Company issued 2 million shares to its shareholders as part of a dividend re-investment plan, this taking the number of shares on issue to 12 million at 30 June 2014.

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.

	2014 $	2013 $
19 Reserves		
Credit loss reserves	2,254,936	2,254,936

No further amounts (2013: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

The company has entered into various lease agreements in respect of its office premises with both related parties and third parties. The lease agreements vary in length and date of commencement. Total commitments for future lease rentals which have not been provided for in the accounts are as follows:

	2014 $	2013 $
Due not later than one year	289,615	350,311
Due later than one year but not later than 5 years	413,236	438,442
Due later than five years.	154,041	36,000
	856,892	824,753

b) **Commitments**

Commitments in respect of loans and approved credit commitments offered but not yet advanced as at balance date amounted to approximately $ 7,978,255 (2013: $9,038,426).

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.

	2014 $	2013 $
21 Assets held for sale		
Land	450,000	2,630,000

Assets held for sale consist of land titles acquired from Western Wreckers Limited during May 2012 in exchange for debt forgiveness for loans and advances owed to the Company. Of the five land titles acquired, three were sold during the year for $2,155,000. Management is currently in the process of seeking potential buyers for the remaining properties. The Reserve Bank of Fiji has provided the Company until 13 November 2014 to dispose of these properties.

22 Related party transactions

Directors

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

Mere Samisoni - resigned on 30/07/2013	Sefanaia Rayawa - current
Apakuki Kurusiga - current	Elenoa Lalabalavu - current
Isireli Komaiyabole - resigned on 27/01/2014	Sowani Tuidrola - current
Mereia Volavola - current	Aseri Radrodro - current
Mr. Nouzab Fareed - current	Tevita Gonelevu - resigned on 28/08/2013

22 Related party transactions (continued)

Amounts paid to directors are disclosed below.

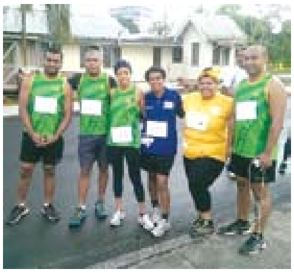
Identity of related parties

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

Loans to Directors

As at 30 June 2014, no amounts (2013: $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	2014 $	2013 $
Loan advances		
FHL Logistics	-	133,109
High notes issued		
FHL Securities Limited	-	-
Fijian Property Trust Company Limited	264,224	514,224
Fijian Holdings Property Trust Fund	250,000	-
FHL Stockbrokers Limited	225,262	225,262
Fiji Industries Limited	500,000	-
Fijian Holdings Trust Management Limited	600,000	617,323
Fijian Property Trust Company Limited Cyclone Reserve Account	238,289	238,289
Dividend payable		
Fijian Holdings Limited	3,920,000	2,320,000
Dividend paid		
Fijian Holdings Limited	4,160,000	3,520,000
Fijian Holdings Unit Trust	1,440,000	980,000
Revenue		
Interest:		
FHL Logistics Limited	23,197	22,634
Service provider fees:		
FHL Logistic	10,000	2,760
Fiji TV	2,302	-
Fijian Holdings Trust Management	-	5,319
Expenses		
Rent:		
Fijian Holdings Trust Company Limited	-	25,434
FHL Properties Limited	152,605	127,171
Interest:		
FHL Properties Limited	8,191	-
Fijian Property Trust Company Limited	8,875	20,110
Fiji Industries Limited	14,521	6,795
Fijian Holdings Trust Management Limited	22,020	25,578
Fijian Property Trust Company Limited Cyclone Reserve Account	7,387	9,069
FHL Stockbrokers Limited	8,009	8,804



22 Related party transactions (continued)	2014 $	2013 $
Directors Allowance		
Basic Industries Limited	-	300
Fiji TV	1,062	-
FHL Securities Limited	-	300
Fijian Holdings Limited	8,750	13,325
Directors Fees		
Fijian Holdings Limited	41,346	44,932
Facility Charges		
FHL Properties Limited	50,718	45,672
Management fees		
Fijian Holdings Limited	110,400	110,400

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	01/10/2012	Current
Salesh Dayal	Manager Finance & Administration	09/03/2009	01/09/2013
Dineshwar Lal	Manager Suva	01/05/2013	Current
Bobby Ali	Assistant Manager Lautoka	01/07/2013	Current
Leonore Leweilovo	Assistant Manager Nadi	01/07/2013	Current
Nilesh Chand	Manager Corporate	01/05/2013	Current
Bobby Dayal	Manager Nabua	01/05/2013	Current
Anil Prasad	Manager North	01/03/2012	Current
Semanta Naicker	Assistant Manager Credit	01/05/2013	Current
Pio Nataniela	Assistant Manager Finance & Administration	01/09/2013	Current

