2023 Annual Report

Xceda Finance Limited

For the year ended 31 March 2023

Contents

Xceda Finance Limited ("Xceda") is pleased to present this 2023 Annual Report, for the year ended 31 March 2023.

Group Directory

Directors

I G Hankins (Appointed 8/12/22)

R A Verry (Appointed 8/12/22)

B J Heapy (Retired 8/12/22)

J T Whittfield (Retired 8/12/22)

S W Weenink (Chairman)

D E T McGrath

Shareholders

% of total	Number of shares	Shareholder
100%	7,534,075	Xceda Capital Group Limited
100%	**7,534,075**	**Ordinary Shares**

Registered Office

38 Richardson Street, Whakatane 3120

Nature of Business

Non-Bank Deposit Taker, Financial Services Provider (FSP 3501)

Company Number

455363 (NZ Business Number 9429039261922)

Auditor

Grant Thornton New Zealand Audit Limited
152 Fanshawe Street, Auckland

Solicitors

Buddle Findlay
Aon Centre, 1 Willis Street, Wellington Central, Wellington

Donnell Sherry
Level 1/18 Link Drive, Wairau Valley, Auckland

PWC Legal
Level 27/15 Customs Street West, Auckland

Lodder Law Limited
Level 7A/16 Anzac Avenue, Auckland

Bankers

ANZ Bank New Zealand
236-238 The Strand, Whakatane

Bank of New Zealand
181 The Strand, Whakatane

Westpac Banking Corporation
164 The Strand, Whakatane
123 Eagle Street, Brisbane

ASB
202 The Strand, Whakatane

Chairman's Report

Scott Weenink
Chairman

Xceda takes great pride in our rich heritage, being founded in Whakatane in 1989. For over 25 years Xceda Finance (formerly named Asset Finance Limited) has been offering lending and retail investment products to New Zealanders, and since 2021 loan products to the Australian market.

Licensed by the Reserve Bank of New Zealand as a Non-Bank Deposit Taker, Xceda adheres to strict prudential regulations and governance practices. We are committed to providing New Zealand individuals and businesses with tailored financial services, focusing on personal service and responsible customer outcomes.

FY23 Performance

One of our key focuses during the past financial year has been on sustainable growth. This included growth and investment in our people and culture, product development, balance sheet strength and profitability.

Key performance metrics to report are:

- Total assets grew by 51% to $89.1 million;
- Total secured term deposits grew by 58% to $79.2 million;
- Total equity grew by 14% to $9.2 million;
- Number of customer deposit accounts grew by 40%;
- Regulatory capital ratio average of 15.60% (minimum 10% required); and
- Net profit before taxation grew by 108% to $1.3 million.

We are delighted that during this period of growth improvements in asset quality and credit risk were noted as one of our strengths by Equifax in their latest credit rating report dated 27th April 2023. They provided the following observation is this respect.

"Xceda's loan book has grown over the years and an improving trend is observed in its asset quality evidenced by declining NPLs and improved recovery rates. This improvement has been attributed to the strategic overhaul of its operations, which included a tightening of lending criteria and underwriting standards, reducing concentration risk, and increasing the share of first mortgages."

Xceda attributes its success this year to the dedication and resilience of its staff and Board of Directors, who successfully navigated various market challenges, including those posed by tightening market conditions post-Covid; the most notable of which was the rapid increase of the interest rate environment. We take pride in investing in our people, culture and compliance to ensure that our services continue to exceed our customers' expectations.

Chairman's Report

Governance and Compliance

Xceda places a significant emphasis on robust governance, risk management, and compliance practices, ensuring the highest standards are upheld.

This philosophy is a "top-down approach", with our Board of Directors actively involved in policy formulation around best-practice governance. In the past year, we have said farewell to two of our long-standing directors, Bryan Heapy and John Whittfield, who served Xceda admirably as we navigated several key developments. Over these years John and Bryan both contributed significantly to the governance and strategic direction of the Company, notably during periods where major regulatory reform was implemented in the New Zealand financial services sector. We are grateful for their dedicated service to the Company over many years and we wish them well in the future.

Ross Verry

Ian Hankins

In their stead, Xceda was delighted to welcome two new Independent Directors to our Board. Ross Verry and Ian Hankins were appointed to the Board on 8th December 2022 and each have significant experience in the New Zealand banking sector, having previously held senior positions within major banks. Ross and Ian are joining the Board at an important time as Xceda's growth accelerates as a Non-Bank Deposit Taker, regulated by the Reserve Bank. Their collective experience in senior executive and governance roles in the banking industry will aid Xceda's continued participation in this sector, particularly in relation to the new regulatory framework being developed under the proposed Deposit Takers Bill and other important legislation.

The incoming Deposit Takers Act 2023

The proposed Deposit Takers Bill is in its final stages of being enacted, with royal assent scheduled to occur in July 2023. The purpose of this bill is to bring all Non-bank Deposit Takers (including Xceda) and Registered Banks under a single prudential regulatory regime. This legislation is consistent with other jurisdictions such as Australia which provides that all licensed deposit takers are regulated directly by the Reserve Bank.

In December 2022 our CEO, Daniel McGrath joined CEOs from the other Non-Bank Deposit Takers including building societies, credit unions and regulated finance companies to present to the Finance & Expenditure Select Committee on this proposed Bill. Our collective message to the politicians was to implement a proportionate framework that would support an inclusive and diverse banking sector while improving competition and ensuring all New Zealanders have access to financial services. The Bill provides the opportunity for all licensed deposit takers to present a single prudential regime to the market, and differentiate our institutions from the non-prudentially regulated finance company sector.

The response from all political parties was extremely positive and supportive of this message, leading to a largely bi-partisan support of the Bill. Once enacted the first stage of implementation of the New Deposit Takers Act will be the release of a Deposit Compensation Scheme (the "DCS"), whereby deposits held in licensed deposit taking institutions (including Xceda) will be covered by the Scheme. This DCS is scheduled to commence in late 2024 and is expected to be a favourable outcome for Xceda and our customers.

FY24 and Beyond

Xceda's leadership team and Board of Directors are focussed on maintaining our strategy as an RBNZ licensed deposit taker. The incoming Deposit Takers Act will fundamentally entrench Xceda within the NZ "banking" sector, albeit at this stage as a smaller licensed deposit taker.

Our lending and deposit products available to customers will continue to expand as our balance sheet grows, however any expansion will only be within the strict regulatory parameters and other risk mitigant strategies imposed by our Board of Directors.

As we continue on this growth path, we will be investing further this coming financial year on the development of our technology capabilities. This is essential to be able to offer better services to our customers, and also take advantage of the ever-increasing "fintech" products that are now available to allow smaller institutions like Xceda to compete with the main banks (e.g. online banking and other digital customer solutions).

I would like to thank our dedicated shareholders for their support and encouragement of our business. As a prudentially regulated entity, Xceda is required to hold capital based on a risk-weighting formula set by the Reserve Bank. To have our shareholders consistently prepared to provide capital support as we grow is vital to the provision of services to our customers.

We continue to look forward to achieving our goals for the current financial year, whilst always maintaining Xceda's highly regarded customer service philosophy.

Scott Weenink
Chairman

Key performance highlights

2023 performance snapshot

$1.3m
Net profit before tax
↑ 108%*

$89.1m
Total assets
↑ 51%*

$79.3m
Total deposits
↑ 58%*

$9.1m
Total equity
↑ 14%*

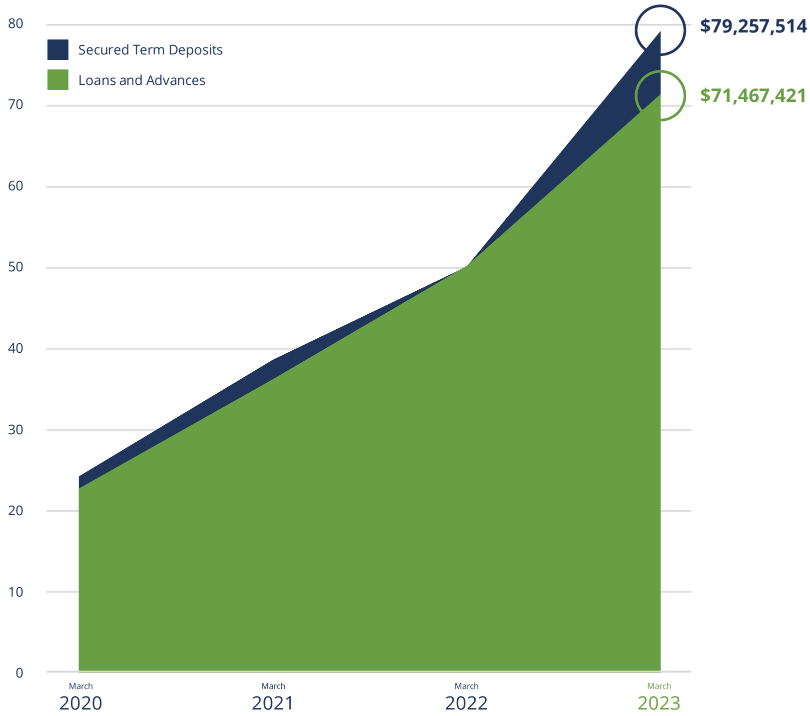
15.60%
Average Capital Ratio

88.2%
Portion of loans with an LVR < 70%

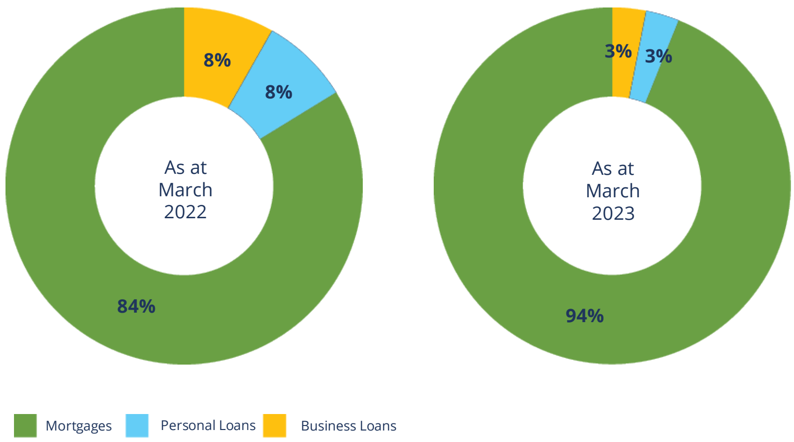
* from previous year

Deposit and loans

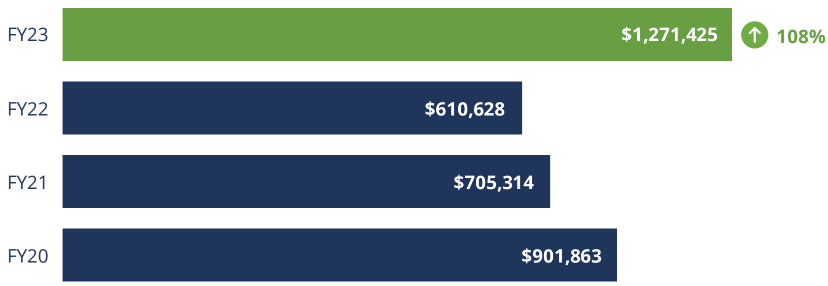
$Millions



Loan book concentration (security)



Net profit before tax



OUR VISION

WE ASPIRE TO BECOME ONE OF NEW ZEALAND'S LEADING NON-BANK FINANCIAL INSTITUTIONS.

So, how do we make it happen?

We start by asking our customers a simple question:"How can we help you?"

It's the question that should start every conversation. If we listen carefully we can give our customers better answers.

By doing this, we are better able to help our customers to grow and achieve their financial goals. In turn, consistently exceeding customer expectations we get closer to our goal of being one of the New Zealand's leading non-bank financial institutions.

OUR VALUES

WE WANT TO BE JUDGED BY ACTIONS, NOT JUST WORDS.

