



**MERCHANT**  
FINANCE



**WORKING TOGETHER**  
2020 ANNUAL REPORT



**MERCHANT**  
FINANCE

## **OUR VISION**

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

## **OUR MISSION**

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

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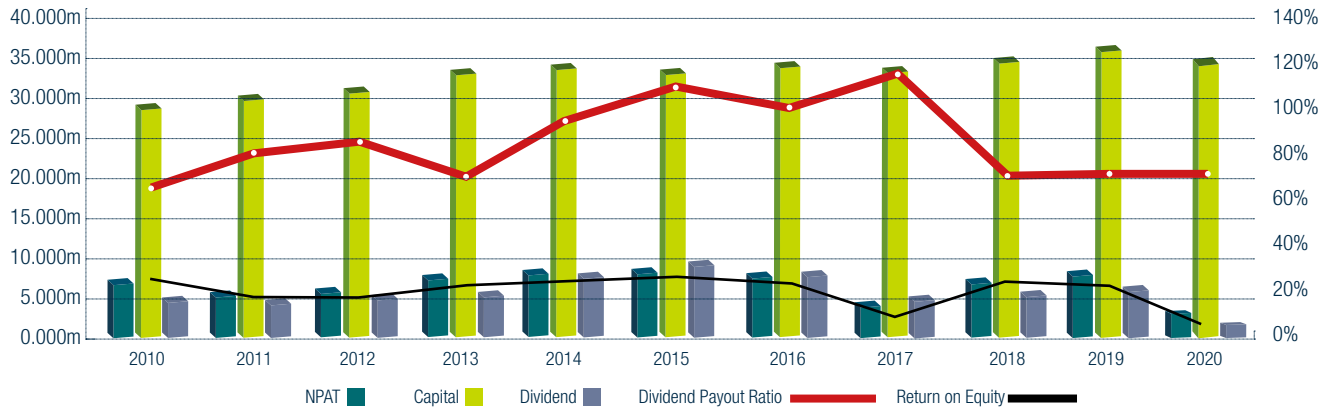
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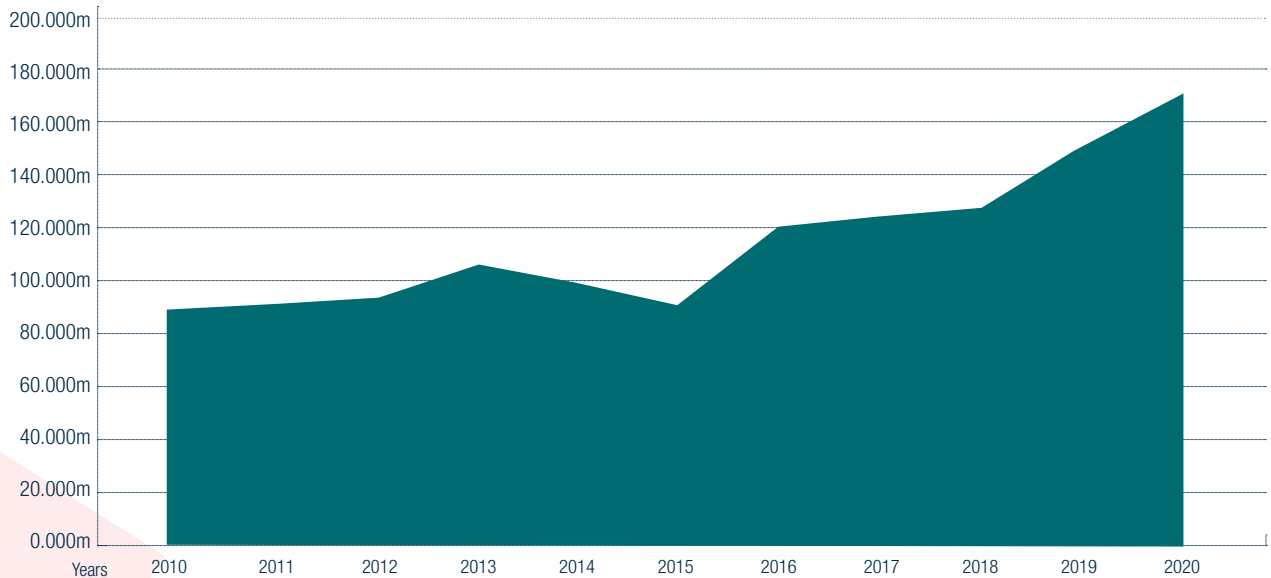


# FINANCIAL HIGHLIGHTS

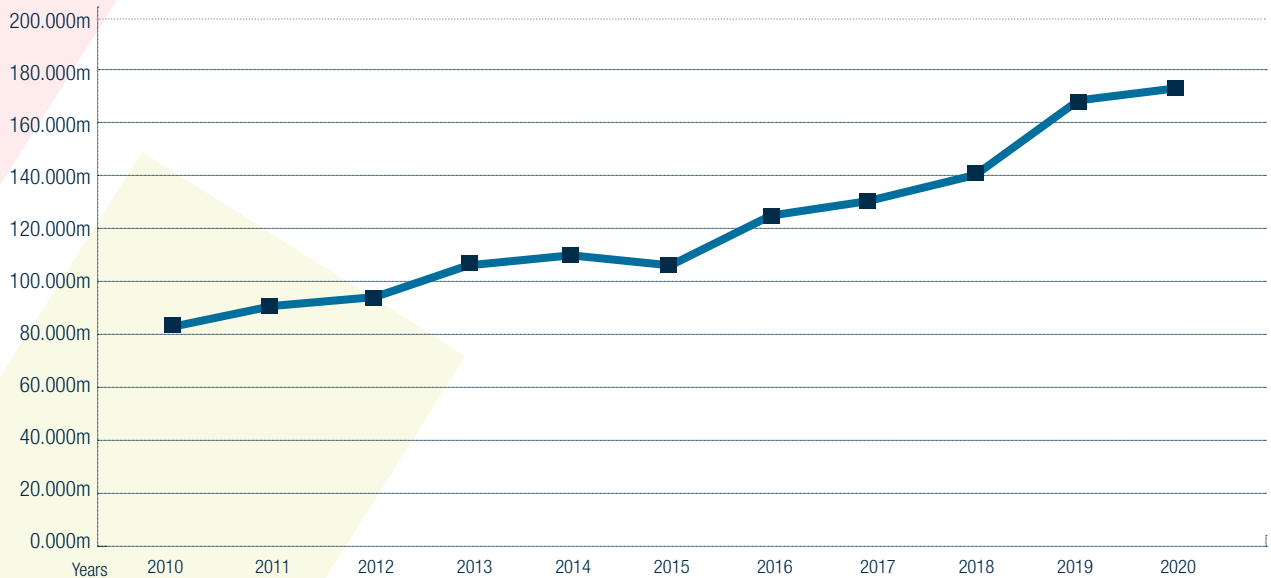
## Net Profit After Tax



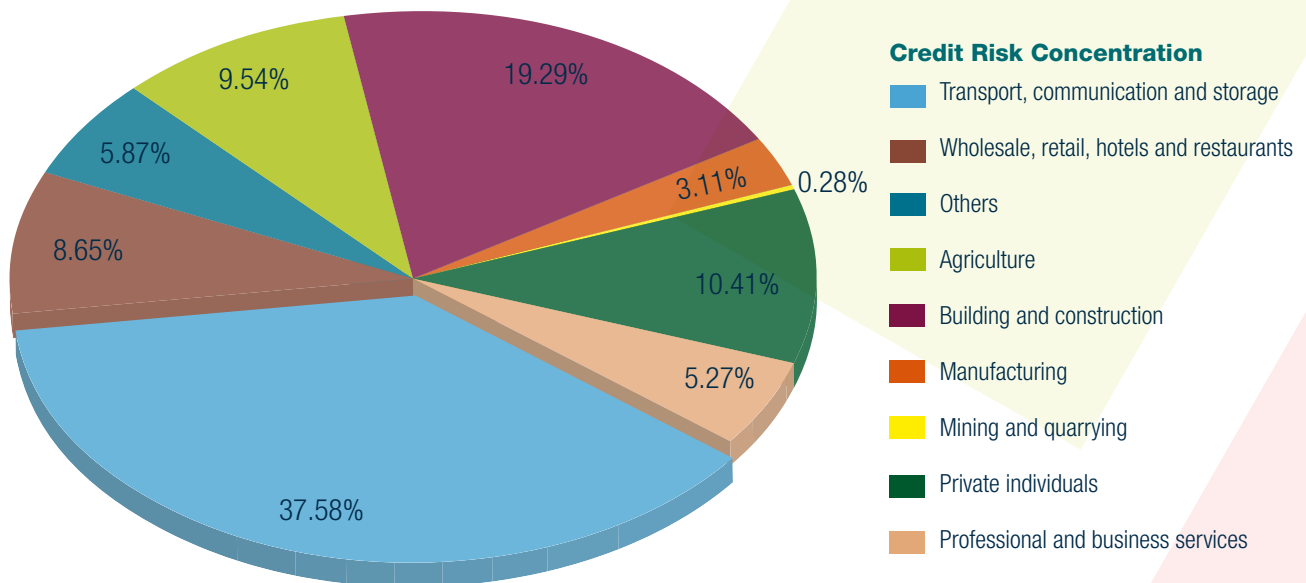
## External Borrowings



## Total Loans

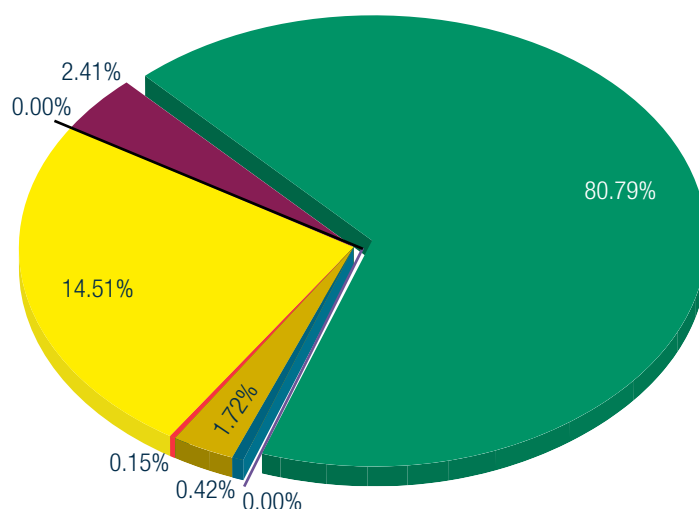
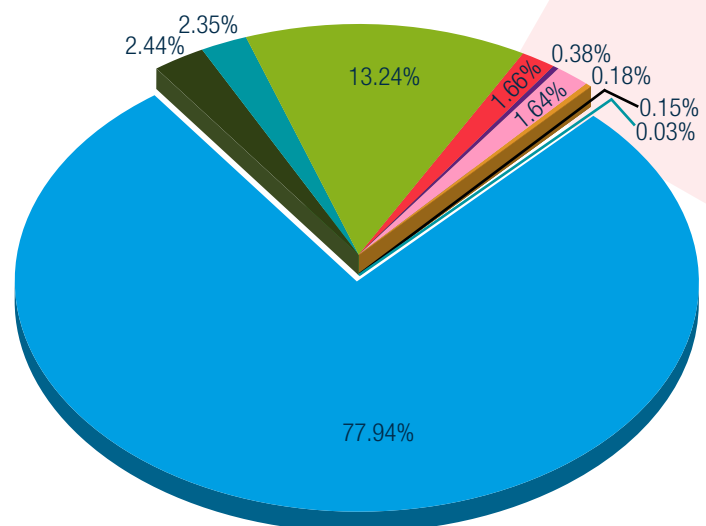


# FINANCIAL HIGHLIGHTS



## Asset Composition

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



## Funding Composition

- Deposits from customers
- Current Tax Liability
- Lease liability
- Other liabilities
- Employee entitlements
- Share capital
- Credit loss reserve
- Retained earnings

# CORPORATE GOVERNANCE



## MERCHANT FINANCE

Merchant Finance Pte Limited (MFL) is a licensed Credit Institution by the Reserve Bank of Fiji (RBF). MFL's Corporate Governance Policy is structured in accordance with the applicable legal and regulatory requirements, taking into account the guidelines and recommendations of RBF's Corporate Governance Supervision Policy for Licensed Financial Institutions, the Companies Act 2015 and Banking Act.