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

	2014 $	2013 $
Short-term benefits	704,620	767,949
Long-term benefits	-	5,796
Termination benefits	2,028	67,803
	706,648	841,548

23 Provision for Dividends

Dividends declared or paid by the Company are:

	2014 $	2013 $
Balance at the beginning of the year	2,320,000	1,920,000
Add: Final dividend declared and paid during the year ($69 per share) (2013: $29))	6,900,000	2,900,000
Interim dividend declared and paid during the year ($23 per share) (2013: $20)	2,300,000	2,000,000
Less: dividends reinvested as capital	(2,000,000)	-
Less: dividends paid	(5,600,000)	(4,500,000)
Balance at the end of the year	3,920,000	2,320,000

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:

	2014 $	2013 $
Cash and cash equivalents	26,180,315	24,183,601

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. 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 a 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.

25 Risk management disclosures (continued)

	2014 $	2013 $
Neither past due nor impaired	92,928,504	87,123,858
Past due but not impaired	28,045,649	33,691,051
Individually impaired	15,701,866	16,849,994
Gross loans and advances	136,676,019	137,664,903
Less: unearned revenue	(30,366,938)	(31,997,611)
Less: allowance for impairment	(5,068,729)	(6,081,387)
Net loans and advances	101,240,352	99,585,905

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

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

Collateral

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

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

Longer-term finance and lending to corporate entities are generally secured. Revolving individual credit facilities for FHL Group staff (including 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.

25 Risk management disclosures (continued)

Impairment and Provisioning Policies (continued)

Individually Assessed Provisions (continued)

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.

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.

	2014		2013	
	Loans and advances	Collective Impairment allowance	Loans and advances	Collective Impairment allowance
Industry	%	%	%	%
Agriculture	8.91	7.05	8.12	5.58
Building and construction	22.01	20.90	15.15	13.53
Manufacturing	4.89	3.26	5.84	4.22
Mining and quarrying	1.03	0.08	7.47	9.27
Private individuals	12.19	14.70	12.20	14.63
Professional and business services	2.16	1.89	2.73	2.57
Transport, communication and storage	31.07	34.99	28.28	31.12
Wholesale, retail, hotels and restaurants	7.20	8.51	10.43	11.26
Others	10.54	8.62	9.78	7.82
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.

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 ALRM 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.

25 Risk management disclosures (continued)

Liquidity Risk (continued)

The Company's contractual cash flows to be maturity are set out below:

As at 30 June 2014	1 - 3 months $	3- 12 months $	1 - 5 years $	Over 5 Years $	Total $
Deposits from customers	18,402,488	54,444,416	22,734,579	5,153,733	**100,735,216**
Other liabilities	6,156,181	-	-	-	**6,156,181**
Total Liabilities	**24,558,669**	**54,444,416**	**22,734,579**	**5,153,733**	**106,891,397**

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**

Liquidity exposure is measured by calculating the Company's Net Liquidity Gap and by comparing current ratios with targets. The Board ALRM 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%

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%
Unimpaired liquid asset requirement	Minimum 12%	Not to fall below 10%

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 on 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 rates with all other variables remaining constant on the following:

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

25 Risk management disclosures (continued)

Market Risks (continued)

The impact to the Company's income based on the amounts outstanding 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)	(102,187)	(204,375)	102,187	204,375
Impact on Profit (Change In Investment Rate)	19,134	27,106	3,189	(4,783)
Impact on Profit (Change In New Business Rate)	82,835	165,670	(82,835)	(165,670)

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

- No change in economic conditions
- Only those funds that are maturing will be replace 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.

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

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

Industry	2014 %	2013 %
Agriculture	13-29	13-35
Building and construction	9-27	9-26
Manufacturing	13-26	8-26
Mining and quarrying	16-17	13-24
Private individuals	8-28	8-32
Professional and business services	13-24	14-26
Transport, communication and storage	12-27	8-28
Wholesale, retail, hotels and restaurants	13-27	10-43
Others	10-26	10-27

25 Risk management disclosures (continued)

Interest Rate Risks (continued)

Capital Risk Management

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

The Company's objectives when managing capital, which is a broader concept than the 'equity' on the face of the balance sheet, are:

- To comply with the capital requirements set by the Reserve Bank of Fiji:
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of the Company's business.

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

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

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