Doing the right thing.

We act with honesty and integrity in everything we do. We aim to build trust through responsible actions and honest relationships. We value everyone and treat people with dignity and professionalism.

Going further.

We aim to understand the needs of our customers and stakeholders, and then exceed their expectations

Owning it.

Each of us are responsible for our words, actions, and results. We welcome transparency and understand that measuring our performance is key to our success.

Always sticking to compliance.

We make responsible decisions and always act in accordance with laws, regulations and the highest professional standards.

One team.

We strive to inform, educate, and inspire people to reach their goals; creating a work environment that challenges and supports people to thrive in a collaborative environment.

Be agile.

We are agile and challenge the status quo by encouraging curiosity and improving processes. Innovation is successful where we understand the needs of our customers and the possibilities of technology. We look beyond the present to deliver future value.

Have fun.

Lets have some fun too!

Financial Statements

Xceda Finance Limited
For the year ended 31 March 2023

CONSOLIDATED FINANCIAL OVERVIEW

FOR THE YEAR ENDED 31 MARCH 2023

	Year Ended 31-Mar-23	Year Ended 31-Mar-22
	$	$
STATEMENT OF COMPREHENSIVE INCOME		
Net interest income	4,023,804	3,146,493
Other revenue	2,385,929	2,390,330
Tax expense	368,914	176,075
Net profit after income tax	902,511	434,553
Other Comprehensive Income	109,996	29,691
Total Comprehensive Income	**1,012,507**	**464,244**
STATEMENT OF CHANGES IN EQUITY		
Total Equity at start of year	8,045,730	7,181,486
New share capital issued	100,000	400,000
Dividends	-	-
Total Comprehensive Income for the year attributable to Shareholders	1,012,507	464,244
Total Equity at end of year	**9,158,237**	**8,045,730**
Total Equity at end of year consists of:		
Share capital	5,681,067	5,581,067
Other reserves	139,483	29,487
Retained earnings	3,337,687	2,435,176
STATEMENT OF FINANCIAL POSITION		
Total assets	89,102,711	58,853,411
Total liabilities	79,944,474	50,807,681
Equity	**9,158,237**	**8,045,730**

All equity is attributable to the Shareholders of the Company.

STATEMENT OF CASH FLOWS		
Net cash flows (used in) or from operating activities	(18,655,346)	(12,435,246)
Net cash flows (used in) or from investing activities	(99,697)	(313,426)
Net cash flows (used in) or from financing activities	27,971,685	11,177,035

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2023

	Notes	Year Ended 31-Mar-23	Year Ended 31-Mar-22
		$	$
Interest revenue	3	7,384,793	5,446,361
Interest expense	3	(3,360,989)	(2,299,868)
Net interest income		**4,023,804**	**3,146,493**
Other revenue	4	2,385,929	2,390,330
Total operating income		**6,409,733**	**5,536,823**
Impairment losses of financial assets	5	302,825	277,537
Operating expenses and staff costs	6	4,835,483	4,648,658
Net profit before income tax		**1,271,425**	**610,628**
Income tax expense	8	368,914	176,075
Net profit after income tax		**902,511**	**434,553**
Other comprehensive income (net of tax)			
Exchange differences on translation of foreign operations		111,742	29,691
Net loss on hedges		(1,746)	-
Total comprehensive income, net of tax		1,012,507	464,244
Attributable to:			
Shareholders		1,012,507	464,244

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2023

	Notes	Share Capital	Foreign Currency Translation Reserve	Hedge Reserves	Retained Earnings	Total Equity
		$	$	$	$	$
Balance as at 1 April 2022		5,581,067	29,487	-	2,435,176	8,045,730
Year ended 31 March 2023						
Net profit after income tax		-	-	-	902,511	902,511
Other comprehensive income		-	111,742	(1,746)	-	109,966
Total comprehensive income		**-**	**111,742**	**(1,746)**	**902,511**	**1,012,507**
Share capital increase	19	100,000	-	-	-	100,000
Total transactions with owners, recognised directly in equity		**100,000**	**-**	**-**	**-**	**100,000**
Balance as at 31 March 2023		**5,681,067**	**141,229**	**(1,746)**	**3,337,687**	**9,158,237**
Balance as at 1 April 2021		**5,181,067**	**(204)**	**-**	**2,000,623**	**7,181,486**
Year ended 31 March 2022						
Net profit after income tax		-	-	-	434,553	434,553
Other comprehensive income		-	29,691	-	-	29,691
Total comprehensive income		**-**	**29,691**	**-**	**434,553**	**464,244**
Share capital increase	19	400,000	-	-	-	400,000
Total transactions with owners, recognised directly in equity		**400,000**	**-**	-	-	**400,000**
Balance as at 31 March 2022		**5,581,067**	**29,487**	**-**	**2,435,176**	**8,045,730**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2023

	Notes	As at 31-Mar-23	As at 31-Mar-22
		$	$
Assets			
Cash and cash equivalents	11	16,381,283	7,164,641
Prepayments and other receivables		305,984	192,061
Loans and advances	12	71,467,421	50,282,554
Plant, equipment, and software	14	208,847	269,448
Intangible assets	15	236,002	353,165
Deferred tax	13	163,708	550,794
Derivative financial instruments	21	308,160	-
Current tax asset		31,306	40,748
Total assets		**89,102,711**	**58,853,411**
Liabilities			
Accounts payable and accruals		291,191	311,038
Employee entitlements	18	152,292	144,787
Other payables	16	243,477	182,327
Term deposits	17	79,257,514	50,169,529
Total liabilities		**79,944,474**	**50,807,681**
Net assets		**9,158,237**	**8,045,730**
Equity			
Share capital	19	5,681,067	5,581,067
Foreign currency translation reserve		141,229	29,487
Hedge reserves		(1,746)	-
Retained earnings		3,337,687	2,435,176
Total equity		**9,158,237**	**8,045,730**

The financial statements were approved for issue for and on behalf of the Board as at 30th June 2023:

S W Weenink *D McGrath*

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2023

	Notes	Year Ended 31-Mar-23	Year Ended 31-Mar-22
		$	$
Cash flows from operating activities			
Loans and advances receipts		52,741,228	57,967,341
Loans and advances payments		(74,402,835)	(72,075,479)
Interest received		7,403,726	5,302,519
Other revenue received		2,382,059	2,394,603
Payments to suppliers and employees		(4,490,968)	(4,354,746)
Net goods and service tax (paid)		(126,504)	(62,457)
Tax paid		(17,362)	(40,748)
Interest paid		(2,144,690)	(1,556,279)
Net cash outflows from operating activities	28	**(18,655,346)**	**(12,435,246)**
Cash flows used in investing activities			
Sale of plant, equipment and software		9,075	3,339
Purchase of plant, equipment and software		(18,757)	(96,543)
Purchase of intangible assets		(90,015)	(220,222)
Net cash outflows from investing activities		**(99,697)**	**(313,426)**
Cash flows from financing activities			
New investment deposits received		38,585,230	13,578,825
Existing investment deposits repaid		(10,713,545)	(2,801,790)
Proceeds from issue of new share capital		100,000	400,000
Net cash inflows from financing activities		**27,971,685**	**11,177,035**
Net increase/(decrease) in cash and cash equivalents		9,216,642	(1,571,637)
Cash balance at the beginning of the year		7,164,641	8,736,278
Cash balance at end of the year	11	**16,381,283**	**7,164,641**

1. SIGNIFICANT ACCOUNTING POLICIES

(a) General Information

Presented are the consolidated financial statements of Xceda Finance Limited (the "Company") and its subsidiary (collectively, the "Group") for the year ended 31 March 2023. The Company is a profit-oriented entity, incorporated and domiciled in New Zealand.

The Group is an FMC reporting entity as defined in the Financial Markets Conduct Act 2013 (FMCA 2013) and its financial statements comply with that Act.

(b) Statement of Compliance

The financial statements for the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP") and the requirements set out in the Companies Act 1993, the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013. The Group is reporting as a Tier 1 For-profit reporting entity as defined by the External Reporting Board in its Accounting Standards Framework because it has public accountability.

These financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB"), New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable financial standards, as appropriate for profit-oriented entities issued by the New Zealand Accounting Standards Board.

(c) New accounting standards

(i) New NZ IFRS standards and interpretations adopted

There were several amendments and interpretations that apply for the first time in 2023, but do not have an impact on the consolidated financial statements of the Group.

(ii) New NZ IFRS standards and interpretations issued but not yet adopted

NZ IFRS 17 Insurance Contracts (effective date from 1 January 2023)

NZ IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of NZ IFRS 17 is the General (building block) Model, supplemented by:

- A specific adaptation for contracts with direct participation features (the Variable Fee Approach).
- A simplified approach (Premium Allocation Approach) mainly for short-duration contracts.

NZ IFRS 17 is not expected to have a material impact on the Group as currently no insurance products meeting NZ IFRS 17 are offered.

(d) Basis of preparation

The financial statements have been prepared on the basis of historical cost, under the assumption that the Group operates on a going concern basis.

The Group meets the definition of a non-bank deposit taker under NZ IFRS 7 "Financial Instruments: Disclosures" and is subject to the specific additional disclosure requirements applicable to financial institutions defined in Appendix E of NZ IFRS 7.

1. SIGNIFICANT ACCOUNTING POLICIES (continued...)

(d) Basis of preparation (continued…)

The accounting policies set out below have been applied consistently in preparing the consolidated financial statements. There have been minor presentation changes where the comparative information has also changed in order to be consistent.

(e) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries. Subsidiaries are entities controlled by the Parent Company.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

(f) Segment reporting

The Group operates in a single industry, as a finance company predominantly in New Zealand. The operating segments of the Group are consumer lending and business lending as shown in Note 33. These segments are reported in a manner consistent with the internal reporting that is used internally by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The chief operating decision maker is the Chief Executive Officer.

(g) Foreign currency transactions

The Group's consolidated financial statements are presented in New Zealand dollars, which is also the parent company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment in a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

1. SIGNIFICANT ACCOUNTING POLICIES (continued...)

(g) Foreign currency transactions (continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into New Zealand dollars at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit or loss.

(h) Revenue

Recognition of revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

To determine whether we recognise revenue, the Group follows a 5 step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied

The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar expense

For all financial instruments measured at amortised cost, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or a shorter period where appropriate, to the gross carrying amount of the financial asset or liability.

The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a credit-impaired financial asset or a group of assets has been reduced due to an impairment loss, interest income continues to be recognised using the original effective interest rate applied

1. SIGNIFICANT ACCOUNTING POLICIES (continued...)

(h) Revenue (continued…)

to the net carrying amount. The Group recognises interest revenue on an accruals basis when the services are rendered using the effective interest rate method.

Fee and commission revenue

The Group earns fee income from a range of services it provides to customers. Fee revenue can be divided into the following categories:

Lending/Establishment fees

Fees and direct costs relating to loan origination, financing or restructuring of loan commitments are deferred and amortised to profit or loss in the Statement of Comprehensive Income over the life of the loan using the effective interest rate method. Other lending fees not directly related to the origination of a loan are recognised over the period of service.

Payment protection plan fees

Borrowers have the option of including the cost of payment protection plan cover as part of their loan. If a borrower chooses to include payment protection cover, the Group will remit instalments on their loan for up to 6 months if they get injured or are sick. The Group has determined that the Payment Protection Plan is a self-insurance arrangement in accordance with NZ IFRS 4 Appendix B "Definitions of an insurance contract" B19 (c) and therefore NZ IFRS 4 "Insurance Contracts" does not apply. Payment Protection Plan income is recognised over the life of the loan.

Commission and other fees

When commission or other fees relate to specific transactions or events, they are recognised in profit or loss within the Statement of Comprehensive Income when the service is provided. When they are charged for services provided over a period, they are taken to Other Revenue on an accruals basis as the service is provided.