Through fair and efficient corporate activities, the Company aims to earn the trust of our shareholders, customers, suppliers, local communities, employees, and other stakeholders, and to make further contribution to the local community in order to continue to grow and develop as a sustainable company. To achieve this goal, the Company recognizes that continuous improvement of corporate governance is essential, and as a top priority management issue, we are actively working on various measures. MFL fully recognizes and advocates the importance of Corporate Governance which the Company strongly believes is not only essential in achieving the regulatory and strategic objectives but is fundamental for achieving and maintaining the public trust and confidence in the company and the financial sector as a whole.

MFL's Corporate Governance encompasses the RBF's minimum requirements for the establishment of an acceptable corporate governance framework within MFL, outlining sound corporate governance principles and practices to be applied, and covers the roles and responsibilities of the board of directors and the senior management of MFL, and its control functions.

### The Structure

The overall Corporate Governance of MFL is the responsibility of the Board which includes accountability to its shareholders for the strategic guidance and oversight of the Company as detailed in the Company's Corporate Governance Policy.

These responsibilities as outlined in the Policy are:

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

### Delegation of Authority

The Board's Delegation of Authority and discretions in various aspects of MFL operations ensures all operations are conducted in full compliance with laws, regulations and MFL's Code of Conduct. The Board delegates its duties to six subcommittees to help carry out its core functions. The Subcommittees are: Audit, Risk & Governance Subcommittee, Credit Subcommittee, Asset and Liability Subcommittee, Human Resources Subcommittee, Asset Management Subcommittee and Information Technology Subcommittee.

These Committees are responsible for respective key functions of MFL operations and assures key issues are resolved amicably and, the Board is made aware of these issues and the implemented solutions by Management. Each of the Committees are governed by its Charter approved by the MFL Board which dictates the Committees duties, authority levels and responsibilities.

The Chief Executive Officer (CEO) who is formally delegated by the Board to authorize all expenditure

(including capital expenditure) as approved by the Board. The CEO is responsible for; leading the development and execution of the Company's strategy with a view to creating shareholder value, together with the management team, the operations and administration of the Company and is accountable to the Board for the operations and performance of the Company. The Executive Management team directly reports to the CEO. Each Manager is responsible for the running of their respective departments or branches as they deal with various stakeholders on a daily basis. All regulatory and statutory dealings are handled by Head Office. In ensuring community involvement, Management is also responsible for organizing corporate sponsorship and social responsibility activities under the guidance of the CEO.

### Constitute an Effective Board

The Board is required to have a minimum of five Directors out of which at least two to be independent at all times as outlined in the RBF Corporate Governance Supervision Policy. Out of the two independent directors, one is to be a Fiji citizen with relevant experience in banking and finance in pursuant to RBF Corporate Governance Supervision Policy. The appointment of MFL Directors is through the Fijian Holdings Limited (FHL) Board Nomination and Remuneration Committee whereby each Director is appointed on the basis of their professional qualification, business experience and relevant expertise as well as their standing in the Fijian community and to meet RBF's Fit & Proper Policy.

As part of the duties, each Director is to avoid any action, position or interest that conflicts or appears to conflict with the interests of Merchant Finance. Directors declare their interest which is noted on the Register of Interest recorded by the Company Secretary annually.

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

Name	Appointment Date	Type	Representing
Abilash Ram	30/01/2020	Acting Chairman	FHL Nomination
Sunil Sharma	13/02/2017	Director	Independent
Sereana Matakibau	13/03/2019	Director	Independent
Arun Narsey	19/10/2015	Director	Independent



### Performance Review, Training and Advice

Board induction conducted by the Company allows new board members to be properly informed, supported and welcomed from the time of their board appointment. The induction is mandatory for all new Directors whereby the CEO presents a comprehensive corporate profile of the organization to the incoming Director.

The Board conducts an annual performance review process, wherein each Board member's personal performance is also reviewed. The review process involves an assessment of the Board's and its committees' actions and activities during the year against the Board's mandate as determined in the Board Charter (and those of its various committees). The evaluation of the Board's performance is conducted by the MFL Chairman and the FHL Board Nomination and Remuneration Committee conducts the Chairman's performance.

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

The Company implements trainings that allow Directors to deepen their understanding of their respective roles, responsibilities, etc. We intend to make the training an opportunity in which Directors take part together in principle, so that they can share the information on their respective roles and responsibilities.

### Meetings

The Directors met eleven times during the financial year ended 30th June 2020. Attendance was as follows:

Director	Number of Meetings Entitled to Attend	Number of Meetings Attended	Apologies Received
Abilash Ram	6	6	Nil
Sunil Sharma	11	9	2
Sereana Matakibau	11	10	1
Arun Narsey	11	11	Nil
Sanjit Patel	5	5	Nil
Nouzab Fareed	5	5	Nil



DGM West Mr Bobby Ali and board member Mr Arun Narsey at the New Logo Launch





Staff at the New Logo Launch

### Internal Control

The Board's responsibility for internal control is regulated in the Corporate Governance Policy and the Code of Conduct which contains requirements for annual external communication of information on how internal control related to financial reporting is organized. The Board must ensure that management effectively utilizes the work conducted by the internal and external audit functions with internal control.

MFL's internal controls are designed to provide reasonable assurance that the Company's assets are protected, and that the financial reporting is reliable and in accordance with generally accepted accounting principles, laws, and ordinances. The Board of Directors and CEO have overall responsibility for internal control in relation to financial reporting. The Board has adopted written rules of procedure that, among other things, establishes procedures for the Board's work and for its control of the management of Company affairs, and that defines the distribution of tasks and responsibilities between the Board and the CEO, and between the Board and its committees.

### Audit and Reporting

The Board Audit, Risk & Governance (ARG) Subcommittee 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 ARG Subcommittee comprises of at least three Independent members who meet on a quarterly basis and their role is to assist the Board in independently verifying and safeguarding the integrity of the Company's financial reporting and internal control processes in the company. The Committees primary roles are to:

- Ensure Company external reporting is in compliant;
- Ensure an appropriate set of corporate governance principles applicable to the Company are developed, and principles reviewed on a regular basis;
- Review the internal control processes;
- Ensure Company is compliant with regulatory requirements implemented via government legislations and the Reserve Bank of Fiji.

The Company's Risk Management function is looked after by the ARG Subcommittee which oversees the annual assessment of the material business and operation risks through the Risk and Compliance department. A risk report is then provided to the Board. In consultation with the ARG Subcommittee and Management, the Risk & Compliance department ensures that, proper procedures and controls are in place to administer and mitigate these risks.

### Risk Management

A register of interest is maintained by the Company in line with the Code of Conduct and Corporate Governance Policy.

### Communication and Public Disclosures

Merchant Finance ensures that information is disseminated promptly, credibly, and in compliance with legal and regulatory requirements, including the RBF's Fair Reporting of Credit Act 2016 and the Fair Reporting of Credit Regulations 2016.

Merchant Finance strives to ensure that, through fair and transparent manner we release information which will help our stakeholders. We believe that



good disclosure will help develop and maintain realistic investor expectations by making all required disclosures on a broadly disseminated basis, without being unduly optimistic or pessimistic on the company's prospects.

### External Stakeholders

Merchant Finance integrates our Corporate Social Responsibility commitments in our business and relationship with stakeholders in order to improve the management of our activities and create shared value. Understanding the views and concerns of our stakeholders supports our work across our business and corporate responsibility strategic priorities. The company and staff are proud of its community service program that is effectively involved in giving back to the community. The program enables MFL employees to continue to give their time and resources to the community. MFL is committed to carrying out its statutory and administrative responsibilities in a way that delivers benefits for all stakeholders, including employees, the environment and the community around us.

We believe every customer has the right to become better off. Through our commitments to customers, employees, communities, the environment, and strong governance practices, we aim to create a better future for both society and MFL. We protect and enhance MFL's reputation by leveraging our resources, reach, and expertise to drive economic growth and social impact for all stakeholders and the communities where we operate.

The Company places a strong emphasis on working responsibly. As a private institution, we understand that our work has an impact on the environment, the communities in which we operate and our stakeholders. We believe in carrying out our duties in a socially responsible way.

### Conclusion

As a custodian of investors hard earned savings, we ensure that right mechanics are implemented through various policies and procedures which is overseen by the Board, shareholders and Reserve Bank of Fiji. Independent directors play a vital role as an added mechanism of oversight and collectively work towards continuing to review our Corporate Governance Policy and other policies to ensure that it meets best practices and sets the relevant benchmarks in our operations.

Our corporate governance framework ensures effective engagement with our stakeholders and helps us evolve with changing times. The Company will ensure that its Policy is up to date with the latest changes in the corporate world. The Board will ensure rights mechanisms are implemented and continue to provide oversight in the review of the Corporate Governance Policy. The Corporate Governance Policy was reviewed in December 2019 incorporating the requirements outlined in "RBF's Prudential Supervision Policy Statement No. 1: Minimum Requirements for Corporate Governance of Licensed Entities".



Our customers at the MFL yearly cocktail



Staff at the New Logo Launch

# SUBCOMMITTEE REPORTS

## Audit, Risk & Governance Subcommittee

The Audit, Risk and Governance (ARG) Committee's key responsibility is to provide oversight and effective management of all audit, governance, compliance and internal control practices through a structured, systematic & disciplined approach. The Committee currently consists of a total of four members and is chaired by an Independent Director. The Chief Executive Officer and Management team also attend meetings to ensure that proper controls and appropriate strategies are implemented and maintained by the Company.

The objective of the ARG Committee is to assist the Board in liaising with both the internal and external auditors, provide oversight to the external audit function, promote the transparency & accountability of MFL's financial management systems reporting, and providing the necessary governance to ensure this is being fulfilled.

The Committee has formal rules governing the services provided by the external auditors in terms of systems and processes. The main purpose of the ARG committee is to ensure the integrity of the financial statements and provide oversight on the effectiveness of the internal financial controls and the external and internal audit functions.

The ARG Committee has an independent role with accountability to both the Board and our shareholders. The Committee is also responsible for assisting the Board in discharging its duties in respect to the safeguarding of assets, accounting systems and practices, internal control processes, and the preparation of MFL's Annual Financial Statements in line with the relevant financial reporting standards as applicable from time to time.

The effectiveness of the Committee is reviewed as part of the annual Board review process facilitated by MFL. Committee meetings are scheduled once every quarter; however, if required frequent meetings may be called. The timing of Committee meetings is arranged to accommodate the release of financial information, the approval of the external and internal audit plans and the review of the outputs of those plans. Various in-house, internal, external and investigation audit reports were presented to the Committee, deliberated and course of action recommended and implemented during the financial year.

A total of 3 meetings were held during the year due to the COVID19 pandemic where the Committee deliberated on both the internal audit and external audit reports, reviewed the routine inspection findings status update for Reserve Bank of Fiji, and revised a number of internal policies and charters which were then recommended to the Board for approval. The Committee is committed to upholding corporate governance best practices, regulatory compliance and maintaining risk at acceptable levels.

The Committee members and attendance during the financial year are as follows:

Members	Capacity	Status	No. of Meetings Held	No. Of Meetings Attended
Sunil Sharma	Chairperson	Current	3	2
Abilash Ram	Member	Current	3	3
Shanil Patel	Member	Current	3	3
Shaleshma Singh	Member	Appointed 22/06/20	Nil	Nil
Hilda Vukikomoala	Member	Resigned 22/06/20	3	3
Nouzab Fareed	Member	Resigned 20/12/19	3	3



North Team visited the Veilomani Orphanage in Savusavu



### Credit Subcommittee

The Credit Subcommittee is appointed by the Board of MFL to oversee MFL's Credit Risk Management functions. This includes overseeing the assessment of credit standing and repayment ability of prospective borrowers of the Company. Their major responsibilities include Credit Risk and Asset Management, Loan approvals, Credit/ Collection Policies and Processes, Oversight of Accounts above 90 days, Provisioning and Non - Performing Loans.

The Committee meets monthly to ensure that the core objectives of the Committee is maintained and enhanced to ensure oversight in MFL's Loan Portfolio.