Cost to obtain a contract

The Group pays sales commission to certain employees for the origination of new loans. The commission expense is recognised in the profit and loss over the period of the loan using the effective interest rate method.

(i) Financial Instruments

Classification

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Initial recognition of a financial asset shall be at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to acquisition or issue of the financial asset or financial liability.

1. SIGNIFICANT ACCOUNTING POLICIES (continued...)

(i) Financial Instruments (continued…)

Subsequent measurement of financial assets shall be at:

a) Amortised cost

b) Fair value through profit and loss

c) Fair value through other comprehensive income

To determine the classification of a financial asset's subsequent measurement basis a Business Model Test and a Cash Flow Characteristics Test is performed. Amortised cost should be applied where the loan or receivable is held to collect cash flows of principal and interest and not with the intention of selling instruments. The Group's financial assets are assets held for the collection of contractual cash flows that are payments of principal and interest. These financial assets are measured at amortised cost.

Financial Assets/Liabilities at fair value through profit or loss

Assets and liabilities in this category are either held for trading or are managed with other assets and liabilities and are accounted for and evaluated on a fair value basis. Fair value reporting of these assets and liabilities reflects the Group's risk management process, which includes utilising natural offsets where possible and managing overall risks of the portfolio on a trading basis.

The Group does not have any financial assets or financial liabilities that were measured as fair value through the profit and loss or OCI.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest rate method, less an allowance for credit losses. Cash and cash equivalents, loans and advances and most other receivables fall into this category of financial instruments.

Individually significant loans are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Loans that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry, type of loan and other shared credit risk characteristics. The impairment loss estimate is then based on historical counterparty default rates for each identified group, together with general economic conditions and assessment of both the current as well as the forecast direction of conditions at the reporting date. Refer to Note 1(n).

Financial liabilities

This category includes all financial liabilities other than those at fair value through profit or loss. Liabilities in this category are measured at amortised cost and include:

1. SIGNIFICANT ACCOUNTING POLICIES (continued...)

(i) Financial Instruments (continued…)

Term deposits and borrowings

Term deposits and borrowings are initially recognised at cost, being the fair value of the consideration received. After initial recognition, interest-bearing instruments are subsequently measured at amortised cost using the effective interest method.

Other Liabilities

These are recorded at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments. These amounts are unsecured.

(j) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

a) Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a high probable forecast transaction or the foreign currency risk in an unrecognized firm commitment.
b) Hedges of a net investment in a foreign operation

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

i) There is ‘an economic relationship’ between the hedged item and the hedging instrument.
ii) The effect of credit risk does not ‘dominate the value changes’ that result from that economic relationship.
iii) The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

1. SIGNIFICANT ACCOUNTING POLICIES (continued...)

(j) Derivative financial instruments and hedge accounting (continued…)

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments. The ineffective portion relating to foreign currency contracts is recognised as other income or other expense. Refer to Note 21 for more details.

The Group designates only the spot element of forward contracts as a hedging instrument. The forward element is recognised in OCI and accumulated in a separate component of equity under cost of hedging reserve.

The amounts accumulated in OCI are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in OCI for the period.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised as OCI while any gains or losses relating to the ineffective portion are recognised in the statement of profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the statement of profit or loss.

The Group uses forward currency contract as a hedge of its exposure to foreign exchange risk on its investments in foreign subsidiaries. Refer to Note 21 for more details.

(k) Property, Plant & Equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

1. SIGNIFICANT ACCOUNTING POLICIES (continued...)

(k) Property, Plant & Equipment (continued…)

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of plant and equipment are recognised in profit or loss within the Statement of Comprehensive Income as incurred.

Depreciation

Depreciation is provided on property, plant and equipment. Rates of depreciation applied approximate the assets useful economic life and the method selected best reflects the decline in service potential arising from each class of asset. The following rates have been used:

Motor vehicles	36% diminishing value
Furniture and fittings	11% to 26% diminishing value
Office equipment	11% to 67% diminishing value
Building improvements	5% to 48% diminishing value

Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is shorter, using the diminishing value method. Leased assets are depreciated over their useful lives.

Depreciation methods, useful lives and residual values are reassessed at the reporting dates.

(l) Intangible Assets

Software

Software acquired or internally developed by the Group is stated at cost less accumulated amortisation and any accumulated impairment losses. Expenditure on software assets is capitalised only when it increases the future economic value of that asset.

The amortisation of software is calculated using the diminishing value method, at a rate of 50%.

(m) Asset Quality

Loan quality is measured in terms of past due status and impairment status. The past due status is calculated and recorded on every loan at the end of each month, while the impairment status is tested periodically in accordance with the policies outlined below.

When the quality of a loan is classified as Past Due or Impaired, it is the entire balance of that loan that is classified as such, not just the Past Due or Impaired portion.

Restructured Assets

Restructured assets are those loans and advances where:

1. SIGNIFICANT ACCOUNTING POLICIES (continued...)

(m) Asset Quality (continued…)

a) the original terms have been changed to grant the counterparty a concession that would not otherwise have been available. The changed terms and conditions are set out in an entirely new contractual arrangement; and

b) the yield on the asset following restructuring is equal to, or greater than, the Group's average cost of funds and there is no objective evidence to support impairment of the financial asset as specified in NZ IFRS 9.

Impaired Assets

The Group classifies impaired assets into one of two categories:

Financial Assets acquired through the enforcement of security

Financial assets acquired through the enforcement of security are any financial assets which are legally owned as a result of the enforcement of security. The Group had no financial assets acquired through the enforcement of security as at 31 March 2023 (31 March 2022: nil).

Other Impaired Assets

Other impaired assets are financial assets that are individually determined to be impaired at reporting date, but that are not classified as financial assets acquired through the enforcement of security. See Note 1 (n).

(n) Impairment of Loans and Advances

In recognising credit losses, the Group considers a broader range of information, including past events, current conditions, forecast economic conditions, and security held that affect the expected collectability of the future cash flows of financial assets. Impairment losses are calculated on individual loans and loans assessed collectively.

A distinction is made between:

- Financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have a low credit risk ("Stage 1"); and

- Financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("Stage 2").

"Stage 3" would cover financial assets that have objective evidence of impairment at the reporting date, and are individually assessed. Losses for impaired loans are recognised immediately when there is objective evidence that impairment of a loan or portfolio of loans has occurred.

Individually assessed loans (Stage 3)

At each reporting date, the Group assesses individually significant loans where there is objective evidence that the loan is impaired. The loans are assessed on a case by case basis. In determining individual impairment allowances on these loans, many factors are considered, including the following:

1. SIGNIFICANT ACCOUNTING POLICIES (continued...)

(n) Impairment of Loans and Advances (continued…)

- Current security values
- Solvency of the borrower and guarantor
- Payment history on the account
- Interest rate being charged on the loan agreement

Impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate and comparing the resultant present value with the loans current carrying amount. Any

gain or loss is reflected in profit or loss within the Statement of Comprehensive Income. The carrying amount of impaired loans on the Statement of Financial Position is reduced through use of an allowance account.

Collectively assessed loans (Stage 1 and Stage 2)
Loans that have been individually assessed but no objective evidence of impairment existed, and loans that are not considered individually significant, are pooled into similar credit risk groups. These groups are then assessed for impairment based on historical loss experience of assets with similar risk characteristics, with the historical loss experience for each credit group adjusted for the impact of current observable data and current and future economic conditions. Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

For ‘Stage 1’ financial assets, 12-month expected credit losses are recognised. For Stage 2 financial assets, lifetime expected credit losses are recognised, discounted at the effective interest rate.

Loan write offs

Loans are normally written off in full when there is no realistic prospect of recovery of the amounts in a timely manner. If the Group receives payment on a loan that has been written off, it is recorded as bad debt recovered and appears as 'Other Revenue' in the Statement of Comprehensive Income.

Interest on impaired assets

All interest Revenue earned on Stage 3 individually assessed loans for the period is reported as interest on impaired assets.

(o) Employee benefits

A provision is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Other long-term benefits

1. SIGNIFICANT ACCOUNTING POLICIES (continued...)

(o) Employee benefits (continued…)

Other long-term benefits are measured on an undiscounted basis and relate to bonuses and deferred compensation not payable wholly within twelve months after the end of the reporting period.

(p) Provisions

A provision is recognised in the Statement of Financial Position when the Group has a present legal or constructive obligation as a result of past events, or it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management’s best estimate of the expenditure required to settle the present obligations at the reporting date. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(q) Expense recognition

All expenses are recognised in profit or loss in the Statement of Comprehensive Income on an accruals basis. Interest expense is recognised using the effective interest rate method.

(r) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised as profit or loss within the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous reporting periods.

Deferred tax is recognised using the liability method, providing for 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 on the initial recognition of assets or liabilities in a transaction that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

In principle deferred tax liabilities are recognised from taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences 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.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group has a legally enforceable right to offset current tax assets and liabilities.

1. SIGNIFICANT ACCOUNTING POLICIES (continued...)

(s) Cash Flows

The Statement of Cash Flows has been prepared using the direct method approach. The following are the definitions used in the Statement of Cash Flows:

Operating activities include the principal revenue-producing activities of the entity and other activities that are not investing or financing activities.

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

(t) Cash and cash equivalents

These comprise cash balances and other short-term deposits and they are measured at amortised cost. These are highly liquid investments that are readily convertible to known amounts of cash and they are subject to an insignificant risk of changes in value. Any Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the Statement of Cash Flows.

(u) Equity

Share capital

Share capital includes ordinary shares that are recognised at the amount paid per share when issued less incremental costs directly attributable to the issue of ordinary shares, net of any tax effect.

Foreign currency translation reserve

The translation reserve includes exchange differences arising from the translation of the assets & liabilities of the Group's foreign entities into New Zealand dollars.

Hedge reserves

Cash flow hedge reserve

This comprises the fair value gains and losses associated with the effective portion of designated cash flow hedging instruments, net of tax.

2. SIGNIFICANT JUDGEMENTS AND ESTIMATES

In applying NZ GAAP management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities where it is not readily apparent. Actual results may differ. The estimates and underlying assumptions, and their bases, are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the significant judgements and estimates that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Impairment losses on loans and advances

The Group assesses the expected credit losses associated with its debt instruments carried at amortised cost. The assumptions made with regard to these assets are as follows:

Category	Definition	Basis for recognition of impairment
Performing	A low risk of default. A strong capacity to meet contractual obligations.	Twelve month expected losses or the lifetime of the asset where the expected lifetime is less than twelve months.
Underperforming	A significant increase in credit risk. These are presumed to be loans which are 60 days or more past due	Lifetime expected losses.
Non-performing	Interest and principal payments are 90 days past due.	Lifetime expected losses.

The Group reviews its loans and advances portfolio to assess quality and impairment on a monthly basis. An allowance for impairment may be established if there is objective evidence that a loan or advance is impaired (for example, missing out on payments of principal and/or interest, or for factoring advances, where debtor aging reports show deterioration). Any fluctuations between the amount expected to be recovered and the actual amounts recovered are reflected in profit or loss within the Statement of Comprehensive Income. A loan or advance is considered specifically impaired when management reviews it and determines that it is probable that not all amounts due according to the original contractual terms will be collected, and the amount expected to be collected can be reliably estimated. At a minimum, management reviews loans and advances with balances of $10,000 or more that are past due 90 days or more.

When a loan or advance has been identified as specifically impaired, the carrying amount of the loan or advance is reduced by recording a specific impairment allowance for loan losses to its estimated recoverable amount, which is the present value of expected future cash flows including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loan or advance. Past experience and judgement are used in estimating the timing and amounts of the expected cash flows. Specific impairment allowances are updated each month, with the expected future cash flows reviewed when new information becomes available.

Loans and advances not considered specifically impaired become subject to a collective impairment assessment. The collective impairment allowance is calculated as a percentage of the balance of loans and advances of that credit profile, with the percentage varying by credit profile and how far past due the account is. This percentage for each credit profit is calculated by taking into consideration the probability of default and the probability of loss given default. The credit profile is determined by of the type of collateral held for the loan or advance.

2. SIGNIFICANT JUDGEMENTS AND ESTIMATES (continued…)

Impairment losses on loans and advances (Continued…)

The Group takes into consideration historical data, the quality of the securities held as collateral, current market conditions, and forecast market data in determining this percentage.

Note 24(b) shows the aging of Past Due but not Impaired Loans and advances. These loans and advances, and restructured loans and advances as shown in Note 24(d) are subject to the collective impairment allowance. The collective impairment allowance is updated each month.

Several of the assets used as security against larger business loans have a high value, and some of them are unique. These factors mean fluctuations in the sale prices of the assets can be significant. When exposures secured by these assets become specifically impaired and are expected to be recovered from selling the assets, it is difficult to make an accurate assessment of the expected cash flows from the asset sales. Both management and the directors give significant consideration to the realisable value of such assets securing specifically impaired loans.

Deferred tax assets

As described in Note 13, the financial statements include a deferred tax asset of $163,708 (31 March 2022: $550,794). This has been recognised to the extent that it is probable that future taxable profits will be available for set-off against deductible temporary differences. The judgement made by the directors and management is that based on the plans and projections of the Group that it will generate sufficient profitability and therefore the deferred tax asset is realisable in the future.

3. INTEREST REVENUE AND EXPENSE

	Year Ended 31-Mar-23 $	Year Ended 31-Mar-22 $
Interest revenue		
Loans and advances	7,006,326	5,401,609
Interest on impaired assets	268,211	24,586
Cash and short term investments	110,256	20,166
	7,384,793	**5,446,361**
Interest expense		
Term Deposits	3,360,989	2,299,868
	3,360,989	**2,299,868**

4. OTHER REVENUE

	Year Ended 31-Mar-23 $	Year Ended 31-Mar-22 $
Lending/Establishment fee revenue		
Amortised over life of loan	1,140,643	685,829

4. OTHER REVENUE (continued…)

Recognised at drawdown or at time of service	234,458	334,486
	1,375,101	1,020,315
Payment protection plan fees amortised over life of loan	135,131	263,230
Other income	875,697	1,106,785
	2,385,929	**2,390,330**

Other Income predominantly relates to:

- Income generated by on-charging specific loan accounts for expenses such as legal and repossession fees that have been paid and which the Group is entitled to recover from customers;
- Maintenance fees; and
- Early termination fees.

5. IMPAIRMENT

	Year Ended 31-Mar-23 $	**Year Ended 31-Mar-22** $
(a) Impairment losses recognised in profit or loss		
Movement in expected credit loss allowance on loans that are not credit impaired	(24,883)	(30,509)
Credit impaired loans		
Addition to impairment allowance	383,087	215,503
Reversal of existing impairment allowance	(226,941)	(280,578)
Movement in lifetime expected credit loss allowance	156,146	(65,075)
Loans and advances written off	171,562	373,121
Impairment losses of financial assets	**302,825**	**277,537**
(b) Allowance for impairment losses in Statement of Financial Position		
Lifetime expected credit loss allowance (credit impaired loans)		
Opening balance	83,320	148,395
Recognised in profit or loss	156,146	(65,075)
Closing balance	239,466	83,320
12 month expected credit loss allowance (loans that are not credit impaired)		
Opening balance	136,738	166,978
Recognised in profit or loss	(24,883)	(30,509)
Net exchange differences	373	269
Closing balance	112,228	136,738
Total allowance for impairment losses	**351,694**	**220,058**

More information about impairment allowances and their calculation is contained in Note 1(n) and Note 2. There are no financial assets that are purchased or originated credit impaired.

6. OPERATING EXPENSES AND STAFF COSTS

Profit before income tax includes the following expenses:	Notes	Year Ended 31-Mar-23	Year Ended 31-Mar-22
Operating expenses		$	$
Amortisation	15	207,177	141,265
Depreciation	14	59,521	51,122
Directors' fees	27	157,436	139,867
Audit fees	7	153,006	146,807
Donations		1,801	1,448
Personnel costs		1,574,989	2,029,807
Administrative expenses		1,659,360	1,176,224
Loss on disposal of property and equipment		16,426	14,883
Payment protection plan remittance entitlements		(26,922)	31,757
Other operating expenses		1,032,689	915,478
Total operating expenses and staff costs		**4,835,483**	**4,648,658**

7. AUDITOR REMUNERATION

	Year Ended 31-Mar-23	Year Ended 31-Mar-22
Amounts paid to the auditor for:	$	$
Auditing financial statements	147,506	141,307
Trustee reporting	3,000	3,000
Debenture register	2,500	2,500
Total auditor's remuneration	**153,006**	**146,807**

The auditor of the Group is Grant Thornton New Zealand Audit Limited.

8. INCOME TAX

	Notes	Year Ended 31-Mar-23	Year Ended 31-Mar-22
		$	$
Income tax			
Current income tax		26,804	-
		26,804	**-**
Deferred tax			
Relating to origination and reversal of temporary differences	13	342,110	175,790
Relating to changes in Australian tax rate (from 26% to 25%)		-	285
		342,110	176,075
Income tax expense reported in Statement of Comprehensive Income		**368,914**	**176,075**

8. INCOME TAX (continued…)

Other comprehensive income		
Deferred tax related to items recognised in other comprehensive income during the year		
Exchange differences on investment in subsidiary	(45,655)	(12,088)
Net loss on cash flow hedges	679	-
Deferred tax charged to other comprehensive income	**44,976**	**(12,088)**
Numerical reconciliation of income tax expense to prima facie tax payable		
Profit before income tax expense	1,271,425	610,628
Tax at the New Zealand tax rate of 28% (2022: 28%)	355,999	170,976
Impact of lower tax rate in Australia	(5,974)	3,726
Impact of change in Australian tax rate (from 26% to 25%)	-	285
Unutilised foreign tax credits	16,665	-
Permanent differences	2,224	1,088
	368,914	**176,075**

9. IMPUTATION CREDITS

Imputation credits of $533 (31 March 2022: $8) are available for use in subsequent reporting periods.

10. DIVIDENDS PAID AND DECLARED

	Year Ended 31-Mar-23 $	Year Ended 31-Mar-22 $
Final Dividend	-	-
Details		
Shares on issue at end of period	7,534,075	7,460,001
Amount per share (Dividend / No. of shares on issue)	**-**	**-**

11. CASH AND CASH EQUIVALENTS

	Year Ended 31-Mar-23 $	Year Ended 31-Mar-22 $
Bank balances		
Bank balances	16,381,283	7,164,467
Cash on hand	-	174
	16,381,283	**7,164,641**

12. LOANS AND ADVANCES RECEIVABLE

	Year Ended 31-Mar-23 $	Year Ended 31-Mar-22 $
At amortised cost		
Loans and advances	72,565,887	50,997,363
Unearned income	(746,771)	(494,751)
Allowance for impairment losses	(351,694)	(220,058)
Total net loans and advances	**71,467,421**	**50,282,554**
Split by maturity:		
Current	64,489,878	42,783,942
Non-current	6,977,543	7,498,612
	71,467,421	**50,282,554**

More information about impairment allowances is contained in Note 1(n), 2 and 5.

13. DEFERRED TAX ASSETS

The balance comprises of temporary differences attributable to:	Year Ended 31-Mar-23 $	Year Ended 31-Mar-22 $
Impairment allowance	98,438	61,024
Provision for employee benefits	36,784	34,694
Accelerated depreciation for tax purposes	(5,162)	(10,324)
Accruals	35,815	27,972
Provision for payment protection plan remittance entitlements	3,768	15,680
Prepayments	-	(6,974)
Investment in subsidiary	(57,743)	(12,088)
Revaluation of cash flow hedges	679	-
Unused tax losses	51,129	440,810
	163,708	**550,794**
Movements		
Opening balance	550,794	738,957
Movements recognised in profit or loss in the Statement of Comprehensive Income:		
Impairment allowance	37,322	(27,348)
Provision for employee benefits	2,090	10,616
Accelerated depreciation for tax purposes	5,162	(10,324)
Accruals	7,843	(12,342)
Provision for Payment Protection Plan remittance entitlements	(11,912)	-
Prepayments	6,974	4,538
Change in tax rates	-	(285)
Unused tax losses	(389,589)	(140,930)
Total movements recognised in profit or loss in the Statement of Comprehensive Income:	**(342,110)**	**(176,075)**

13. DEFERRED TAX ASSETS (continued…)

Movements recognised in other comprehensive income in the Statement of Comprehensive Income:		
Investment in subsidiary	(45,656)	(12,088)
Net loss in cash flow hedges	679	-
Closing balance	**163,708**	**550,794**

14. PROPERTY, PLANT & EQUIPMENT

Cost or deemed cost	**Building improvements**	**Office equipment**	**Furniture & fittings**	**Motor Vehicles**	**Total**
	$	$	$	$	$
Balance at 1 April 2022	731,291	277,404	108,471	13,500	1,130,666
Additions	9,262	9,495	-	-	18,757
Disposals	(67,161)	(132,470)	(49,747)	(13,500)	(262,878)
Balance at 31 March 2023	673,392	154,429	58,724	-	886,545
	$	$	$	$	$
Balance at 1 April 2021	748,565	414,051	90,045	69,851	1,322,512
Additions	12,016	64,816	19,711	-	96,543
Disposals	(29,289)	(201,464)	(1,285)	(56,351)	(288,389)
Balance at 31 March 2022	731,291	277,404	108,471	13,500	1,130,666

Depreciation and Impairment losses	**Building improvements**	**Office equipment**	**Furniture & fittings**	**Motor Vehicles**	**Total**
	$	$	$	$	$
Balance at 1 April 2022	568,957	204,126	76,356	11,779	861,218
Depreciation	19,571	34,981	4,608	361	59,521
Depreciation written back on disposal	(56,396)	(126,685)	(47,820)	(12,140)	(243,041)
Balance at 31 March 2023	532,132	112,422	33,144	-	677,698
	$	$	$	$	$
Balance at 1 April 2021	571,161	374,431	74,242	62,132	1,081,966
Depreciation	20,926	25,393	2,631	2,172	51,122
Depreciation written back on disposal	(23,130)	(195,698)	(517)	(52,525)	(271,870)
Balance at 31 March 2022	568,957	204,126	76,356	11,779	861,218

Carrying amounts	**Building improvements**	**Office equipment**	**Furniture & fittings**	**Motor Vehicles**	**Total**
	$	$	$	$	$
As at 1 April 2022	162,334	73,278	32,115	1,721	269,448
As at 31 March 2023	**141,260**	**42,007**	**25,580**	**-**	**208,847**
As at 1 April 2021	177,404	39,620	15,803	7,719	240,546
As at 31 March 2022	**162,333**	**73,278**	**32,112**	**1,721**	**269,444**

15. INTANGIBLE ASSETS

	Year Ended 31-Mar-23 $	Year Ended 31-Mar-22 $
Cost or deemed cost	**Software**	**Software**
Opening Balance	551,747	389,332
Additions	90,015	220,222
Disposals	-	(57,807)
Closing Balance	**641,761**	**551,747**
Amortisation & Impairment losses	**Software**	**Software**
Opening Balance	198,582	114,526
Amortisation	207,177	141,265
Amortisation written back on disposal	-	(57,209)
Closing Balance	**405,759**	**353,165**
Carrying amount	**236,002**	**353,165**

16. OTHER PAYABLES

	Year Ended 31-Mar-23 $	Year Ended 31-Mar-22 $
Resident withholding tax payable	170,993	81,753
Employee taxes and other liabilities	50,234	42,156
Other accruals	8,794	2,418
Provision for Payment Protection Plan remittance entitlements	13,456	56,000
	243,477	**182,327**

17. SECURED TERM DEPOSITS

	Year Ended 31-Mar-23 $	Year Ended 31-Mar-22 $
At amortised cost		
Term deposits on issue	**79,257,514**	**50,169,529**
Current	45,527,075	22,976,613
Non-current	33,730,439	27,192,916
	79,257,514	**50,169,529**

17. SECURED TERM DEPOSITS (continued…)

Term deposits are secured under a Debenture Stock Trust Deed dated 15 March 2004 (as amended by deeds of amendment dated 1 December 2010, 11 September 2012, 10 October 2016 and 3 December 2018 respectively) between Xceda Finance Limited and Covenant Trustee Services Limited as Trustee.