The Committee Members during the financial year are as follows:

Name	Capacity	Status	No. Of Meetings Entitled To Attend	No. Of Meeting Attended
Mr. Arun Narsey	Chairman	Current	11	11
Mr. Abilash Ram	Member	Current	11	11
Ms. Gurmindar Singh	Member	Current	11	10
Ms. Ashmin Haroon	Member	Resigned 21/7/20	11	8

During the financial year the Committee was influential in the implementation of RBF Onsite Review recommendations to enhance credit functions of MFL and amendments to policies and procedures to improve the overall loan process.

### Asset & Liability (ALCO) Subcommittee

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

The Committee Members during the financial year are as follows:

Name	Capacity	Status	No. Of Meetings Entitled To Attend	No. Of Meeting Attended
Mr Arun Narsey	Chairman	Appointed 03/09/19	3	3
Mr Murgessan Pillay	Member	Current	4	4
Mr Kavin Rathod	Member	Current	4	4
Mr Hasthika Dela	Member	Current	4	2
Mr Sujeet Chand	Member	Current	4	1
Ms Esther Raikoti	Member	Resigned 08/10/19	2	2

The Committee closely reviewed the Company's term deposit portfolio and the increasing rates as driven by the market forces and guided management on strategies to manage the Company's cost and liquidity position.

During the year the Committee reviewed and amended the Committee Charter to align it to the responsibilities of the Committee, in addition the Committee reviewed and endorsed the Term Deposit Policy. Furthermore, the Committee reviewed the monthly financial performance of the Company throughout the year, identifying and recommending areas of improvement to further strengthen the Company financial performance and closing monitoring the impact of the COVID 19 pandemic on the Company.



West Team painted Sunshine Kindergarten in Lautoka

### Asset Management (AMU) Subcommittee

The AMU subcommittee members are appointed by the MFL Board with the responsibility of the formulating and monitoring of Asset Management and strategy, providing oversight on review of accounts over 90+ days in arrears, review of loss recovery accounts and the Asset Management policy.

During the financial year, the Committee Members are as follows:

Name	Capacity	Status	No. Of Meetings Entitled To Attend	No. Of Meeting Attended
Sereana Matakibau	Chairperson	Current	3	2
Gurminder Singh	Member	Current	3	3
Shaleshma Singh	Member	Current	3	2
Ashika Mani	Member	Current	3	1
Ashneel Chand	Member	Current	3	2
Alpa Rathod	Member	Current	3	3

Meetings of the Asset Management Subcommittee are held quarterly and during the 2020 financial year, the Committee met three times only due to Covid -19 Pandemic.

During the year, the Committee has reviewed in detail the arrears position, the overall debt recovery system and loss recovery process.

The department targets collection of arrears over 90 days accounts and also assist client with payment plans that would ensure the rehabilitation of their arrears status. Further to the AMU functions the Committee has also progressively reviewed Management pursuit of debt recovery.

### Information Technology (IT) Subcommittee

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

The Committee Members during the financial year are as follows:

Name	Capacity	Status	No. Of Meetings Entitled To Attend	No. Of Meeting Attended
Abilash Ram	Chairman	Current	2	2
Joel Mastapha	Member	Current	2	1
Sachin Deo	Member	Current	2	2
Asish Kumar	Member	Current	2	2
Nouzab Fareed	Chairman	Resigned 20/12/19	1	1
Avish Bahadur	Member	Resigned 06/08/19	2	2

Meetings of the IT Subcommittee are held quarterly. During the year the Committee reviewed the internal and external IT audit Reports and fully complied with all recommendations, reviewed and analysed the new CRM software.

In addition to above, the IT Subcommittee endorsed the recommendation from MFL Management to proceed with the new CRM software which facilitated Board's approval. The development of the new CRM (Customer Relationship Management) software which is anticipated to significantly enhance MFL's IT system and align it to the latest technology. This will be a substantial investment for the Company however there are significant number of benefits going forward especially with digital technology.



### Human Resources (HR) Subcommittee

The primary role of the HR Subcommittee is to advise and support the CEO in the fulfillment of the Board's financial and legal responsibilities in relation to employees and on other issues as requested by the Board occasionally.

The Committee is responsible for reviewing, and in some cases, approving policies and practices that are developed and implemented by the Management. While Committee members may offer opinions and facts that support these items, the Committee is not responsible for actually developing such policies and practices.

The Committee also reviewed the HR Policy and by the Committee's consensus the Policy was presented for Board approval as a living document. The Committee also reviewed and recognized key management contracts, succession plan and training development plan for our people.

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

Name	Capacity	Status	No. Of Meetings Entitled To Attend	No. Of Meeting Attended
Monica Aguilar	Member	Current	2	2
Mereti Cokanasiga	Member	Current	2	2
Roy Singh	Member	Current	2	2
Tanuj Patel	Member	Current	2	0
Nouzab Fareed	Chairperson	Resigned 20/12/19	2	2

The Board approved a new structure of subcommittee effective 1st July 2020. The committees will be reduced from six to three, the three committees are as follows:

1. Audit, Governance, Culture and Human Resources Subcommittee
2. Credit Subcommittee
3. Asset, Liability, Risk and IT Subcommittee





# BOARD OF DIRECTORS



## **Abilash Ram - Acting Chairman**

Abilash Ram is currently the Acting Group CEO of FHL group. He was appointed to the role by the Board in December 2019. He is the Acting Chairman of Merchant Finance Pte Limited and Chairman of FHL Stockbrokers Pte Limited, FHL Retailing and FHL Media Pte Limited. Mr Ram is a board member in all FHL subsidiary companies as well as the associated companies of Marsh, Pernix, Golden Manufactures and Ritam Investment. Mr Ram is also Board Director with APCO Coatings and Pacific Green Limited.

Abilash joined the FHL Group in 2012 under the Graduate Trainee program having had 4 years'

experience in Audit with Ernst & Young. Mr Ram has close to 8 years' experience with FHL Group working in Finance and Investment. He has worked across a number of group companies before being Appointed Manager Finance at FHL in 2015 and later appointed CFO of the Group.

Abilash is a Chartered Accountant (Fiji) by profession, CPA, Member of Institute of Internal Auditors and AICD. He is also a Licenced Investment Advisor from RBF.

Abilash has received training on Mergers and Acquisition (M&A program) from Singapore.

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## **Arun Narsey - Independent Director**

Is a Chartered Accountant practicing under as "A M Narsey & Co" Chartered Accountants. He has over 30 years experience in professional accounting and held various senior and management positions with Big Four Chartered Accountant Firms (locally and internationally). He is a member of the Fiji Institute of Accountants and Institute of Chartered Accountants in Australia and New Zealand. Currently Arun is a director

of South Sea Cruises Limited, Blue Lagoon Cruises Limited, Amalgamated Telecom Holdings Ltd and its Subsidiaries. He is a Local Advisory Board Member of Bank of Baroda. He is also a member of Jai Narayan College Management Board and Honorary Auditor of Fiji Society for the Blind. Arun has previously served as a Board Member of Maritime & Ports Authority of Fiji and Fiji Higher Education Commission.

# BOARD OF DIRECTORS



## **Sereana Matakibau - Independent Director**

Is the Director Finance of the iTaukei Affairs Board (TAB). She holds a Masters Degree in Commerce from the University of the South Pacific, a Post-Grad Diploma in Professional Accounting and Bachelor of Arts Degree in Accounting, Financial Management and Economics. She is also a Member of the



Australian Institute of Company Directors. Sereana is also an independent Director of RB Patel Group. She has over 10 years' experience in the area of Professional Accounting. She has previously served as an independent Board Member of Fiji TV Limited. Prior to TAB, she has worked at the Reserve Bank of Fiji and iTaukei Land Trust Board.

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## **Sunil Sharma - Independent Director**

Is a Senior Partner of PKF aliz pacific, Chartered Accountants and Business Advisors. Has over 28 years' experience in auditing and assurances, taxation, business advisory and financial management. He is a member of the Fiji Institute of Accountants (FIA), Associate Member of CPA (Australia), a member of Australian Institute of Company Director, FRCS Tax

Agent and currently is the Chairman of Fiji Public Trustee Corporation Limited, Chair of University of South Pacific Grants Committee, Executive Board Member & Company Secretary/Treasurer of Fiji Chamber of Commerce & Industry (FCCI), board member of National Employment Centre (NEC) and the Arbitration Court in Fiji representing FCCI.

# CHAIRMAN'S REPORT

The year started on a positive note with new milestones set to be achieved in the financial year including a major rebranding of our Company. In August 2019, the Attorney General revealed the new MFL logo. This is the first logo change in MFL history since Fijian Holdings Limited (FHL) acquisition.

Our new logo focus is to grow our people, unite with our community, and deliver innovative solutions and progress in culture hence the concept theme of "Thinking outside the Box" was used. A letter mark logo was perfect for this using the abbreviation of Merchant Finance (MF) in a Box Cube lock up while also incorporating the relationship and tie to our parent company. FHL can be seen especially in the one color version but not as prominently as to define the logo completely. This represents the relationship, respect and tradition between FHL and MFL.



Each color also ties in its own unique core values.

- Dark Blue is Stability & Loyalty
- Red is Confident & Determined
- Teal is Unique & Trustworthy
- Green is wealth & Growth

From the second quarter of the year, the liquidity in the market tightened forcing interest rates to increase which was further dampened by the

economic slowdown. This was then further impacted by the COVID 19 pandemic and the tropical cyclone in the final quarter of the financial year. These unprecedented events resulted in border closures affecting the tourism sector, business closures in areas being locked down, a nationwide curfew being implemented and schools closed for over three months. Fiji's GDP recorded a significant downfall of -21.7%. MFL was not spared from the impacts of these significant events.

Our financial results this year demonstrate the impacts of the coronavirus pandemic. MFL recorded a 73% decrease in profit before tax to \$2.61m compared to \$9.78m in FY19. The major impact has been from impairment which the Board took a conservative approach under the IFRS 9 with the fall in GDP of 21.7% and additional overlay due to the uncertainties surrounding the pandemic.

Dividends for the year totalled \$1.875m compared to \$5.675m for the financial year largely due to the impact of the provisions on our results. The Directors took a prudent approach to declare no further dividends for the financial year due to the uncertainty.

The net loan portfolio closed at \$161m which is a slight decrease from FY19 with our deposit portfolio closing at \$167m.

During this difficult time, MFL has been working closely with the Reserve Bank and its customers to provide financial hardship assistance to our affected customers. We continue to work with our customers to ensure amicable solutions can be achieved during this unprecedented times.

The Board and Management is continuously working on strategies to further improve the results for the new financial year and refocus MFL to operate under the new normal with uncertainties of borders opening and realigning our business to continue to achieve our strategic objectives.

We continue our goal to communicate our initiatives, programs, services and events through public awareness, engagement and transparency to our 5,000 plus customers. We are committed to ensuring that our products are made available and accessible throughout the rural Fiji, and also to overseas customers. We aspire to target this market through the extensive use of electronic media.

I would like to express my sincere appreciation to the Board of Directors of MFL and Board Subcommittee members for their professional guidance, positive contribution and commitment throughout this challenging year. On the same token, I would like to make a special acknowledgement to the previous Chairman and Deputy Chairman Messer's Sanjit Patel and Nouzab Fareed for their invaluable contribution to the Company during their term of service at MFL. I also acknowledge the Management and staff, for their commitment shown this year and I look forward to their continued support in the next financial year.

Finally to the customers of MFL, thank you for your support and continued business with MFL. We look forward to serving you in the New Year.



**Abilash Ram**  
**Acting Chairman**





# MANAGEMENT TEAM



**ROWENA FONG**  
Chief Executive  
Officer



**PITA MARAVUAKULA**  
Head of Finance



**DINESHWAR LAL**  
Head of Credit



# MANAGEMENT TEAM



**BOBBY ALI**  
Divisional General  
Manager West



**VANI TABUDRAVU FILIPE**  
Head of Legal



**BOBBY DAYAL**  
Divisional General  
Manager East



**ANIL PRASAD**  
Divisional General  
Manager North



**CHIEF  
EXECUTIVE  
OFFICER**  
Rowena Fong

### **CEO's Report**

I am pleased to present this report for the financial year ended 30 June 2020.