The deed creates a security interest in favour of the Trustee over all of the present and after acquired personal property of the charging Company. The security interest is first ranking (subject to Prior Security Interests) and a financing statement is registered on the Personal Property Securities Register (PPSR).
Interest rates on term deposits range from 3.50% to 8.10% p.a. (31 March 2022: 2.50% to 7.25% p.a.). Refer to Note 23 for the current weighted average interest rates and the maturity profile.

18. EMPLOYEE ENTITLEMENTS

	Year Ended 31-Mar-23 $	Year Ended 31-Mar-22 $
Short term employee benefits		
Wages and salaries accrued	20,920	20,879
Bonuses accrued	71,566	44,244
Holiday pay	59,806	79,664
	152,292	**144,787**

19. SHARE CAPITAL AND RESERVES

Share capital	Year Ended 31-Mar-23 $	Year Ended 31-Mar-22 $
Opening Balance	5,581,067	5,181,067
Share capital paid in cash during the period	100,000	400,000
Closing Balance	**5,681,067**	**5,581,067**

Share Issue Details and Rights
All shares have an equal right to vote, to dividends and to any surplus on winding up.

Share movements	Year Ended 31-Mar-23 #	Year Ended 31-Mar-22 #
Opening Balance	7,460,001	7,163,704
Shares issued during the period	74,074	296,297
Closing Balance	**7,534,075**	**7,460,001**

19. SHARE CAPITAL AND RESERVES (continued…)

Other comprehensive income, net of tax:
The disaggregation of changes of OCI by each type of reserve in equity is show below:

Foreign currency translation reserve

	Year Ended 31-Mar-23 $	Year Ended 31-Mar-22 $
Opening Balance	29,487	(204)
Exchange differences on translation of foreign operations	111,742	29,487
Closing Balance	**141,229**	**29,487**

Cash flow hedge reserve

	Year Ended 31-Mar-23 $	Year Ended 31-Mar-22 $
Opening Balance	-	-
Fair Value Loss on currency forward contracts	(1,746)	-
Closing Balance	**(1,746)**	**-**

20. GROUP INFORMATION

The consolidated financial statements of the Group include the Parent Company (Xceda Finance Limited) and its subsidiary Xceda Finance Pty Limited. Xceda Finance Limited owns 100% (31 March 2022: 100%) of the share capital of Xceda Finance Pty Limited; a company incorporated in Australia.

21. FINANCIAL INSTRUMENTS

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of every financial instrument on issue are disclosed in Note 1 to the financial statements.

Financial risk management objectives

By their nature the Group's activities are principally related to the use of financial instruments. The Group is borrowing funds, primarily from the New Zealand public, by issuing Secured term deposits for various periods pursuant to a registered Product Disclosure Statement; and lending funds to the public by providing finance in the form of consumer loans, business loans and factoring.

The Group actively manages its interest rate exposures with the objective of enhancing net interest income within prudent risk tolerances. Interest rates on loans and advances are set on a case by case basis, and depositor interest rates are reviewed periodically depending on the Group's liquidity requirements and current market rates.

The Group seeks to maintain its interest margins by obtaining competitive margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standings.

21. FINANCIAL INSTRUMENTS (continued...)

Financial risk management objectives (continued…)

The Group's activities expose it to credit risk, market risk (including interest rate risk), liquidity risk, foreign currency exchange risk and the risk of money laundering and/or terrorism financing.

The Group seeks to maintain its interest margins by obtaining competitive margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standings.

The Group's activities expose it to credit risk, market risk (including interest rate risk), liquidity risk, foreign currency exchange risk and the risk of money laundering and/or terrorism financing.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's lending policy requires that credit approval procedures be undertaken for each loan advance. As a minimum, credit checks are performed on each individual, company and collateral item relating to each loan before the loan is considered. Loans and advances are secured by charges over residential property, commercial and industrial property, other assets (including but not limited to buildings, plant and motor vehicles) and debenture charges including personal guarantees. Security is used as a means of mitigating the risk of financial loss arising from defaults.

Loan receivables consist of a large number of customers, spread across diverse industries and geographical locations. Certain restrictions exist on maximum net exposure to any one borrower or group of related borrowers. The Debenture Stock Trust Deed sets the limit at 10% of total tangible assets. As at 31 March 2023 the largest exposure to any one borrower or group of related borrowers as a percentage of total tangible assets was 4.00% (31 March 2022: 5.17%).

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained. Detailed notes on concentration of credit exposure and asset quality are contained in Notes 22 and 24 respectively.

Market risk

The Group's activities expose it primarily to the financial risks of changes in interest rates. Interest rate risk is the risk of loss to the Group arising from adverse fluctuation in interest rates. To mitigate this risk the Group enters into fixed borrowing and lending agreements for various maturity dates and through regular monitoring of rates offered on deposits and those charged on advances.

The sensitivity analysis below has been determined based on the variable rate loans and advances in the comparative period. The analysis is prepared assuming the amount outstanding at each reporting date was outstanding for the whole year. A 1% p.a. interest rate increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management assessment of the reasonably possible change in interest rates.

Profit for the year ended 31 March 2023 would not change (31 March 2022: no change) if interest rates had been 1.00% p.a. higher/lower and all other variables were held constant.

Liquidity risk

Liquidity is the risk that the Group will encounter difficulty in raising funds at short notice to meet commitments associated with financial instruments. The Group maintains sufficient funds to meet their commitments by

21. FINANCIAL INSTRUMENTS (continued...)

Liquidity risk (continued…)

continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Liquidity risk and exposure is monitored on an ongoing basis. The maturity profile of monetary assets and liabilities is shown on Note 23.

Money laundering and terrorism financing risk

Money laundering involves transforming money from crime ("dirty money") into money that: (a) has the appearance of coming from a legitimate source; and (b) makes the criminal origin of the money difficult to trace ("clean money"). The Group has performed an Anti-Money Laundering (AML) and Countering Financing of Terrorism (CFT) risk assessment and has an AML and CFT programme in place to mitigate the potential risks associated with money laundering and terrorism financing.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's presentation currency) and the Group's net investments in foreign subsidiaries.

The Group manages its foreign currency risk by hedging transactions and it's net investment in subsidiary. When a derivative is entered into for the purpose of being a hedge, the Group negotiates the terms of those derivatives to match the terms of the hedged exposure. For hedges of forecast transactions, the derivatives cover the period of exposure from the point the cash flows of the transactions are forecasted up to the point of settlement of the resulting receivable or payable that is denominated in the foreign currency.

The Group hedges its exposure to fluctuations on the translation into NZD of its foreign operations by using foreign currency forward contracts.

At 31 March 2023 the Group had loans totalling AUD$9,957,720 (31 March 2022: AUD$3,308,829) to third parties.

At 31 March 2023 a 5% increase/decrease in the NZD against the AUD would have the impact on profit of +/- $2,000.

Fair value of financial instruments

<u>Measurement of Fair Value Hierarchy</u>

The carrying amounts of assets and liabilities at the reporting date approximate their fair values. The table on the following page analyses financial assets and liabilities carried at fair value, by valuation method. The different levels have been defined as follows:

- **Level 1** – Quoted prices (unadjusted) in active markets for identical assets or liabilities
- **Level 2** – Inputs other than quotes prices included within Level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- **Level 3** – Inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

21. FINANCIAL INSTRUMENTS (continued...)

Fair value of financial instruments (continued…)

Valuation Techniques and Significant Unobservable Inputs

Neither loans and advances, nor secured term deposits are traded in an active market. Fair values for loans and advances are estimated by discounting the future contractual cash flows using the current weighted average interest rate at the reporting date applicable for loans with similar terms and conditions. Fair values for secured term deposits are estimated by discounting the future contractual cash flows using the current weighted average interest rate at the reporting date applicable for secured term deposits with similar terms and conditions.

Both loans and advances and secured term deposits have accordingly been classified as Level 3.

The following table shows the discounted future contractual cash flow Level 3 valuation techniques used in measuring the fair value of loans and advances and secured term deposits.

Fair value of financial instruments (continued…)

Description	Valuation	Valuation technique	Unobservable inputs	Sensitivity of fair value to changes in inputs. The Estimated Fair Value would increase/(decrease) if
Secured term deposits	78,721,398 (31 March 2022: 50,391,037)	Discounted contractual cashflow – Level 3	• Weighted average interest rate 5.94% p.a. (31 March 2022: 4.96%) • Weighted average months to maturity 13.87 (31 March 2022: 17.95) • Current weighted average interest rate 7.03% p.a. (31 March 2022: 4.41%)	• Weighted average interest rate was higher/(lower) • Weighted average months to maturity was higher/(lower) • Current weighted average interest rate was (higher)/lower
Loans and advances	71,405,493 (31 March 2022: 50,230,941)	Discounted contractual cashflow – Level 3	• Weighted average interest rate 11.27% (31 March 2022: 11.11%) • Weighted average months to maturity 7.91 (31 March 2022: 10.46) • Current weighted average interest rate 11.50% p.a. (31 March 2022: 11.32%)	• Weighted average interest rate was higher/(lower) • Weighted average months to maturity was higher/(lower) • Current weighted average interest rate was (higher)/lower

21. FINANCIAL INSTRUMENTS (continued...)

Fair value of financial instruments (continued…)

The fair values of financial assets and financial liabilities are stated on the following table:

	As at 31-Mar-2023		As at 31-Mar-2022	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	$	$	$	$
Financial assets				
Loans and receivables:				
Cash and cash equivalents	16,381,283	16,381,283	7,164,641	7,164,641
Loan and advances	71,467,421	71,405,493	50,282,554	50,230,941
Derivative financial instruments	308,160	308,160	-	-
Financial liabilities				
Borrowings:				
Term deposits	79,257,514	78,721,398	50,169,529	50,391,037
Accounts payable	291,191	291,191	311,038	311,038
Employee entitlements	152,292	152,292	144,787	144,787

Except as detailed in the above table, the directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

Assumptions used in determining fair value of financial assets and liabilities

Cash and cash equivalents

These are short term in nature; carrying value is equivalent to fair value.

Loan and advances

Fair value is estimated based on current market interest rates available for receivables of similar maturity and risk. The interest rate is used to discount future cash flows.

Secured term deposits

Financial liabilities with a maturity of one year or more, fair values have been estimated using the discounted cash flow approach using current rates offered for similar liabilities for similar remaining maturities. For liabilities with a maturity less than 12 months from the reporting date, the carrying amount is considered to be a reasonable estimate of fair value.

Hedging activities and derivatives

The Group is exposed to certain risks relating to its ongoing business operations. The primary risk managed using derivative instruments is foreign currency risk.

The Group's risk management strategy and how it is applied to managing risk is explained below.

The Group has $nil (March 2022: $nil) derivatives not designated as hedging instruments.

21. FINANCIAL INSTRUMENTS (continued...)

Hedging activities and derivatives (continued…)

The Group's derivative financial instruments are measured at fair value and are summarised below

Derivative financial assets	**Year Ended 30-March-23**	**Year Ended 31-Mar-22**
	$	$
FX Contracts		
AUD forward contracts – cashflow hedge	11,952	-
AUD forward contracts – net investment hedge	296,208	-
Derivative financial assets	**308,160**	**-**

Cash flow hedges

Foreign exchange forward contracts are designated as hedging instruments in cash flow hedges of interest receivable to the parent in NZD from the foreign subsidiary in AUD. These forecast transactions are highly probable, and ineffectiveness may arise from the timing of payment of interest.