The year has been the most challenging, with the COVID-19 pandemic a significant event in world history. The pandemic has crippled global economies with the closure of borders, halted economies, markets and the entire movement of the world. It has been far more detrimental to smaller economies resulting in huge Government borrowing to sustain and support economies. Fiji has not been immune to these impacts with our borders closing and our dependency of the Tourism industry which contributes close to 40% of GDP. The pandemic has resulted in significant job losses, closure of businesses, and increase in social economic problems.

The Fijian economy is projected to contract severely this year due to the significant decline in tourism activity and its flow on effects domestically. Sharp contractions in aggregate demand were noted for net Value Added Tax collections (-32.8%), commercial banks new lending for consumption purposes of (-18.8%), new vehicle sales (-48.4%). Furthermore, there was a reduction in credit growth lending to private sector by commercial banks. There was a

reduction in new lending by commercial banks and licensed credit institutions due to rigid credit standards by financial institutions.

### **Overview of Operations**

The 2020 financial year started on a high note with the Company launching a major rebranding of its company logo in August 2019. This is the first change since inception as part of the Company's strategic development goals. This was a proud moment for the Company with the design of the new logo embodying MFL's versatility and combining it with a bold word mark. The new logo embodies the growth of our people, unity with our community, continuous deliverance of innovative solutions and progress in our culture. The new logo also incorporated Fijian Holdings Limited (our parent Company) as a symbol of the relationship, respect and tradition between the companies.

This was followed with an aggressive marketing campaign of our services through all forms of media and through our popular Roadshows. The roadshows were conducted throughout Fiji and was received well by the various towns and maritime communities.

This contributed well to our performance for the first six months of this year and we were on track to achieve budgets despite the impact of the tightening of liquidity in the market.

Towards the end of 2019 the local economy experienced a slowdown in economic activity which resulted in lower levels of borrowing as corporates relooked at expansion plans and held a wait and see approach on them. By this time COVID 19 began infecting the world creating uncertainty and panic resulting in some extreme preventive measures being taken including the movement restrictions, lockdowns and curfews. This affected a lot of our marketing and development plans. Management with the guidance of the Board has had to refocus our goals for the financial year and work with all our stakeholders to ensure an amicable outcome during these unprecedented times.

During the year, we were able to complete the review of some key policies: Corporate Governance Policy, Complaints Management Policy and Term Deposit Policy. The review provided improved compliance to RBF standards and current updated documentation of our practices in line with our compliance strategy.

The year also saw a review of our locations throughout Fiji and aligning our branches in more strategic locations. This led to the ground works being done for the relocation of our Nabua Branch to Shop 5, RB Patel Complex, Centerpoint for better access by our customers within the Nasinu corridor. Our transition to the new premises has been complemented by the improvement of customer access to the greater Nasinu area. This is expected to open in July 2020.

From March 2020, MFL had granted the initial financial hardship assistance through the form of a three (3)

months repayment holiday to customers affected by the pandemic. A total of 1777 customers with a total value of \$8.698 million in repayment holidays was provided over the first phase of this assistance. We anticipate that the assistance will be further extended to the end of the 2020 due to uncertainties surrounding border closures. MFL is positioned to provide further assistance to its customers on a case by case basis.

In light of the challenges, MFL recorded a slightly higher interest income from lending however, this was impacted by the increased interest expense compared to FY19. MFL recorded a NPAT of \$2.64 million a significant decrease compared to \$7.85 million last year. The reduced NPAT is direct result of the increased provisions based on IFRS standards as our asset quality was largely impacted over the last quarter of the financial year. The Board also took a prudent approach on the adoption revised GDP (-21.7%) and on the overlay in our provisioning model. Provisioning at the end of the financial year was \$7.48 million compared to \$2.58 million in the previous year.

MFL took a conservative approach during the second half of our 2020 financial year by implementing some strict cost cutting measures. These included cost cutting in operational and human resources expenses. This is expected to continue in the new financial year.

Our total assets grew by 6% to \$206.78 million at June end 2020 from \$195.72 million the previous year. This was largely due to a 134% growth in deferred tax asset and a significant growth in Cash and Cash equivalents as compared to the previous year. MFL maintained an adequate capital position. Capital adequacy ratios remain above the minimum regulatory requirements.



Headquarters Team





Central Team

We continue to build our human resources capacity by providing training to staff in various technical areas. Staff performance was monitored with regular performance appraisal reviews. The Human Resources Policy was redeveloped and approved by Board in December 2019.

We are dedicated to being there for our customers & stakeholders during some of the most significant events in their lives, and especially when we are needed most. As part of our Corporate Social Responsibility (CSR) this year, our focus was on the people in our community. Our Central team spent a day visiting Samabula Old People's Home and donating curtains and essential items, our team also painted railings and outdoor walkway throughout the

entire home. Our North team visited the Veilomani Orphanage in Savusavu and helped through a generous donation of school supplies for all the children at the Orphanage. Our West team also painted and cleaned the entire Sunshine Special School in Lautoka.

#### Future Outlook

The uncertainties related to the COVID-19 impact suggest a variety of scenarios. We will make efforts to generate new kinds of value propositions, not only supporting the short-term counter measures but also responding to changes from a long-term perspective. On this basis, MFL is in the process of developing our five year strategic plan for 2021-2025, to ensure that we continue to focus on growth strategies that



Credit and AMU



will allow us to meet our strategic objectives. MFL is fully compliant with all regulatory and legislative requirements and strives to maintain a high standard of excellent customer services.

We will continue to align our business and culture to our values as we move into 2021 and beyond, with resilience, team work and confidence in our strategy and our ability to execute. We expect to see continuing uncertainties and challenges ahead from the COVID-19 pandemic however as we continue to monitor the latest updates and information about the global COVID-19 outbreak, our management team are taking additional measures to ensure we safeguard the health of our employees and continue our operations.

I wish to thank the Board of Directors for MFL Messer's Abilash Ram, Arun Narsey, Sereana Matakibau and Sunil Sharma for their wise counsel and leadership during the year. I also wish to acknowledge the instrumental contribution of previous Chairman

Mr. Sanjit Patel and Deputy Chairman Mr. Nouzab Fareed. I acknowledge the invaluable contribution of the Subcommittee Members.

To the Management and staff, a sincere heartfelt appreciation to all of you for your commitment, efforts, teamwork and passion shown this year. I look forward to your continued support in the next financial year.

Finally and most importantly, I extend my sincere gratitude to you, our valued customers and depositors, for your patronage throughout the year. Despite the challenges, your support and confidence placed in MFL has remained steadfast. We look forward to a new financial year, ready with possibilities for growth and opportunity, to expand your business so that we can reap the rewards that will best benefit you.

**Rowena Fong**  
Chief Executive Officer







# MERCHANT FINANCE

## FINANCIAL STATEMENTS For the year ended 30th June 2020

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## Merchant Finance Pte Limited

### Directors' report

In accordance with a resolution of the Board of Directors, the Directors herewith submit the statement of financial position of Merchant Finance Pte Limited (the "Company") as at 30 June 2020 and the related statement of profit or loss, 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	Status
Sanjit Bhai Patel - Chairman	13/02/2017	Resigned 04/01/2020
Abilash Ram - Acting Chairman	30/01/2020	Current
Nouzab Fareed	19/05/2010	Resigned 20/12/2019
Arun Narsey	19/10/2015	Current
Sunil Sharma	13/02/2017	Current
Sereana Matakibau	13/03/2019	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 2020 and the accompanying statement of profit or loss, 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 profit for the year after income tax credit of \$19,786 (2019: expense of \$1,930,215) amounted to \$2,638,548 (2019: \$7,854,191).

#### Dividends

An interim dividend of \$1,875,000 (at the rate of \$0.06 per share) in respect of the 2020 financial year was declared on 30 December 2019 and paid during the year.

No final dividend was declared for the year ended 30 June 2020.

#### Principal activities

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

#### Assets

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

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

## **Merchant Finance Pte Limited**

### **Directors' report (continued)**

#### **Loans and advances to customers**

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

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

#### **Related party transactions**

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

#### **Other circumstances**

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

#### **Significant events during the year**

In March 2020, the World Health Organisation announced the spread of COVID-19 virus to be a pandemic and subsequent to 30 June 2020 there have been further domestic and international related developments. The impact of the spread of this virus is disrupting travel and businesses in Fiji and throughout the world. It is not clear at the time of finalising these financial statements, the impact this will have on services provided by the Company during 2020 and beyond. Management and the Board are monitoring developments on an ongoing basis. Other than this, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect significantly the operations of the Company, the results of those operations, or the state of the affairs of the Company.

#### **Events subsequent to balance date**

There has not arisen in the interval between the end of the financial 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.

#### **Going concern**

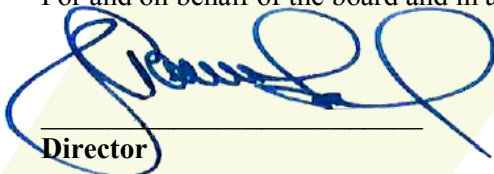
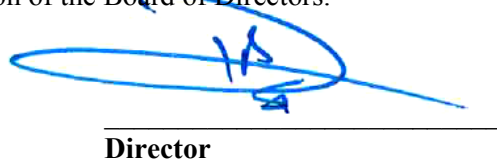
The Directors consider that the Company will be a going concern. The Directors believe that the basis of preparation of the financial statements is appropriate and the Company will be able to continue in operations for at least 12 months from the date of signing this report.

#### **Directors' interests/benefits**

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

Dated at Suva this 20<sup>th</sup> day of August 2020.

For and on behalf of the board and in accordance with a resolution of the Board of Directors.

  
\_\_\_\_\_  
**Director**  
\_\_\_\_\_  
**Director**

## **Merchant Finance Pte Limited**

### **Statement by Directors**

In the opinion of the Directors of Merchant Finance Pte Limited:

- a) the accompanying statement of profit or loss 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 2020;
- b) 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 2020;
- c) 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 2020;
- d) 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 2020;
- e) 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 2020;
- f) at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due;
- g) all related party transactions have been adequately recorded in the books of the Company; and
- h) the Company's financial statements have been prepared in accordance with the Companies Act 2015.

Dated at Suva this 20<sup>th</sup> day of August 2020.

Signed in accordance with a resolution of the Directors.



**Director**



**Director**





## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Merchant Finance Pte Limited

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the accompanying financial statements of Merchant Finance Pte Limited ("the Company"), which comprise the statement of financial position as at 30 June 2020, the statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out in notes 1 to 28.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 30 June 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

#### Basis for Opinion

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

#### Other information

Management is responsible for the other information. The other information obtained at the date of this auditors' report is information included in the Director's report, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS, and for such internal control as directors and management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

#### Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Merchant Finance Pte Limited

### Report on the Audit of the Financial Statements - continued

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

#### Report on Other Legal and Regulatory Requirements

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

In our opinion:

- i) proper books of account have been kept by the Company, sufficient to enable financial statements to be prepared, so far as it appears from our examination of those books; and
- ii) to the best of our knowledge and according to the information and explanations given to us the financial statements give the information required by the Companies Act 2015, in the manner so required.

KPMG

KPMG

20 August 2020

Suva, Fiji

Steve Nutley, Partner



## **Independence Declaration For the Year Ended 30 June 2020**

Auditors Independence Declaration under Section 395 of the Companies Act 2015

To the Directors of Merchant Finance Pte Limited

As required under Section 395 of the Companies Act 2015, we declare that to the best of our knowledge and belief, in relation to the audit for the year ended 30 June 2020 and up to the date of this report there have been:

- i) no contraventions of the Auditor independence requirements as set out in the Companies Act 2015 in relation to the audit; and
- ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG  
KPMG

20 August , 2020

Suva, Fiji

Steve Nutley, Partner

**Merchant Finance Pte Limited**  
**Statement of profit or loss**  
**For the year ended 30 June 2020**

	<b>Note</b>	<b>2020</b> <b>\$</b>	<b>2019</b> <b>\$</b>
Interest income	3	24,542,550	23,651,116
Interest expense	4	<u>(8,612,368)</u>	<u>(6,137,979)</u>
<b>Net interest income</b>		15,930,182	17,513,137
Fee and other income	5	1,095,184	947,304
Change in fair value of investment property	17	(455,000)	625,000
Loan impairment expenses	6	(7,483,763)	(2,577,058)
Personnel expenses	7	(2,870,936)	(2,979,670)
Depreciation, impairment and amortisation	18, 19 & 20	(871,204)	(895,586)
Other operating expenses	8	(2,654,680)	(2,768,628)
Finance cost	18	<u>(71,021)</u>	<u>(80,093)</u>
<b>Profit before tax</b>		2,618,762	9,784,406
Income tax credit/ (expense)	9 (a)	<u>19,786</u>	<u>(1,930,215)</u>
<b>Profit after tax</b>		<u>2,638,548</u>	<u>7,854,191</u>

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



**Merchant Finance Pte Limited**  
**Statement of Comprehensive Income**  
**For the year ended 30 June 2020**

	<b>Note</b>	<b>2020</b> \$	<b>2019</b> \$
Profit after tax		2,638,548	7,854,191
Other comprehensive income, net of tax	22	<u>(2,875,936)</u>	<u>-</u>
<b>Total comprehensive (loss)/income</b>		<b><u>(237,388)</u></b>	<b><u>7,854,191</u></b>

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

**Merchant Finance Pte Limited**  
**Statement of changes in equity**  
**For the year ended 30 June 2020**

Balance at 1 July 2018				
<b>Total comprehensive income</b>				
Profit				
<b>Total comprehensive income</b>				
<b>Transactions with owners of the Company, recognised directly in equity</b>				
<b>Contributions by and distributions to owners of the Company</b>				
Interim dividend declared and paid (\$0.06 per share) in respect of 2019 financial year				
Final dividend declared (\$0.13 per share) in respect of 2019 financial year				
Total distributions to owners of the Company				
Balance at 30 June 2019				
Balance at 1 July 2019				
<b>Total comprehensive income</b>				
Profit				
Other comprehensive loss				
<b>Total comprehensive loss</b>				
<b>Transactions with owners of the Company, recognised directly in equity</b>				
<b>Contributions by and distributions to owners of the Company</b>				
Interim dividend declared and paid (\$0.06 per share) in respect of 2020 financial year				
Total distributions to owners of the Company				
Balance at 30 June 2020				


Share capital	Credit loss reserve	Retained earnings	Total
\$	\$	\$	\$
30,000,000	2,875,936	2,051,094	34,927,030
-	-	7,854,191	7,854,191
-	-	7,854,191	7,854,191
-	-	(1,875,000)	(1,875,000)
-	-	(3,800,000)	(3,800,000)
-	-	(5,675,000)	(5,675,000)
30,000,000	2,875,936	4,230,285	37,106,221
30,000,000	2,875,936	4,230,285	37,106,221
-	-	2,638,548	2,638,548
-	(2,875,936)	-	(2,875,936)
-	(2,875,936)	2,638,548	(237,388)
-	-	(1,875,000)	(1,875,000)
-	-	(1,875,000)	(1,875,000)
30,000,000	-	4,993,833	34,993,833

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

**Merchant Finance Pte Limited**  
**Statement of financial position**  
**As at 30 June 2020**

	Note	2020 \$	2019 \$
<b>Assets</b>			
Cash and cash equivalents	10	27,371,765	13,532,924
Debt securities	12	5,050,000	5,550,000
Other assets	13	371,603	313,834
Loans and advances to customers	11 (a)	161,163,853	164,973,769
Current tax asset	9 (b)	308,492	-
Investment property	17	4,865,000	5,320,000
Right of use assets	18	777,472	1,094,641
Property, plant and equipment	19	3,422,776	3,481,666
Intangible assets	20	58,417	6,699
Deferred tax assets	9 (c)	3,396,840	1,450,072
<b>Total assets</b>		<b>206,786,218</b>	<b>195,723,605</b>
<b>Liabilities</b>			
Deposits from customers	15	167,053,857	149,471,896
Current tax liability	9 (b)	-	497,052
Lease liability	18	859,269	1,163,233
Other liabilities	14	3,562,259	7,087,721
Employee entitlements	16	317,000	397,482
<b>Total liabilities</b>		<b>171,792,385</b>	<b>158,617,384</b>
<b>Shareholders' equity</b>			
Share capital	21	30,000,000	30,000,000
Credit loss reserve	22	-	2,875,936
Retained earnings		4,993,833	4,230,285
Total shareholders' equity		34,993,833	37,106,221
<b>Total liabilities and equity</b>		<b>206,786,218</b>	<b>195,723,605</b>
Commitments and contingent liabilities	23		

Signed on behalf of the Board

Director : 

Director : 

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



**Merchant Finance Pte Limited**  
**Statement of cash flows**  
**For the year ended 30 June 2020**

	<b>Note</b>	<b>2020</b>	<b>2019</b>
		<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>			
Interest received from loans and advances		23,896,572	23,017,792
Interest paid on deposits from customers		(8,217,706)	(6,339,355)
Interest received from debt securities		535,716	754,671
Other income		1,029,878	855,914
Payment to suppliers and employees		(5,697,224)	(5,665,473)
Net increase in loans and advances		(6,549,783)	(34,393,814)
Net increase in deposits		17,581,961	26,859,109
Income taxes paid	9 (b)	<u>(2,732,526)</u>	<u>(1,475,948)</u>
<b>Net cash from operating activities</b>		<u>19,846,888</u>	<u>3,532,803</u>
<b>Cash flows from investing activities</b>			
Payment for property, plant and equipment	19	(361,163)	(1,387,589)
Payment for intangibles	20	(60,298)	(6,800)
Proceeds from sale of property, plant and equipment	5	<u>98,091</u>	<u>82,771</u>
<b>Net cash used in investing activities</b>		<u>(323,370)</u>	<u>(1,311,618)</u>
<b>Cash flows from financing activities</b>			
Net movement in debt securities		500,000	11,500,305
Dividends paid	25	(5,675,000)	(4,675,000)
Payment for lease liability		<u>(509,677)</u>	<u>(487,658)</u>
<b>Net cash (used)/from in financing activities</b>		<u>(5,684,677)</u>	<u>6,417,740</u>
Net change in cash and cash equivalents		13,838,841	8,638,925
Opening cash and cash equivalents		<u>13,532,924</u>	<u>4,893,999</u>
<b>Closing cash and cash equivalents</b>	10	<u>27,371,765</u>	<u>13,532,924</u>

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

# **Merchant Finance Pte Limited**

## **Notes to and forming part of the financial statements**

### **For the year ended 30 June 2020**

#### **1. Significant accounting policies**

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

The financial statements were authorised for issue by the Directors on 20 August 2020.

##### **(a) Statement of compliance**

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

##### **(b) Basis of preparation**

The financial statements are presented in Fiji dollars, rounded to the nearest dollar. The financial statements have been prepared based on historical costs except for Investment Property which is measured at fair value.

##### **(c) Changes in accounting policies**

The Company has consistently applied the accounting policies to all periods presented in these financial statements.

##### **(d) New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 July 2020, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company.

##### **(e) Use of estimates and judgments**

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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

Note 1(i)(v) – Impairment of Loans and advances

Note 1 (u) – Valuation of Investment Property

##### **(f) Foreign currency**

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

# Merchant Finance Pte Limited

## Notes to and forming part of the financial statements

### For the year ended 30 June 2020

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

##### (g) Income tax

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

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

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

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

##### (h) Property, plant and equipment

###### *Recognition and measurement*

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Company. Ongoing repairs and maintenance are expensed as incurred in the profit or loss.

###### **Depreciation and amortisation**

Items of property, plant and equipment, including buildings but excluding freehold land, are depreciated using the straight-line method over their estimated useful lives. Depreciation methods, useful lives and residual values are reassessed at the reporting date.

The depreciation rates used for each class of asset are as follows:

Office alterations	20%	Office machinery	20% - 50%
Buildings	1.25%	Office furniture	20%
Motor vehicles	20% - 50%		

# Merchant Finance Pte Limited

## Notes to and forming part of the financial statements

### For the year ended 30 June 2020

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

##### (i) Financial assets and liabilities

###### *i. Recognition and initial measurement*

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

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

###### *ii. Classification*

###### **Financial assets**

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

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

All other financial assets are classified and measured at FVTPL.

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

###### **Business model assessment**

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

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



# Merchant Finance Pte Limited

## Notes to and forming part of the financial statements

### For the year ended 30 June 2020

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

##### (i) Financial assets and liabilities (continued)

###### ii. *Classification (continued)*

###### **Business model assessment (continued)**

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

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

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

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

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

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

###### ***Reclassifications***

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets. See notes 1(k) and 1(l).

###### ***Financial liabilities***

The Company classifies its financial liabilities, other than loan commitments, as measured at amortised cost or FVTPL. See note 1(o).

###### iii. *Derecognition*

###### ***Financial assets***

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

# Merchant Finance Pte Limited

## Notes to and forming part of the financial statements

### For the year ended 30 June 2020

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

##### (i) Financial assets and liabilities (continued)

###### iii. *Derecognition (continued)*

###### *Financial assets (continued)*

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

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

###### *Financial liabilities*

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

###### iv. *Modifications of financial assets and financial liabilities*

###### *Financial assets*

If the terms of a financial asset are modified, the Company evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see 1 (i) (iii)) and a new financial asset is recognised at fair value.

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

###### *Offsetting*

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

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

# Merchant Finance Pte Limited

## Notes to and forming part of the financial statements

### For the year ended 30 June 2020

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

##### (i) Financial assets and liabilities (continued)

###### *v. Impairment*

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

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

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

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

The Company considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

###### *Measurement of ECL*

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

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

###### *Restructured financial assets*

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

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

###### *Credit-impaired financial assets*

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

# Merchant Finance Pte Limited

## Notes to and forming part of the financial statements

### For the year ended 30 June 2020

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

##### (i) Financial assets and liabilities (continued)

###### *v. Impairment (continued)*

###### **Credit-impaired financial assets**

Evidence that a financial asset is credit-impaired includes the following observable data:

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

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

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

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

###### **Presentation of allowance for ECL in the statement of financial position**

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

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

###### **Write-off**

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



# **Merchant Finance Pte Limited**

## **Notes to and forming part of the financial statements**

### **For the year ended 30 June 2020**

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

##### **(j) Cash and cash equivalents**

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

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

##### **(k) Loans and advances**

Loans and advances:

- are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method less impairment (see note 1 (i) (v)).

##### **(l) Debt securities**

Debt securities are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method less impairment (see note 1 (i) (v)).

##### **(m) Intangible assets**

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

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

##### **(n) Other liabilities**

Other liabilities are stated at amortised cost.

##### **(o) Deposits from customers**

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

##### **(p) Assets held for sale**

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

##### **(q) Leases**

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

# Merchant Finance Pte Limited

## Notes to and forming part of the financial statements

### For the year ended 30 June 2020

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

##### (q) Leases (continued)

To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

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

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

##### i. As a lessee

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

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

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

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and

# **Merchant Finance Pte Limited**

## **Notes to and forming part of the financial statements**

### **For the year ended 30 June 2020**

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

##### **(q) Leases (continued)**

###### **i. As a lessee (continued)**

- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

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

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

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

###### **ii. As a lessor**

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

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

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

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

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

# **Merchant Finance Pte Limited**

## **Notes to and forming part of the financial statements**

### **For the year ended 30 June 2020**

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

##### **(r) Fees and commission**

Fees and commission income and expense that are integral to the effective interest rate of a financial asset or financial liability are included in the measurement of the effective interest rate.

Other fees and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

##### **(s) Employee entitlements**

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

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

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

##### **(t) Interest income**

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

##### **(u) Investment property**

Investment properties are held for long-term rental yields or capital appreciation (inclusive of some properties not rented) and are not occupied by the Company. Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value, determined by external independent valuers who have appropriate recognised professional qualification and recent experience in the location and category of property being valued. Changes in fair values are recorded in the profit or loss.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the profit or loss during the financial period in which they are incurred.

##### **(v) Loan commitments**

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. The Company has issued no loan commitments that are measured at FVTPL.

For other loan commitments, the Company recognises loss allowance (see Note 1(i)(v)); and liabilities arising from loan commitments are included within provisions.



# **Merchant Finance Pte Limited**

## **Notes to and forming part of the financial statements**

### **For the year ended 30 June 2020**

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

##### **(w) Comparatives**

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

#### **2. Fair value estimation**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date.

When available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of relevant observable inputs and maximising the use of unobservable inputs.

The different levels have been defined as follows:

- Level 1 fair value measurement are those instruments valued based on quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2 fair value measurements are those instruments valued based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those instruments valued based on inputs for the asset or liability that are not based on observable market data (unobservable) inputs.