At 31 March 2023, cash flow hedges have been assessed as 91% effective (31 March 2022: n/a)

Net investment hedges

Structural FX risk results from the Parent's capital deployed in it's Australian subsidiary, where it is denominated in AUD. As exchange rates move, the NZD equivalent of offshore capital is subject to change that could introduce significant variability to the Group's reported financial results and capital ratios.

The Group uses FX forward contracts when hedging the currency translation risk arising from net investments in foreign operations. The Group currently applies hedge accounting to its net investment in Australia which constitutes to 100% of the Group's offshore operation. Ineffectiveness only arises if the notional values of the FX forward contracts exceed the net investment in Australian operations.

At 31 March 2023, net investment hedges have been assessed as 100% effective (Mar 22: n/a)

21. FINANCIAL INSTRUMENTS (continued...)

Derivative maturity profile

The following table summaries the maturity profile of the Group's derivative financial instruments based on contractual payments:

As at 31 March 2023

	Hedging Instrument	Hedged Risk	Contractual cash flows	Notional Amounts 6 months or less	6-12 months	1-2 years	2-5 years	more than 5 years
			$	$	$	$	$	$
Derivative Financial Instruments								
Cash flow hedges	Forward contracts	FX risk	427,381	196,409	230,972	-	-	-
Net investment hedges	Forward contracts	FX risk	10,340,105	6,968,163	3,371,942	-	-	-
Total Derivative Financial Instruments			**10,767,486**	**7,164,572**	**3,602,914**	**-**	**-**	**-**

As at 31 March 2022

	Hedging Instrument	Hedged Risk	Contractual cash flows	Notional Amounts 6 months or less	6-12 months	1-2 years	2-5 years	more than 5 years
			$	$	$	$	$	$
Derivative Financial Instruments								
Cash flow hedges	Forward contracts	FX risk	-	-	-	-	-	-
Net investment hedges	Forward contracts	FX risk	-	-	-	-	-	-
Total Derivative Financial Instruments			**-**	**-**	**-**	**-**	**-**	**-**

The following table shows the weighted average FX rate related to significant hedging instruments in one-to-one hedge relationships.

Hedge	Hedging Instrument	Hedged Risk	Currency pair	31-Mar-23	31-Mar-22
Cash flow hedges	Forward contracts	FX risk	AUD:NZD	0.9073	-
Net investment hedges	Forward contracts	FX risk	AUD:NZD	0.9009	-

21. FINANCIAL INSTRUMENTS (continued...)

Impact of hedge accounting in reserves

The pre-tax impact of cash flow and net investment hedges on reserves is detailed below:

	Cash flow hedge reserve	Net investment hedge reserve
Balance as at 1 April 2022	-	-
Net gains/(losses) from changes in fair value	2,425	-
Transferred to other income	-	-
Balance as at 31 March 2023	**2,425**	**-**

	Cash flow hedge reserve	Net investment hedge reserve
Balance as at 1 April 2021	-	-
Net gains/(losses) from changes in fair value	-	-
Transferred to other income	-	-
Balance as at 31 March 2022	**-**	**-**

22. CONCENTRATION OF CREDIT EXPOSURE

Loans and advances

	As at 31-Mar-23	As at 31-Mar-22
Product concentration of Loans and advances (gross exposure)	%	%
Business Loans	3.07	8.21
Personal Loans	3.03	8.03
Mortgages	93.90	83.76
	100.00	100.00

Business Loans

This product category is made up of any loan or credit facility we have provided to businesses to fund working capital or the purchase of assets. The average cash paid out on business facility loans for the year ended 31 March 2023 was $163,209 (31 March 2022: $98,208) for a term of 27.66 months (31 March 2022: 17.87 months). Typical business facilities are Principal & Interest loans up to $350,000 for a maximum term of five years secured by plant & machinery and/or general security agreements (GSA) and/or real estate property. Loans secured by GSA are capped at $50,000.

Personal Loans

This product category consists of loans the Group has provided to individuals for personal purposes where the value of the loan is less than $40,000. The average cash paid out on personal loans in the year ended 31 March 2023

22. CONCENTRATION OF CREDIT EXPOSURE (continued…)

Loans and advances (continued…)

was $4,266 (31 March 2022: $5,936), with the average term of those loans being 25.43 months (31 March 2022: 26.49 months), although those amounts and terms do vary depending on the purpose of the loan. These loans are usually secured by motor vehicles or other securities registered under the Personal Property Securities Act 1999. Amounts up to $3,000 can be lent unsecured, but unsecured lending accounts for less than 1% of all loans. In March 2023, the Group ceased offering this product. It is expected that the current personal loans book will run down to $nil over the next 18 months.

Mortgages

This product category largely consists of interest only loans secured by first mortgage over land or residential dwellings from $500,000 to $2,000,000 for a maximum term of 18 months and a LVR of less than 70%. These loans could be provided for business, investment, or personal purposes. The average cash paid out on business facility loans in year ended 31 March 2023 was $812,150 (31 March 2022: $574,340) for a term of 8.47 months (31 March 2022: 9.56 months)

	As at 31-Mar-23	**As at 31-Mar-22**
Geographical concentration of Loans and advances (gross exposure)	%	%
Auckland & Northland	60.37	53.35
Waikato	5.87	19.04
Bay of Plenty	3.55	5.16
Central North Island	3.91	5.60
Lower North Island	4.77	4.54
South Island & Other	6.20	3.85
Overseas	15.32	8.46
	100.00	100.00

	As at 31-Mar-23	**As at 31-Mar-22**
Primary collateral held against Loans and advances (net exposure)	%	%
First mortgage	93.02	78.19
Second mortgage or agreement to mortgage	3.97	12.55
Motor vehicle (PPSR charge)	1.71	5.56
Machinery and plant (PPSR charge)	0.33	0.84
Other security (PPSR charge)	0.02	0.03
General charge over all personal property (PPSR charge)	0.86	1.97
Accounts receivable (PPSR charge)	-	0.63
No security	0.09	0.23
	100.00	100.00

22. CONCENTRATION OF CREDIT EXPOSURE (continued...)

Loans and advances (continued…)

Concentration of Loans and advances to individual counterparties (gross exposure)	**As at 31-Mar-23**	**As at 31-Mar-22**
	#	#
% of shareholders funds		
10 - 19.9%	24	12
20 - 29.9%	4	6
30 - 39.9%	2	1
40 – 49.9%	-	-

Funding	**As at 31-Mar-23**	**As at 31-Mar-22**
Product concentration of Funding	%	%
Term deposits	100.00	100.00
	100.00	100.00

	As at 31-Mar-23	**As at 31-Mar-22**
Geographical concentration of Funding	%	%
Auckland & Northland	31.70	26.65
Waikato	12.19	12.99
Bay of Plenty	18.07	17.62
Other - North Island	13.70	14.25
South Island	16.83	15.83
Overseas	7.51	12.67
	100.00	100.00

Concentration of Funding from individual counterparties	**As at 31-Mar-23**	**As at 31-Mar-22**
	#	#
% of shareholders funds		
10 - 19.9%	7	3
20 -29.9%	1	-
30 - 39.9%	-	-
40 – 49.9%	-	1

23. MATURITY PROFILE & INTEREST RATE REPRICING PROFILE

The table below analyses the Group's financial assets and liabilities at the reporting date into the relevant maturity groupings, based on the remaining period to the contractual maturity date.

Key management personnel and the Directors review the loan book on a regular basis and make assessments on the collectability of the outstanding loans. The difference between the contractual cash flows and expected cash flows comprise (a) impairment losses estimated and agreed by management and the Directors as described in Note 1(n) and (b) fees that have yet to be recognised as revenue for accounting purposes, but which are contractually due.

Maturity Profile of Monetary Items

As at 31 March 2023

	Statement of Financial Position	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	5 years +
	$	$	$	$	$	$	$
Non-derivative Financial Assets							
Cash and cash equivalents	16,381,283	16,381,283	16,381,283	-	-	-	-
Loans and advances	71,467,421	71,039,428	31,236,026	32,409,036	6,931,715	433,016	29,635
Total Assets	**87,848,704**	**87,420,711**	**47,617,309**	**32,409,036**	**6,931,715**	**433,016**	**29,635**
Non-derivative Financial Liabilities							
Employee entitlements	152,292	152,292	152,292	-	-	-	-
Term deposits	79,257,514	84,657,112	28,314,651	20,570,419	24,503,413	11,268,629	-
Accounts payable	291,191	291,191	291,191	-	-	-	-
Total Liabilities	**79,700,997**	**85,100,595**	**28,758,134**	**20,570,419**	**24,503,413**	**11,268,629**	**-**
Total	**8,147,707**	**289,164**	**16,829,230**	**11,837,610**	**(17,571,698)**	**(10,835,613)**	**29,635**

The expected maturity of financial assets and liabilities only differs materially from the contractual maturity in respect of loans and advances. The expected maturity of loans and advances and the adjusted cash flows are as follows:

	Statement of Financial Position	Expected cash flows	6 months or less	6-12 months	1-2 years	2-5 years	5 years +
	$	$	$	$	$	$	$
Loans and advances (expected)	71,467,421	70,687,734	30,884,332	32,409,036	6,931,715	433,016	29,635
Adjusted total	**8,147,707**	**1,968,422**	**18,507,481**	**11,838,617**	**(17,571,698)**	**(10,835,613)**	**29,635**

23. MATURITY PROFILE & INTEREST RATE REPRICING PROFILE (continued…)

Maturity Profile of Monetary Items (continued…)

As at 31 March 2022

	Statement of Financial Position	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	5 years +
	$	$	$	$	$	$	$
Non-derivative Financial Assets							
Cash and cash equivalents	7,164,641	7,164,641	7,164,641	-	-	-	-
Loans and advances	50,282,554	55,243,034	24,269,432	22,723,002	6,406,355	1,816,400	27,845
Total Assets	**57,447,195**	**62,407,675**	**31,434,073**	**22,723,002**	**6,406,355**	**1,816,400**	**27,845**
Non-derivative Financial Liabilities							
Employee entitlements	144,787	144,787	144,787	-	-	-	-
Term deposits	50,169,529	53,890,619	11,178,886	13,769,261	15,584,628	13,357,844	-
Accounts payable	311,038	311,038	311,038	-	-	-	-
Total Liabilities	**50,625,354**	**54,346,444**	**11,634,711**	**13,769,261**	**15,584,628**	**13,357,844**	**-**
Total	**6,821,841**	**8,061,231**	**19,799,362**	**8,953,741**	**(9,178,273)**	**(11,541,444)**	**27,845**

The expected maturity of financial assets and liabilities only differs materially from the contractual maturity in respect of loans and advances. The expected maturity of loans and advances and the adjusted cash flows are as follows:

	Statement of Financial Position	Expected cash flows	6 months or less	6-12 months	1-2 years	2-5 years	5 years +
	$	$	$	$	$	$	$
Loans and advances (expected)	50,282,554	55,022,976	24,049,374	22,723,002	6,406,355	1,816,400	27,845
Adjusted total	**6,821,841**	**9,159,348**	**19,616,337**	**9,137,441**	**(8,546,065)**	**(11,076,210)**	**27,845**

23. MATURITY PROFILE & INTEREST RATE REPRICING PROFILE (continued...)

Interest Rate Repricing Profile of Monetary Items

As at 31 March 2023

	Weighted Average Interest Rate	Total	Within 6 Months	Between 6 - 12 Months	Between 1 - 2 Years	Between 2 - 5 Years	Over 5 Years	Non-interest bearing
	% p.a.	$	$	$	$	$	$	$
Non-derivative Financial Assets								
Cash and cash equivalents	2.10%	16,381,283	16,381,283	-	-	-	-	-
Loans and advances	11.27%	71,467,421	33,653,992	30,835,886	6,558,179	389,729	29,635	-
Total Assets	**9.56%**	**87,848,704**	**50,035,275**	**30,835,886**	**6,558,179**	**389,729**	**29,635**	**-**
Non-derivative Financial Liabilities								
Employee entitlements	-	152,292	-	-	-	-	-	152,292
Term deposits	5.94%	79,257,514	26,315,774	19,211,301	23,154,468	10,575,971	-	-
Accounts payable	-	291,191	-	-	-	-	-	291,191
Total Liabilities	**5.91%**	**79,700,997**	**26,315,774**	**19,211,301**	**23,154,468**	**10,575,971**	**-**	**443,483**
Total	**3.65%**	**8,147,707**	**23,719,501**	**11,624,585**	**(16,596,289)**	**(10,186,242)**	**29,635**	**(443,483)**