##### **Valuation technique and significant unobservable inputs**

The valuation technique used in measuring the fair value of investment property is the Sales (Direct Comparison) whereby the comparable developments are compared to the subject properties on a common denominator with equated adjustments made to allow for differences and comparability. This approach considers the sale price levels of similar and comparable properties in the localities.

# Merchant Finance Pte Limited

## Notes to and forming part of the financial statements

### For the year ended 30 June 2020

#### 2. Fair value estimation (continued)

The following table shows the carrying amounts and fair values of the financial assets and financial liabilities, including their levels in fair value hierarchy:

	Carrying amount		Fair value			
	Amortised cost \$	Other financial liabilities \$	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Balance as at 30 June 2020</b>						
<i>Financial assets not measured at fair value</i>						
Cash and cash equivalents	27,371,765	-	-	-	27,371,765	27,371,765
Debt securities	5,050,000	-	-	5,582,662	-	5,582,662
Loans and advances to customers	164,039,789	-	-	-	164,973,796	164,973,796
	196,461,554	-	-	5,582,662	192,345,561	197,928,223
<b>Balance as at 30 June 2020</b>						
<i>Financial liabilities not measured at fair value</i>						
Deposits from customers	-	167,053,857	-	-	167,053,857	167,053,857
	-	167,053,857	-	-	167,053,857	167,053,857
<b>Balance as at 30 June 2019</b>						
<i>Financial assets not measured at fair value</i>						
Cash and cash equivalents	13,532,924	-	-	-	13,532,924	13,532,924
Debt securities	5,550,000	-	-	5,881,572	-	5,881,572
Loans and advances to customers	164,973,769	-	-	-	164,973,796	164,973,796
	184,056,693	-	-	5,881,572	178,506,720	184,388,292
<b>Balance as at 30 June 2019</b>						
<i>Financial liabilities not measured at fair value</i>						
Deposits from customers	-	149,471,896	-	-	149,471,896	149,471,896
	-	149,471,896	-	-	149,471,896	149,471,896

**Merchant Finance Pte Limited**  
**Notes to and forming part of the financial statements**  
**For the year ended 30 June 2020**  
**2. Fair value estimation (continued)**

Valuation technique and significant observable inputs:

Type	Valuation	Significant inputs	Inter-relationship between significant unobservable inputs and fair value measurement
<ul style="list-style-type: none"> <li>Debt securities</li> </ul>	Market comparison- The fair value of the long term investment securities is based on market prices published by the Reserve Bank of Fiji.	Not applicable	Not applicable
<ul style="list-style-type: none"> <li>Short term deposits</li> <li>Loans and advances to customers</li> <li>Deposits from customers</li> <li>Cash and cash equivalents</li> </ul>	Discounted cash flows- The valuation model considers the present value of expected payment, discounted using a risk-adjusted discount rate.	Not applicable	Not applicable

# Merchant Finance Pte Limited

## Notes to and forming part of the financial statements

### For the year ended 30 June 2020

	2020	2019
	\$	\$
<b>3. Interest income</b>		
Deposits with other financial institutions	231,474	178,141
Debt securities	414,504	455,183
Loans and advances	23,896,572	23,017,792
	<u>24,542,550</u>	<u>23,651,116</u>
<b>4. Interest expense</b>		
Deposits from customers	8,611,360	6,136,992
Other	1,008	987
	<u>8,612,368</u>	<u>6,137,979</u>
<b>5. Fees and other income</b>		
Credit related fees and commissions	485,619	283,901
Income received on loans previously written off	104,785	193,785
Repossession and auction administration fees	186,803	167,850
Gain on sale of property, plant and equipment	98,091	82,771
Rental income	82,128	69,603
Other fees	137,758	149,394
	<u>1,095,184</u>	<u>947,304</u>
<b>6. Loan impairment expenses</b>		
Increase in impairment	7,191,917	2,044,168
Amounts written off directly to profit or loss during the year as uncollectible	291,846	532,890
	<u>7,483,763</u>	<u>2,577,058</u>
<b>7. Personnel expenses</b>		
Salaries and wages	2,417,972	2,430,826
Fiji National Provident Fund	198,863	227,665
Other staff costs	254,101	321,179
	<u>2,870,936</u>	<u>2,979,670</u>

The number of employees at the end of the financial year was 76 (2019: 86).



# Merchant Finance Pte Limited

## Notes to and forming part of the financial statements

### For the year ended 30 June 2020

	2020 \$	2019 \$
<b>8. Other operating expenses</b>		
Advertising expense	347,510	289,349
Computer expenses	45,277	47,910
Donations	1,050	7,100
Directors fees and allowances	87,357	84,618
External audit fees	49,500	55,000
Internal audit fees	52,407	49,759
Management fees	668,620	848,336
Legal costs	80,958	80,572
Insurance expense	60,056	48,882
Motor vehicle expense	140,617	178,722
Other expenses	296,550	300,748
Premises	534,919	461,844
Printing and stationary	90,931	124,444
Telecommunication expenses	198,928	191,344
	<u>2,654,680</u>	<u>2,768,628</u>

### 9. Income tax

#### (a) Income tax expense

Prima facie income tax expense calculated at 20% (2019: 20%) on the operating profit	523,752	1,956,881
Increase/ (decrease) in income tax expense due to:		
FNPF employer contribution	29,859	22,767
Other permanent differences	3,299	(28,780)
Temporary difference recognized (Note 22)	(575,186)	-
Family care and paternity care leave	(1,510)	-
Under/(over) provision in prior years	-	(20,653)
	<u>(19,786)</u>	<u>1,930,215</u>

Total income tax expense is made up of:

Deferred tax credit	(1,946,768)	(182,272)
Current income tax expense	1,926,982	2,133,140
Under/(over) provision in prior years	-	(20,653)
	<u>(19,786)</u>	<u>1,930,215</u>

#### (b) Current tax liability/(asset)

Movements during the year were as follows:

Balance at beginning of year	497,052	(139,487)
Income tax paid	(2,732,526)	(1,475,948)
Current year's income tax expense	1,926,982	2,133,140
Under/(over) provision in prior years	-	(20,653)
Balance at end of year	<u>(308,492)</u>	<u>497,052</u>

## Merchant Finance Pte Limited

### Notes to and forming part of the financial statements

#### For the year ended 30 June 2020

#### 9. Income tax (continued)

	2020 \$	2019 \$
<b>(c) Deferred tax asset</b>		
Allowance for doubtful debts	3,596,307	1,712,366
Property, plant and equipment	3,233	17,951
Employee entitlements	63,400	79,496
Investment property	(282,460)	(373,460)
Lease liability	171,854	232,647
Right of use asset	(155,494)	(218,928)
	<u>3,396,840</u>	<u>1,450,072</u>

#### 10. Cash and cash equivalents

Cash at bank and on hand	23,371,793	9,461,863
Short term deposits	<u>3,999,972</u>	<u>4,071,061</u>
	<u>27,371,765</u>	<u>13,532,924</u>

The Company has a Standby Overdraft Facility of \$4,000,000 (2019: \$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 (2019: \$ Nil).

#### 11. Loan and advances to customers

##### (a) Individual customers

Asset purchase loans	103,300,324	109,576,329
Personal loans	124,406,928	109,339,690
Trade finance loans	<u>821,040</u>	<u>846,018</u>
Gross loans and advances to customers	228,528,292	219,762,037
Less: Deferred revenue	<u>(49,382,903)</u>	<u>(46,226,442)</u>
	179,145,389	173,535,595
Less: Impairment allowance	<u>(17,981,536)</u>	<u>(8,561,826)</u>
Net loans and advances	<u>161,163,853</u>	<u>164,973,769</u>

# Merchant Finance Pte Limited

## Notes to and forming part of the financial statements

### For the year ended 30 June 2020

	2020 \$	2019 \$
<b>11. Loan and advances to customers (continued)</b>		
<b>(b) Maturity analysis</b>		
Not longer than 3 months	8,318,561	7,432,814
Longer than 3 and not longer than 12 months	11,799,695	10,764,576
Longer than 1 and not longer than 5 years	181,987,215	185,742,670
Longer than 5 years	26,422,821	15,821,977
	<u>228,528,292</u>	<u>219,762,037</u>
<b>(c) Bad debts written off</b>		
<b>Represented as :</b>		
Write off from provision	648,144	575,712
Write off charged to profit and loss	291,846	532,890
	<u>939,990</u>	<u>1,108,602</u>
<b>12. Debt securities</b>		
Government securities	5,050,000	5,550,000
	<u>5,050,000</u>	<u>5,550,000</u>
<b>Debt maturity analysis</b>		
Not more than 3 months	-	-
Longer than 3 and not longer than 12 months	-	500,000
Longer than 1 and not longer than 5 years	4,250,000	4,250,000
Longer than 5 years	800,000	800,000
	<u>5,050,000</u>	<u>5,550,000</u>
<b>13. Other assets</b>		
Prepayments	20,828	40,535
Accrued interest income	237,398	127,136
Other receivables	113,377	146,163
	<u>371,603</u>	<u>313,834</u>
<b>14. Other liabilities</b>		
Dividend payable (note 25)	-	3,800,000
Accrued expenses	301,276	497,755
Accrued interest on deposits from customers	2,872,980	2,478,318
Other	388,003	311,648
	<u>3,562,259</u>	<u>7,087,721</u>

# Merchant Finance Pte Limited

## Notes to and forming part of the financial statements

### For the year ended 30 June 2020

	2020 \$	2019 \$
<b>15. Deposits from customers</b>		
Term deposits	<u>167,053,857</u>	<u>149,471,896</u>
<b>Maturity analysis</b>		
No longer than 3 months	36,457,450	33,165,051
Longer than 3 and not longer than 12 months	67,476,784	69,257,633
Longer than 1 and not longer than 5 years	61,163,472	46,450,076
Longer than 5 years	<u>1,956,151</u>	<u>599,136</u>
	<u>167,053,857</u>	<u>149,471,896</u>
<b>16. Employee entitlements</b>		
Accrual for annual leave	159,740	75,277
Accrual for bonus	-	237,050
Accrual for gratuity	154,719	85,155
Accrual for Fringe Benefit Tax	<u>2,541</u>	<u>-</u>
	<u>317,000</u>	<u>397,482</u>
<b>17. Investment property</b>		
Opening balance	5,320,000	4,695,000
Change in fair value	<u>(455,000)</u>	<u>625,000</u>
Closing balance	<u>4,865,000</u>	<u>5,320,000</u>

### 18. Leases

#### As a lessee

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

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

	\$
Balance at 1 July 2019	1,094,641
Additions for the year	220,696
Re-measurement of leases	(94,958)
Depreciation charge for the year	<u>(442,907)</u>
Balance as at 30 June 2020	<u>777,472</u>
Balance at 1 July 2018	960,149
Additions for the year	568,138
Depreciation charge for the year	<u>(433,646)</u>
Balance as at 30 June 2019	<u>1,094,641</u>

**Merchant Finance Pte Limited**  
**Notes to and forming part of the financial statements**  
**For the year ended 30 June 2020**

	2020 \$	2019 \$
<b>18. Leases (continued)</b>		
<b>As a lessee (continued)</b>		
<b>Lease liabilities</b>		
<b>Maturity analysis – contractual undiscounted cash flows</b>		
Less than one year	479,708	434,953
One to two years	273,485	598,812
Three to five years	190,124	369,332
Over five years	-	-
<b>Total undiscounted lease liabilities</b>	<u>943,317</u>	<u>1,403,097</u>
<b>Lease liabilities included in the statement of financial position</b>		
Current	428,121	404,535
Non-current	<u>431,148</u>	<u>758,698</u>
	<u>859,269</u>	<u>1,163,233</u>
<b>Amounts recognised in profit and loss</b>		
Interest on lease liabilities	71,021	80,093
Variable lease payments not included in the measurement of lease liabilities	28,932	69,708
Expenses relating to leases of low-value assets excluding short-term leases of low-value assets	61,426	32,700
<b>Amounts recognised in the statement of cash flows</b>		
Total cash outflow for leases	509,677	487,658

**i. Real estate leases**

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

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

**ii. IT Equipment**

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

**Extension options**

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



## Merchant Finance Pte Limited

### Notes to and forming part of the financial statements

#### For the year ended 30 June 2020

#### 19. Property, plant and equipment

Cost	Land & buildings \$	Motor vehicles \$	Office alterations \$	Office furniture \$	Office machinery \$	Work in Progress \$	Total \$
Balance at 1 July 2018	1,346,280	1,516,293	816,989	840,820	2,012,066	226,579	6,759,027
Acquisitions	918,093	382,233	4,060	29,589	37,672	15,942	1,387,589
Transfer (out)/in	104,535	-	-	-	-	(104,535)	-
Disposals	-	(207,300)	-	-	-	-	(207,300)
Balance at 30 June 2019	2,368,908	1,691,226	821,049	870,409	2,049,738	137,986	7,939,316
Balance at 1 July 2019	2,368,908	1,691,226	821,049	870,409	2,049,738	137,986	7,939,316
Acquisitions	-	205,433	4,700	41,847	48,227	60,956	361,163
Disposals	-	(298,840)	-	(3,150)	(335)	-	(302,325)
Balance at 30 June 2020	2,368,908	1,597,819	825,749	909,106	2,097,630	198,942	7,998,154
<b>Accumulated Depreciation</b>							
Balance at 1 July 2018	24,423	999,300	664,583	665,245	1,861,516	-	4,215,067
Depreciation charge for the year	8,993	233,059	45,810	58,284	103,737	-	449,883
Disposals	-	(207,300)	-	-	-	-	(207,300)
Balance at 30 June 2019	33,416	1,025,059	710,393	723,529	1,965,253	-	4,457,650
Balance at 1 July 2019	33,416	1,025,059	710,393	723,529	1,965,253	-	4,457,650
Depreciation charge for the year	8,993	258,891	44,360	53,540	53,933	-	419,717
Disposals	-	(298,800)	-	(3,150)	(39)	-	(301,989)
Balance at 30 June 2020	42,409	985,150	754,753	773,919	2,019,147	-	4,575,378
<b>Carrying amount</b>							
At 1 July 2018	1,321,857	516,993	152,406	175,575	150,550	226,579	2,543,960
At 30 June 2019	2,335,492	666,167	110,656	146,880	84,485	137,986	3,481,666
At 30 June 2020	2,326,499	612,669	70,996	135,187	78,483	198,942	3,422,776

## Merchant Finance Pte Limited

### Notes to and forming part of the financial statements

#### For the year ended 30 June 2020

	2020 \$	2019 \$
<b>20. Intangible assets</b>		
<b>Software costs</b>		
<b>Cost :</b>		
Balance at the beginning of the year	113,609	106,809
Acquisition	60,298	6,800
Balance at the end of the year	173,907	113,609
<b>Accumulated amortisation :</b>		
Balance at the beginning of the year	(106,910)	(94,853)
Amortisation charge for the year	(8,580)	(12,057)
Balance at the end of the year	(115,490)	(106,910)
<b>Carrying amount :</b>		
Balance at the beginning of the year	6,699	11,956
Balance at the end of the year	58,417	6,699

#### 21. Share capital

<b>i) Issued and paid up capital</b>		
30,000,000 ordinary shares	30,000,000	30,000,000

Shares of the Company have no par value

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

# Merchant Finance Pte Limited

## Notes to and forming part of the financial statements

### For the year ended 30 June 2020

	2020 \$	2019 \$
<b>22. Credit loss reserve</b>		
Balance at the beginning of the year	2,875,936	2,875,936
Credit loss utilized	(2,875,936)	-
Balance at the end of the year	<u>-</u>	<u>2,875,936</u>

The Credit Loss Reserve was initially established to comply with Reserve Bank of Fiji requirements of maintaining prudent levels for possible losses inherent in the loan portfolio which are not associated with any facility or amount. These were maintained for credit facilities outstanding which are not subject to individually assessed provision. Following the implementation of IFRS 9, management believe that such credit loss for non-specific losses is already covered as part of the ECL model, including management overlay component. Accordingly the credit loss reserve was derecognized during 2020, with a corresponding adjustment through other comprehensive income. The credit loss reserve had been established gross of tax, which following the transfer through OCI, has been brought to account by recognizing an appropriate deferred tax impact.

### 23. Commitments and contingent liabilities

#### a) Commitments

Commitments in respect of loans and approved credit commitments offered but not yet advanced as at balance date amounted to approximately \$3,650,639 (2019: \$5,270,295).

The Company is committed to incur other capital expenditure of \$33,480 (2019: \$177,900).

#### b) Contingent liabilities

Contingent liabilities amounted to \$nil (2019:\$nil).

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

### 24. Related party transactions

#### *Directors*

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

Sanjit Bhai Patel (resigned 04/01/2020)	Non-Independent
Nouzab Fareed (resigned 20/12/2019)	Non-Independent
Abilash Ram (appointed 30/01/2020)	Non-Independent
Arun Narsey	Independent
Sunil Sharma	Independent
Sereana Matakibau	Independent

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

#### *Holding company*

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

#### *Loans to Directors*

As at 30 June 2020, \$nil (2019: \$nil) was outstanding from the Directors.

# Merchant Finance Pte Limited

## Notes to and forming part of the financial statements

### For the year ended 30 June 2020

#### 24. Related party transactions (continued)

##### *Guarantee by Basic Industries Limited*

Basic Industries Limited has provided a guarantee to cover the loan balance provided by the Company to a customer amounting to \$nil (2019: \$83,575).

	2020 \$	2019 \$
<b>Transactions with related parties</b>		
<b>Term deposits issued</b>		
FHL Properties Pte Limited	273,903	273,903
FHL Stockbrokers Limited	300,000	-
R B Patel Limited	731,882	412,135
FHL Fund Management Limited	922,950	622,950
Fijian Holdings Unit Trust	9,000,000	11,000,000
FHL on SPSE account	20,000	20,000
FHL Retailing	1,300,000	1,300,000
Life Cinema	421,840	400,000
Fiji TV	4,100,000	2,100,000
Fijian Property Trust Company Limited Cyclone Reserve Account	522,292	506,121
<b>Dividend payable</b>		
Fijian Holdings Limited	-	3,040,000
Fijian Holdings Unit Trust	-	760,000
<b>Interest payable</b>		
FHL Properties Limited	510	893
FHL Fund Management Limited	49,297	25,968
Fijian Property Trust Company Limited Cyclone Reserve Account	1,221	1,714
Fijian Holdings Unit Trust	40,022	37,403
FHL Stockbrokers Limited	14,991	-
FHLS on Account of SPSE	323	323
FHL Retailing	2,871	2,871
Life Cinema	2,860	4,310
Fiji TV	7,868	1,174
RB Patel Limited	40,680	26,633
<b>Other payable</b>		
Fijian Holdings Limited	12,990	190,961
Fiji Television Limited	450	-
Basic Industries Limited	20,601	-
<b>Other receivables</b>		
FHL Properties (Pte) Ltd	37,997	37,997
Basic Industries Limited	19,591	-

# Merchant Finance Pte Limited

## Notes to and forming part of the financial statements

### For the year ended 30 June 2020

	2020 \$	2019 \$
<b>24. Related party transactions (continued)</b>		
<i>Transactions with related parties (continued)</i>		
<b>Dividend paid</b>		
Fijian Holdings Limited	4,540,000	4,300,000
Fijian Holdings Unit Trust	<u>1,135,000</u>	<u>375,000</u>
<b>Service provider fees</b>		
Fijian Holdings Unit Trust	<u>-</u>	<u>5,271</u>
<b>Other income</b>		
Basic Industries Limited	<u>14,744</u>	<u>-</u>
<b>Expenses</b>		
<b>Rent and facility charges</b>		
FHL Properties Limited	<u>245,527</u>	<u>231,258</u>
<b>Interest paid on Deposits</b>		
FHL Properties Limited	17,303	-
FHL Fund Management Limited	23,828	22,950
Fijian Property Trust Company Limited Cyclone Reserve Account	31,157	18,514
Fijian Holdings Unit Trust	483,983	427,276
FHL Stockbrokers Limited	-	909
FHLS on Account of SPSE	693	675
Life Cinema Limited	-	-
FHL Retailing	72,739	12,322
RB Patel Limited	<u>-</u>	<u>-</u>
<b>Directors Allowance</b>		
Basic Industries Limited	119	831
FHL Fund Management Limited	-	613
Pacific Cement Limited	831	713
FHL Properties (Pte) Ltd	-	125
Serendib Investments Ltd	119	238
Fijian Holdings Limited	<u>8,000</u>	<u>8,500</u>
<b>Directors Fees</b>		
Fijian Holdings Limited	<u>19,808</u>	<u>40,000</u>
<b>Management fees paid</b>		
Fijian Holdings Limited	<u>906,437</u>	<u>853,141</u>



## Merchant Finance Pte Limited

### Notes to and forming part of the financial statements

#### For the year ended 30 June 2020

	2020 \$	2019 \$
<b>24. Related party transactions (continued)</b>		
<b>Other expenses</b>		
Fijian Holdings Limited	176,079	9,785
FHL Properties Limited	18,676	-
Fiji Television Limited	26,800	14,508
Serendib Investments Ltd	24,121	80
RB Patel Limited	1,091	1,084

#### 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.

Title	Contract Date	
	Start	End
Chief Executive Officer	22/06/2017	Current
Head of Credit	29/12/2014	Current
Divisional General Manager West	18/12/2014	Current
Divisional General Manager East	29/03/2015	Current
Divisional General Manager North	01/04/2015	Current
Head of Corporate	16/12/2014	21/11/2019
Manager Finance	01/10/2019	Current
Manager Legal	23/10/2019	Current

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

	2020 \$	2019 \$
Short-term benefits	714,833	645,553

## Merchant Finance Pte Limited

### Notes to and forming part of the financial statements

#### For the year ended 30 June 2020

	2020 \$	2019 \$
<b>25. Provision for Dividends</b>		
Dividends declared or paid by the Company are:		
Balance at 1 July 2019/2018	3,800,000	2,800,000
Add: Interim dividend 2020 declared and paid during the year (\$0.06 per share) (2019: \$0.06)	1,875,000	1,875,000
Add: Final dividend 2020 declared during the year (\$nil per share) (2019: \$0.13)	-	3,800,000
Less: dividends paid	<u>(5,675,000)</u>	<u>(4,675,000)</u>
Balance at 30 June	<u>-</u>	<u>3,800,000</u>

#### 26. Statement of cash flows

##### Reconciliation of cash and cash equivalents

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

	2020 \$	2019 \$
Cash and cash equivalents	<u>27,371,765</u>	<u>13,532,924</u>

#### 27. Risk management disclosures

##### Introduction

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

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

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

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

# Merchant Finance Pte Limited

## Notes to and forming part of the financial statements

### For the year ended 30 June 2020

#### 27. Risk management disclosures (continued)

The following sections describe the risk management framework components:

##### a) Credit risk

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

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

##### Credit quality analysis

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

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

2020				
	12 months ECL \$	Lifetime ECL not credit impaired \$	Lifetime ECL credit impaired \$	Total \$
<b>Loans and advances to customers</b>				
Grade - Standard	37,634,519	-	-	37,634,519
Grade - Special mention	-	69,892,047	-	69,892,047
Grade - Substandard	-	26,113,538	-	26,113,538
Grade - Doubtful	-	-	41,251,331	41,251,331
Grade - Loss	-	-	4,253,954	4,253,954
	37,634,519	96,005,585	45,505,285	179,145,389
Loss allowance	(2,242,127)	(6,943,701)	(8,795,708)	(17,981,536)
<b>Carrying amount</b>	<b>35,392,392</b>	<b>89,061,884</b>	<b>36,709,577</b>	<b>161,163,853</b>
2019				
	12 months ECL \$	Lifetime ECL not credit impaired \$	Lifetime ECL credit impaired \$	Total \$
<b>Loans and advances to customers</b>				
Grade - Standard	98,351,612	-	-	98,351,612
Grade - Special mention	-	30,265,656	-	30,265,656
Grade - Substandard	-	26,532,983	-	26,532,983
Grade - Doubtful	-	-	14,590,567	14,590,567
Grade - Loss	-	-	3,794,777	3,794,777
	98,351,612	56,798,639	18,385,344	173,535,595
Loss allowance	(1,252,130)	(2,312,095)	(4,997,601)	(8,561,826)
<b>Carrying amount</b>	<b>97,099,482</b>	<b>54,486,544</b>	<b>13,387,743</b>	<b>164,973,769</b>

## Merchant Finance Pte Limited

### Notes to and forming part of the financial statements

#### For the year ended 30 June 2020

#### 27. Risk management disclosures (continued)

##### a) Credit risk (continued)

##### Collateral held and other credit enhancements

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

	Percentage of exposure that is subject to collateral requirements		Principal type of collateral
	30 June 2020	30 June 2019	
<b>Loans and advances to customers</b>			
Motor vehicle	100	100	Motor vehicles
Personal loans	100	100	Property and equipment

At 30 June 2020, the net carrying amount of credit-impaired loans and advances to customers amounted to \$45,505,285 (2019: \$18,385,344) and the value of identifiable collateral (mainly properties and motor vehicles) held against those loans and advances amounted to \$49,524,751 (2019: \$30,991,795). For each loan, the value of disclosed collateral is capped to the nominal amount of the loan that is held against.