As at 31 March 2022

	Weighted Average Interest Rate	Total	Within 6 Months	Between 6 - 12 Months	Between 1 - 2 Years	Between 2 - 5 Years	Over 5 Years	Non-interest bearing
	% p.a.	$	$	$	$	$	$	$
Non-derivative Financial Assets								
Cash and cash equivalents	0.30%	7,164,641	7,164,641	-	-	-	-	-
Loans and advances	11.11%	50,282,554	21,389,365	21,394,577	5,867,200	1,603,567	27,845	-
Total Assets	**9.76%**	**57,447,195**	**28,554,006**	**21,394,577**	**5,867,200**	**1,603,567**	**27,845**	**-**
Non-derivative Financial Liabilities								
Employee entitlements	-	144,787	-	-	-	-	-	144,787
Term deposits	4.96%	50,169,529	10,046,847	12,929,766	14,621,134	12,571,782	-	-
Accounts payable	-	311,038	-	-	-	-	-	311,038
Total Liabilities	**4.92%**	**50,625,354**	**10,046,847**	**12,929,766**	**14,621,134**	**12,571,782**	**-**	**455,825**
Total		**6,821,841**	**18,507,159**	**8,464,811**	**(8,753,934)**	**(10,968,215)**	**27,845**	**(455,825)**

24. ASSET QUALITY

(a) Summary of Loans and advances

	As at 31-Mar-23	As at 31-Mar-22
Loans and advances by Quality	$	$
Past Due but Not Impaired	2,996,705	2,058,954
Specifically Impaired	4,444,785	329,013
Restructured	198,331	411,876
Neither Past Due nor Impaired nor Restructured	64,179,295	47,702,769
Loans and advances	**71,819,116**	**50,502,612**
Allowance for impairment losses	(351,694)	(220,058)
Total net loans and advances	**71,467,422**	**50,282,554**

(b) Past Due but not Impaired or Restructured Loans and advances

	Year Ended 31-Mar-23	Year Ended 31-Mar-22
Movement in Past Due but not Impaired Loans and advances	$	$
Opening balance	2,058,954	1,532,818
Collected during the period	(1,672,028)	(974,944)
Reclassified to Neither Past Due nor Impaired	(388,595)	(109,227)
Reclassified from Neither Past Due nor Impaired	3,033,807	-
Reclassified to Specifically Impaired	(270,851)	(74,321)
Bad debts written off	(89,830)	(127,980)
	612,503	(1,286,471)
Additions	325,248	1,812,607
Closing balance	**2,996,705**	**2,058,954**

	As at 31-Mar-23	As at 31-Mar-22
Aging of Past Due but not Impaired Loans and advances	$	$
Past due 0 - 30 days	2,375,503	1,181,201
Past due 31 - 60 days	443,111	595,302
Past due 61 - 90 days	34,118	27,832
Past due 91 - 120 days	16,803	50,759
Past due more than 120 days	127,170	203,860
Total Past Due but not Impaired Loans and advances	**2,996,705**	**2,058,954**

24. ASSET QUALITY (continued...)

(c) Other Impaired Assets

	Year Ended 31-Mar-23	Year Ended 31-Mar-22
Movement in Individually Impaired Loans and advances	$	$
Opening balance	329,013	504,081
Collected during the period	(275,490)	(152,972)
Reclassified from neither past due nor impaired	3,958,368	-
Reclassified from past due but not impaired	270,851	-
Reclassified to past due not impaired	-	-
Bad debts written off	(17,186)	(159,696)
	3,649,212	(312,668)
Additions	179,228	137,600
Closing balance	**4,444,785**	**329,013**

	As at 31-Mar-23	As at 31-Mar-22
Security held over Individually Impaired Loans and advances	%	%
First mortgage	84.16	0.00
Second mortgage or agreement to mortgage	14.99	91.45
Motor Vehicle (PPSR)	0.30	0.55
Machinery and plant (PPSR charge)	0.00	1.98
General charge over all personal property (PPSR)	0.55	6.02
	100.00	100.00

The increase in individually impaired loans and advances recorded during the period is primarily attributable to the impairment of a single loan, secured against a first mortgage. As at 31 March 2023, this loan, with a gross exposure of $3,551k and a net exposure of $3,521k, has been identified as impaired due to being past due for more than 90 days, in accordance with the Group's impairment policy. The loan has a loan-to-value ratio (LVR) of less than 70%, and Management has assessed that the loan balance is wholly recoverable. Management is actively engaged in working closely with the borrower to ensure the full repayment of the outstanding loan amount.

24. ASSET QUALITY (continued...)

(d) Restructured Assets

	Year Ended 31-Mar-23	Year Ended 31-Mar-22
Movement in Restructured Loans and advances	$	$
Opening balance	411,876	772,966
Collected during the period	(166,842)	(512,691)
Reclassified from neither past due nor impaired	46,015	-
Reclassified to Specifically Impaired	(122,340)	-
Bad debts written off	(17,660)	15
	(260,827)	(512,677)
Additions	47,282	151,586
Closing balance	**198,331**	**411,876**

(e) Loans and advances that are neither Past Due nor Impaired nor Restructured

	As at 31-Mar-23	As at 31-Mar-22
Credit quality by security held	%	%
First mortgage	94.72	81.25
Second mortgage or agreement to mortgage	3.15	11.05
Designated assets (PPSR charge)	1.73	5.90
No security	0.07	0.16
General charge over all personal property (PPSR charge)	0.33	1.64
	100.00	100.00

	As at 31-Mar-23	As at 31-Mar-22
Credit quality by product type	%	%
Consumer Loans	3.02	8.03
Business Loans	2.49	8.21
Property Loans	94.49	83.76
	100.00	100.00

25. CAPITAL COMMITMENTS

There are no capital commitments as at 31 March 2023 (31 March 2022: none).

26. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

If a borrower elects to take out optional Payment Protection Plan (PPP) cover, they may be entitled to have instalments on their loan forgiven. The maximum entitlement under PPP results from death of the nominated borrower. In the case of death, instalments equal to the loan balance up to a maximum of $10,000 can be forgiven.

An estimate of the expected liability under the (PPP) cover has been made based on the history of successful remittances since the commencement of the plan. Based on this estimate, an allowance has been provided for as disclosed as part of note 16. As such, there is no contingent liability recognised for the year ended 31 March 2023 (31 March 2022: nil).

There are no other contingent liabilities at each reporting date other than normal purchase and lease commitments. The Group has no contingent assets at 31 March 2023 (31 March 2022: nil).

27. RELATED PARTY DISCLOSURE

(a) Related parties

Only related parties with transactions or balances during any reporting period that require disclosure are listed.

Related party	**Relationship to Xceda Finance Limited (“XFL”)**
Xceda Capital Group Limited	Related to a director and senior officer in XFL, is 100% shareholder of XFL
Xceda Capital Pty Limited	An entity with a common parent.
Other related individuals	Entities and parties are related to a director or senior officer of XFL. All of these transactions relate to investments in deposits at arm’s length. Not individually disclosed due to the type of the transactions.

(b) Loans to related parties
There are no related party debts, nor have any been written off or forgiven during the year ended 31 March 2023, (31 March 2022: nil).

(c) Investments from Related Parties
The following related parties advanced money to the Company pursuant to the terms of its Product Disclosure Statement by investing in Secured Deposits. All money borrowed by the Company from related parties was at arms’ length and borrowed on normal commercial terms and conditions.

The weighted average interest rate applicable for the balances below is 5.49% (March 2022: 4.46%). The total number of deposits at the end of the reporting period were 5 (31 March 2022: 5)

27. RELATED PARTY DISCLOSURE (continued…)

(c) Investments from Related Parties (continued…)

	Year Ended 31-Mar-23	Year Ended 31-Mar-22
Investment from related individuals	$	$
Opening balance	700,000	300,000
- Deposits received	775,000	400,000
- Deposits matured	(500,000)	-
- Interest accrued	39,990	22,224
- RWT deducted and interest paid	(35,216)	(22,224)
Closing Balance	**979,774**	**700,000**

(d) Other related party transactions in the current period

i. The Group received fees from Xceda Capital Pty Limited for the use of software. The total fees received in the year ended 31 March 2023 were $48,000 (31 March 2022: $48,000).

ii. The Group paid $646,609 in the year ended 31 March 2023 for management fees that related to leases of office premises held by Xceda Capital Group Limited and an on charge of services provided by the CEO & CFO (31 March 2022: $657,999).

iii. The Group paid $290,095 to Xceda Capital Pty Limited in the year ended 31 March 2023 for management fees that related to the origination and management of loans in Australia. (31 March 2022: $210,305).

At 31 March 2023 there was $nil owed to Xceda Capital Group Limited as a trade payable (31 March 2022: $51,139).
At 31 March 2023 there was $16,000 receivable from Xceda Capital Pty Limited (31 March 2022: $nil)

(e) Key management personnel compensation

The compensation of the key management personnel of the entity is set out below.

	Year Ended 31-Mar-23	Year Ended 31-Mar-22
Short term employee benefits paid in period	$	$
Directors' fees	157,436	139,867
Total short term employee benefits paid in period	**157,436**	**139,867**

The CEO and the CFO are employed by the Parent Company Xceda Capital Group Limited and a management fee is charged to Xceda Finance Limited.

28. RECONCILIATION OF NET SURPLUS WITH CASH FLOWS FROM OPERATING ACTIVITIES

	Year Ended 31-Mar-23 $	Year Ended 31-Mar-22 $
Total Comprehensive Income for the period	1,012,507	464,244
Adjustments for		
Depreciation	266,698	192,386
Loss on sale of property, plant & equipment	10,762	13,777
Increase/(Decrease) in impairment allowance	131,263	(95,584)
Loans and advances written off	171,562	373,121
Interest expense reinvested	1,216,299	733,589
Tax expense	23,788	-
	1,820,372	1,217,289
Deduct		
Increase in loans and advances	(21,487,692)	(14,288,380)
Increase in payables	48,826	49,763
Decrease in tax liability	(17,362)	(40,748)
Decrease in prepayments and other receivables	12,563	36,880
Increase in derivative financial instruments	(308,160)	-
Decrease in GST	(126,486)	(62,457)
Decrease in deferred tax asset	387,086	188,163
	(21,491,225)	(14,116,779)
Net cash (used in) or from operating activities	**(18,655,346)**	**(12,435,246)**

29. RECONCILIATION OF SECURED TERM DEPOSITS ARISING FROM FINANCING ACTIVITIES

	Total $
At 31 March 2022	50,169,529
Repayment principal and interest	(10,713,545)
Proceeds	38,585,230
Reinvested Interest	1,216,300
Total 31 March 2023	**79,257,514**

29. RECONCILIATION OF SECURED TERM DEPOSITS ARISING FROM FINANCING ACTIVITIES (continued…)

	Total
	$
At 31 March 2021	38,658,904
Repayment principal and interest	(2,801,790)
Proceeds	13,578,825
Reinvested Interest	733,590
Total 31 March 2022	**50,169,529**

30. RANKING OF LIABILITIES

Except for prior security interests totalling no more than 2% of total tangible assets, the Trust Deed prohibits the Group from granting any security interests that rank ahead of, or equally with, the first interest given to the Supervisor for the benefit of Stockholders under the Trust Deed.