##### Amounts arising from ECL

##### *Inputs, assumptions and techniques used for estimating impairment.*

See accounting policy in Note 1(i)(v).

##### *Significant increase in credit risk*

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

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

##### *Credit risk grades*

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

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

Customer accounts are graded internally and all existing customers are categorised as excellent, good, satisfactory or limited. Further the individual accounts/customer groups are classified as Standard,

## **Merchant Finance Pte Limited**

### **Notes to and forming part of the financial statements**

#### **For the year ended 30 June 2020**

#### **27. Risk management disclosures (continued)**

##### ***a) Credit risk (continued)***

##### **Amounts arising from ECL (continued)**

Special Mention, Sub Standard, Doubtful and Loss for credit risk management purposes. All loans and advances are secured by collateral.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

The monitoring typically involves use of the following data.

- Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage and compliance with covenants;
- Payment record – this includes overdue status as well as a range of variables about payment ratios;
- Utilisation of the granted limit;
- Requests for and granting of forbearance; and
- Existing and forecast changes in business, financial and economic conditions.

##### ***Generating the term structure of PD***

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

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

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

##### ***Determining whether credit risk has increased significantly***

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

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

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



**Merchant Finance Pte Limited**  
**Notes to and forming part of the financial statements**  
**For the year ended 30 June 2020**

**27. Risk management disclosures (continued)**

**a) Credit risk (continued)**

**Amounts arising from ECL (continued)**

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

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

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

**Modified financial assets**

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

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

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

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

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

# Merchant Finance Pte Limited

## Notes to and forming part of the financial statements

### For the year ended 30 June 2020

#### 27. Risk management disclosures (continued)

##### a) Credit risk (continued)

##### Definition of default

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

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

In assessing whether a borrower is in default, the Company considers indicators that are:

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Company; and
- based on data developed internally and obtained from external sources.

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

##### Incorporation of forward-looking information

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

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

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

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of loans and advances and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The economic scenarios used as at 30 June 2020 included the following ranges of key indicators as at 30 June 2020, 2021 and 2022.

	2020	2021	2022
GDP (contraction)/growth	(21.7%)	14.1%	6.5%

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

Following the impact of COVID 19, which has disrupted travel and business in Fiji and throughout the world, which has primarily driven the 21.71% reduction in Fiji GDP estimate for 2020, there is added uncertainty as to the future collection of loans and advances. Accordingly management has included an additional overlay of 20% on impairment allowance (2019: 5%) to prudently reflect the added uncertainty in the current environment when estimating impairment.

## **Merchant Finance Pte Limited**

### **Notes to and forming part of the financial statements**

#### **For the year ended 30 June 2020**

#### **27. Risk management disclosures (continued)**

##### ***a) Credit risk (continued)***

##### **Measurement of ECL**

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

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

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

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

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

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

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

## Merchant Finance Pte Limited

### Notes to and forming part of the financial statements

#### For the year ended 30 June 2020

#### 27. Risk management disclosures (continued)

##### a) Credit risk (continued)

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

	Exposure	External benchmark used PD
Cash and cash equivalents	\$27,371,765	Standard & Poor default study
Debt investment securities	\$5,050,000	Standard & Poor default study

##### Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance for loans and advances. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 1(i).

#### 2020

	12-month ECL (\$)	Lifetime ECL not credit- impaired (\$)	Lifetime ECL credit- impaired (\$)	Total (\$)
<b>Loans and advances to customers at amortised cost</b>				
Balance at 1 July	1,252,130	2,312,095	4,997,601	8,561,826
Transfer to 12 months ECL	50,167	(47,963)	(2,204)	-
Transfer to lifetime ECL not credit impaired	(2,606,693)	2,685,581	(78,888)	-
Transfer to lifetime ECL credit impaired	(1,638,188)	(2,271,421)	3,909,609	-
Net remeasurement of loss allowance	4,114,225	3,803,712	1,454,161	9,372,098
New financial assets originated or purchased	1,437,358	1,184,566	452,830	3,074,753
Financial assets that have been derecognised	(366,872)	(722,869)	(1,289,257)	(2,378,998)
Write-off	-	-	(648,144)	(648,144)
Balance at 30 June	<b>2,242,127</b>	<b>6,943,701</b>	<b>8,795,708</b>	<b>17,981,536</b>

# Merchant Finance Pte Limited

## Notes to and forming part of the financial statements

### For the year ended 30 June 2020

#### 27. Risk management disclosures (continued)

##### a) Credit risk (continued)

##### Loss allowance (continued)

	2019			
	12-month ECL (\$)	Lifetime ECL not credit- impaired (\$)	Lifetime ECL credit- impaired (\$)	Total (\$)
<b>Loans and advances to customers at amortised cost</b>				
Balance at 1 July	1,140,048	1,523,934	4,429,388	7,093,370
Transfer to 12 months ECL	17,971	(10,665)	(7,306)	-
Transfer to lifetime ECL not credit impaired	(552,121)	555,942	(3,821)	-
Transfer to lifetime ECL credit impaired	(184,737)	(1,015,819)	1,200,556	-
Net remeasurement of loss allowance	286,378	833,643	417,278	1,537,299
New financial assets originated or purchased	707,092	734,014	360,894	1,811,000
Financial assets that have been derecognized	(162,501)	(297,808)	(843,822)	(1,304,131)
Write-off	-	(20,146)	(555,566)	(575,712)
Balance at 30 June	<b>1,252,130</b>	<b>2,312,095</b>	<b>4,997,601</b>	<b>8,561,826</b>

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

##### Cash and cash equivalents

The Company held cash and cash equivalents of \$27,371,765 at 30 June 2020 (2019: \$13,532,924). Cash and cash equivalents is held with banks, which are rated B- to AA-, based on S&P ratings.

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

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

##### Debt investment securities

The Company held debt investment securities of \$5,050,000 at 30 June 2020 (2019: \$5,550,000). Debt investment securities are held with banks and the Fiji Government, which are rated B- to AA-, based on S&P ratings.

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



**Merchant Finance Pte Limited**  
**Notes to and forming part of the financial statements**  
**For the year ended 30 June 2020**

**27. Risk management disclosures (continued)**

**a) Credit risk (continued)**

**Credit-impaired financial assets**

See accounting policy in Note 1(i)B(v).

Credit-impaired loans and advances are graded doubtful to loss in the Company's internal credit risk grading system.

**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 Company staff to a maximum of \$3,000 are unsecured. In addition, in order to further minimise the potential for credit loss, the Company will seek additional collateral from the counterparty once impairment indicators are identified for the relevant individual loans and advances.

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

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

**Concentration of credit risk**

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

<b>Industry</b>	<b>2020</b>	<b>2019</b>
	<b>%</b>	<b>%</b>
Agriculture	9.54	8.84
Building and construction	19.29	20.53
Manufacturing	3.11	3.26
Mining and quarrying	0.28	0.24
Private individuals	10.41	9.88
Professional and business services	5.27	5.47
Transport, communication and storage	37.58	37.46
Wholesale, retail, hotels and restaurants	8.65	8.34
Others	5.87	5.98
	<b>100</b>	<b>100</b>

# Merchant Finance Pte Limited

## Notes to and forming part of the financial statements

### For the year ended 30 June 2020

#### 27. Risk management disclosures (continued)

##### *b) Liquidity Risk*

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

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

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

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

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

As at 30 June 2020	1 - 3 months \$	4- 12 months \$	1 - 5 years \$	Over 5 Years \$	Gross nominal outflow \$	Carrying amount \$
<b>Financial liabilities</b>						
Deposits from customers	26,902,795	76,721,487	76,340,216	2,571,144	182,535,642	167,053,857
Other liabilities	3,562,259	-	-	-	3,562,259	3,562,259
<b>Total financial liabilities</b>	<b>30,465,054</b>	<b>76,721,487</b>	<b>76,340,216</b>	<b>2,571,144</b>	<b>186,097,901</b>	<b>170,616,116</b>
<b>Financial assets</b>						
Cash and cash equivalents	27,371,765	-	-	-	27,371,765	27,371,765
Debt securities	-	-	4,361,503	838,768	5,200,271	5,050,000
Loans and advances	8,571,143	12,156,667	181,377,661	26,422,821	228,528,292	179,145,389
<b>Total financial assets</b>	<b>35,942,908</b>	<b>12,156,667</b>	<b>185,739,164</b>	<b>27,261,589</b>	<b>261,100,328</b>	<b>211,567,154</b>

# Merchant Finance Pte Limited

## Notes to and forming part of the financial statements

### For the year ended 30 June 2020

#### 27. Risk management disclosures (continued)

##### b) Liquidity Risk (continued)

As at 30 June 2019	1 - 3 months \$	4- 12 months \$	1 - 5 years \$	Over 5 Years \$	Gross nominal outflow \$	Carrying amount \$
<b>Financial liabilities</b>						
Deposits from customers	22,560,181	75,688,327	64,131,541	977,689	163,357,737	149,471,896
Other liabilities	7,087,721	-	-	-	7,087,721	7,087,721
<b>Total financial Liabilities</b>	<b>29,647,902</b>	<b>75,688,327</b>	<b>64,131,541</b>	<b>977,689</b>	<b>170,445,458</b>	<b>156,559,617</b>
<b>Financial assets</b>						
Cash and cash equivalents	13,567,730	-	-	-	13,567,730	13,532,924
Debt securities	-	504,747	4,461,973	1,031,752	5,998,472	5,550,000
Loans and advances	7,432,814	10,764,576	185,742,670	15,821,977	219,762,037	173,535,595
<b>Total financial assets</b>	<b>21,000,544</b>	<b>11,269,323</b>	<b>190,204,643</b>	<b>16,853,729</b>	<b>239,328,239</b>	<b>192,618,519</b>

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

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

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

##### Other Liquidity Ratios

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

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

## Merchant Finance Pte Limited

### Notes to and forming part of the financial statements

#### For the year ended 30 June 2020

#### 27. Risk management disclosures (continued)

##### *c) Market Risk*

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

##### *i) Interest Rate Risk*

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

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

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

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

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

<b>Industry</b>	<b>2020</b>	<b>2019</b>
	<b>%</b>	<b>%</b>
Agriculture	10-28	10-27
Building and construction	9-26	11-26
Manufacturing	12-26	12-24
Mining and quarrying	14-24	14-24
Private individuals	8-27	7-27
Professional and business services	11-26	8-25
Transport, communication and storage	12-27	12-27
Wholesale, retail, hotels and restaurants	10-34	11-26
Others	10-30	10-30

## **Merchant Finance Pte Limited**

### **Notes to and forming part of the financial statements**

#### **For the year ended 30 June 2020**

#### **27. Risk management disclosures (continued)**

##### **d) Capital Risk Management**

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

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

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

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

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

#### **28. Events subsequent to balance date**

It is too early to predict with any certainty how the financial well-being of our customers will be effected over the coming months, which will influence their ability to repay loans on a timely basis. The Company's lending portfolios continue to be monitored closely, with detailed stress testing as the situation continues to evolve. The focus of the Company continues to be supporting our customers through continued commitment of our people. Other than this, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in subsequent financial years.







## MERCHANT FINANCE

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Phone: (679) 885 0290  
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#### **Nadi Branch**

Shortlane Street, Namaka, Nadi  
Private Mail Bag, Nadi Airport  
Phone: (679) 672 5822  
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**MERCHANT**  
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