As at 31 March 2023, there were no outstanding prior security interests that had been granted by the Group (31 March 2022: nil). The only interests that rank ahead of the first interest given to the Supervisor are those given preference by law such as PAYE and RWT.

The secured term deposits totalling $79,257,514 as at 31 March 2023 (31 March 2022: $50,169,529) reported in these financial statements are secured by security interest in favour of the Supervisor over all of the present and after acquired personal property of the Group, and rank ahead of the other secured liabilities (other than permitted prior security interests and claims given preference by law, such as outstanding taxes and payments to employees).

All other liabilities reflected in the Statement of Financial Position are ranked equally.

31. SUBSEQUENT EVENTS

The Directors are not aware of any other matters or circumstances since the end of each reporting period, not otherwise dealt with within these financial statements that have significantly or may significantly affect the operations of the Group.

32. CAPITAL MANAGEMENT AND CAPITAL RATIO CALCULATIONS

When managing capital, management's objective is to maintain acceptable capital ratios to support the business and ensure the Group continues as a going concern. In order to achieve this objective, the Group performs monthly reviews of its capital structure in light of current and forecast financial performance and economic conditions.

Business initiatives and strategies are developed in response to these reviews. Should it need to, the Group will adjust its dividend payment (if any) to shareholders to maintain adequate capital.

The Group has two capital ratios it must adhere to pursuant to its Debenture Trust Deed.

The capital ratio detailed in the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010 shown below requires the highest level of shareholders' funds as at 31 March 2023. While the amount of capital required under this ratio fluctuates depending on the composition of the Group's assets, it is

32. CAPITAL MANAGEMENT AND CAPITAL RATIO CALCULATIONS (continued…)

expected to continue to be the ratio that requires the highest level of shareholders' funds. Based on the current and foreseeable composition of the Group's assets, compliance with this ratio will mean all ratios are in compliance.

Capital ratios are calculated as at the end of every calendar month. The ratios are summarised on the following pages. Deferred tax and any intangible assets are deducted from capital for ratio calculation purposes.

(a) Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010

The regulations include a minimum capital ratio, to be calculated according to the framework prescribed by the Reserve Bank of New Zealand (RBNZ). The minimum capital ratio is 8% for companies that have a credit rating from a ratings agency approved by the RBNZ under section 86 of the Non-bank Deposit Takers Act 2013, and 10% for those without such a rating. Per the Trust Deed the minimum capital ratio to be maintained is 10% (31 March 2022: 10%).

Xceda Finance has a B/Stable credit rating as at 31 March 2023 (31 March 2022: B/Stable). Ratings have been issued by Equifax (31 March 2022: Equifax), a ratings agency approved by the RBNZ.

A key premise of the framework under which the capital ratios are calculated is that financiers with higher risk loans and other assets should require more capital compared with companies carrying lower risk loans and other assets. To achieve this, the regulations require each loan or other asset to be assigned a class according to a schedule defined in the regulations. Each class of asset has a corresponding risk weight. The risk weight together with the level of exposure to that asset type determine the amount of shareholder capital required.

Full details are set out in the regulations, and the calculations for the Group for each reporting period are set out below.

	As at 31-Mar-23 $	As at 31-Mar-22 $
Risk weighted exposures		
Total risk-weighted amount for credit risk	45,255,362	37,868,068
Aggregate amount for operational and market risk	11,756,606	8,463,239
Total risk-weighted exposures	**57,011,968**	**46,331,307**
Capital for ratio calculation purposes		
Gross capital	9,151,732	8,045,730
Deductions	(402,332)	(903,959)
Capital	**8,749,400**	**7,141,771**
Capital ratio	15.35%	15.41%
Capital	8,749,400	7,141,771
Capital required – 10% of risk weighted exposures	(5,701,197)	(4,633,131)
Capital surplus over minimum requirement	**3,048,203**	**2,508,640**

32. CAPITAL MANAGEMENT AND CAPITAL RATIO CALCULATIONS (continued…)

During the year ended 31 March 2023, the reported capital ratios ranged from 14.90% to 16.14% and there were no breaches in satisfying the Group's capital ratios (31 March 2022: from 13.32% to 15.03% with no breaches).

(b) Debenture Trust Deed dated 15 March 2004 (as amended)

Xceda Finance entered into a Debenture Trust Deed with the Supervisor on 15 March 2004, which was amended on 1 December 2010, 11 September 2012, 21 October 2016 and 3 December 2018. Under the terms of the Debenture Trust Deed, the capital required differs depending on the level of the Group's Total Tangible Assets and amount of shareholder funds. The applicable ratio as at 31 March 2023 and 31 March 2022, and the only ratio likely to apply in the foreseeable future says that "…total liabilities are not to exceed 90% of Total Tangible Assets". For the purposes of the Debenture Trust Deed calculations, total liabilities exclude Subordinated Debt and Unsecured Capital Notes.

	As at 31-Mar-23 $	As at 31-Mar-22 $
Total assets	89,102,711	58,853,411
Intangible assets	(399,710)	(903,959)
Total tangible assets	**88,703,001**	**57,949,452**
Total liabilities	79,944,474	50,807,681
Subordinated debt and unsecured capital notes	-	-
Total liabilities for ratio calculation purposes	**79,944,474**	**50,807,681**
Ratio calculation	**90.13%**	**87.68%**

	As at 31-Mar-23 $	As at 31-Mar-22 $
90% of Total Tangible Assets	79,832,701	52,154,507
Total liabilities for ratio calculation purposes	79,944,474	(50,807,681)
Capital surplus over minimum requirement	**(111,773)**	**1,346,826**

There has been one breach to this ratio during the reporting period ended 31 March 2023 (31 March 2022: no breaches).

During the month of March 2023, the Liabilities Limitation ratio as disclosed above, exceeded the predefined threshold in the Debenture Trust Deed by 0.13%. This discrepancy was rectified through appropriate measures by 31 May 2023.

33. SEGMENTAL REPORTING

For management purposes, the Group organises some revenue streams and assets based on the following three segments. The Chief Executive Officer, being the chief operating decision maker, assesses the segment performance and decides on the resource allocation.

NZ – Business & Commercial

Business and commercial loans that are advanced in New Zealand (NZ) and that are not governed by the CCCFA.

NZ - Consumer

Consumer loans and advances that are governed by the Credit Contracts and Consumer Finance Act 2003 ("CCCFA") and advanced in New Zealand (NZ).

AU – Business & Commercial

Business and commercial loans that are advanced in Australia (AU) and that are not governed by the National Consumer Credit Protection Act 2009 (National Credit Act).

Due to the infrastructure, staff and most operating costs required for the NZ segments are the same, management does not attribute all revenues, expenses, assets and liabilities into these two segments. Decision making is made at the operating income and total assets level.

The segmental reporting that is routinely used by Management and how it reconciles to amounts reported in the primary financial statements is shown below.

Neither secured term deposits liabilities nor interest expense is apportioned between the consumer and the business loan books in the management reporting and therefore has not been allocated to a specific segment.

There are no instances in either reporting period where there is revenue arising from a single borrower in excess of 10% of total revenue.

31 March 2023

For the period end 31 March 2022

	NZ - Consumer	NZ - Commercial	AU - Commercial	Unallocated	Total
	$	$			
Interest Revenue	1,218,368	5,262,195	793,974	110,256	7,384,793
Interest Expense	(541,701)	(2,339,634)	(479,654)	-	(3,360,989)
Net interest income	**676,667**	**2,922,561**	**314,320**	**110,256**	**4,023,804**
Other income	324,285	1,328,607	192,354	540,683	2,385,929
Net Profit/(Loss) Before Tax	**183,544**	**779,535**	**188,983**	**119,363**	**1,271,425**
Loans and Advances	**7,864,485**	**53,703,610**	**9,899,327**	**-**	**71,467,421**

33. SEGMENTAL REPORTING (continued…)

31 March 2022

For the period end 31 March 2022

	NZ - Consumer	**NZ - Commercial**	**AU - Commercial**	**Unallocated**	**Total**
	$	$			
Interest Revenue	1,572,705	3,652,318	201,173	20,166	5,446,362
Interest Expense	(652,042)	(1,514,247)	(133,579)	-	(2,299,868)
Net interest income	**920,663**	**2,138,070**	**67,594**	**20,166**	**3,146,494**
Other income	865,866	1,036,509	39,571	448,385	2,390,330
Net Profit/(Loss) Before Tax	**239,389**	**425,384**	**(116,929)**	**62,784**	**610,629**
Loans and Advances	**9,436,419**	**37,303,076**	**3,543,059**	**-**	**50,282,554**

Independent Auditor's Report

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To the Shareholders of Xceda Finance Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of Xceda Finance Limited (the "Company") and its controlled subsidiary (the "Group") on pages 11 to 59 which comprise the consolidated statement of financial position as at 31 March 2023, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year that ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Group as at 31 March 2023 and its financial performance and cash flows for the year that ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) issued by the New Zealand Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand*) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code*, 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 than in our capacity as auditor we have no relationship with, or interests in, the Group.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Why the audit matter is significant	How our audit addressed the key audit matter
Allowance for impairment losses from loans and advances The allowance for impairment losses from loans and advances to customers amount to $303,000 in the financial statements as at 31 March 2023.	We have: • Obtained an understanding of the lending processes and controls and models used to determine the allowance for impairment losses from loans and advances, including event

Why the audit matter is significant	How our audit addressed the key audit matter
Due to the materiality and significance of the judgements applied in determining the allowance for impairment losses from loans and advances, this matter was considered to be an area which had the greatest impact on our overall audit strategy. If the carrying value of the loan is greater than the recoverable amount of the receivable, the corresponding impairment may have a material impact within the financial statements. The determination of assumptions for measurement of impairment is highly subjective due to the level of judgement applied by management. Change in assumptions and the methodology applied may have a material impact on the measurement of the allowance for impairment losses from loans and advances balance. The principles for determining the allowance for impairment losses from loans and advances are described in *Note 1(n)* and *Note 2* of the financial statements. The description of credit risks and the allowance for impairment losses is disclosed in *Note 21* and *Note 5* of the financial statements.	identification, collateral valuation and how management's estimates and judgements are determined. • For a selection of the new loans issued by the Company, we inspected the loan agreement and other available information that formed part of management's loan approval process (such as credit scores and security details), and tested management's approval process controls, to determine whether new loans were appropriately approved and that the information available supported any conclusions reached about the expected credit loss at that point. • We obtained the Company's loan ledger at period end and using our knowledge of the Company and the industry, identified loans for which we believed there may be indicators of impairment. We considered management's conclusions regarding impairment for each of these loans individually. • For each identified loan with indicators of impairment, we tested whether there was adequate security against each advance in order to recover the outstanding balance. Where provided, we considered adequacy of third-party valuations, and also verified any prior ranking securities to independent sources. • For the collective provisioning model, we: (a) Recalculated the provision based on the input factors identified by management as part of the expected credit loss methodology; and (b) Assessed the judgements made by management regarding the assumptions used for the expected credit loss methodology, including challenging the appropriateness of the risk factors that had been considered when developing the 12 month and lifetime expected credit loss as part of the 3 stage impairment model.

Information Other than the Financial Statements and Auditor's Report thereon

The Directors are responsible for the other information. The other information comprises the Group Directory and the Consolidated Financial Overview but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated 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 information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the Consolidated Financial Statements

The Directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards issued by the New Zealand Accounting Standards Board, and for such internal control as the Directors determine is necessary to enable the preparation of {consolidated} financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible on behalf of the Group for assessing the Group'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 the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the Audit of the Consolidated 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 auditor's 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 ISAs (NZ) 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 consolidated financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the External Reporting Board's website at: https://www.xrb.govt.nz/standards/assurance-standards/auditors-responsibilities/audit-report-1/

Restriction on use of our report

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state to the Company's shareholders, as a body those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinion we have formed.

Grant Thornton New Zealand Audit Limited

Grant Thornton

V J Black
Partner
Auckland, New Zealand
30 June 2023

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