

**UDC FINANCE LIMITED  
INTERIM FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS ENDED 31 MARCH 2018**

## STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 March	Note	2018 \$000	2017 \$000
Interest income		110,260	100,852
Interest expense		46,318	42,478
Net interest income		63,942	58,374
Other operating income		2,311	2,059
Operating income		66,253	60,433
Operating expenses		16,231	16,255
Profit before credit impairment and income tax		50,022	44,178
Credit impairment charge	3	4,520	2,209
<b>Profit before income tax</b>		<b>45,502</b>	<b>41,969</b>
Income tax expense		12,784	11,792
<b>Profit after income tax</b>		<b>32,718</b>	<b>30,177</b>

There are no items of other comprehensive income.

## STATEMENT OF CHANGES IN EQUITY

	Share capital \$000	Retained earnings \$000	Total equity \$000
<b>As at 1 October 2016</b>	20,752	403,247	423,999
Profit after income tax	-	30,177	30,177
<b>As at 31 March 2017</b>	20,752	433,424	454,176
<b>As at 1 October 2017</b>	52,352	433,293	485,645
Profit after income tax	-	32,718	32,718
<b>As at 31 March 2018</b>	52,352	466,011	518,363



## BALANCE SHEET

As at	Note	31 Mar 2018 \$000	30 Sep 2017 \$000
<b>Assets</b>			
Cash and cash equivalents		67,496	59,173
Net loans and advances	2	3,070,200	2,911,594
Other assets		3,892	5,621
Deferred tax assets		9,361	8,265
<b>Total assets</b>		<b>3,150,949</b>	<b>2,984,653</b>
<b>Liabilities</b>			
Borrowings	5	2,574,781	2,424,160
Current tax liabilities		37,383	23,504
Payables and other liabilities		18,977	49,845
Employee entitlements		1,445	1,499
<b>Total liabilities</b>		<b>2,632,586</b>	<b>2,499,008</b>
<b>Net assets</b>		<b>518,363</b>	<b>485,645</b>
<b>Equity</b>			
Share capital		52,352	52,352
Retained earnings		466,011	433,293
<b>Total equity</b>		<b>518,363</b>	<b>485,645</b>

For and on behalf of the Board of Directors:



Stuart McLauchlan  
Chair  
20 June 2018



Antonia Watson  
Director  
20 June 2018

## CONDENSED CASH FLOW STATEMENT

	2018	2017
For the six months ended 31 March	\$000	\$000
<b>Cash flows from operating activities</b>		
Interest received	109,755	99,728
Interest paid	(50,624)	(47,021)
Other cash inflows provided by operating activities	2,311	2,059
Other cash outflows used in operating activities	(42,811)	(16,526)
Cash flows from operating profits before changes in operating assets and liabilities	18,631	38,240
Net changes in operating assets and liabilities	(242,324)	(441,906)
<b>Net cash flows used in operating activities</b>	<b>(223,693)</b>	<b>(403,666)</b>
<b>Cash flows from investing activities</b>		
Purchase of leasehold improvements and equipment	-	(3)
<b>Net cash flows used in investing activities</b>	<b>-</b>	<b>(3)</b>
<b>Cash flows from financing activities</b>		
Credit facilities drawn	553,101	462,000
Credit facilities settled	(321,085)	(72,000)
<b>Net cash flows provided by financing activities</b>	<b>232,016</b>	<b>390,000</b>
Net increase/(decrease) in cash and cash equivalents	8,323	(13,669)
Cash and cash equivalents at beginning of the period	59,173	79,994
<b>Cash and cash equivalents at end of the period</b>	<b>67,496</b>	<b>66,325</b>



The notes to the interim financial statements form part of and should be read in conjunction with these interim financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### (i) Statement of compliance

These interim financial statements for UDC Finance Limited (the Company) have been prepared in accordance with the requirements of the Financial Markets Conduct Regulations 2014 and New Zealand Generally Accepted Accounting Practice (NZ GAAP) as applicable to interim financial statements. The Company is a publicly accountable for-profit entity for the purposes of complying with NZ GAAP.

These financial statements comply with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*, and should be read in conjunction with the financial statements for the year ended 30 September 2017.

#### (ii) Basis of measurement

The financial statements have been prepared on a going concern basis in accordance with historical cost concepts.

#### (iii) Changes in accounting policies

The accounting policies applied by the Company are consistent with those applied and disclosed in the previous full year financial statements.

#### (iv) Presentation currency and rounding

The amounts contained in the financial statements are presented in thousands of New Zealand dollars unless otherwise stated.

### 2. NET LOANS AND ADVANCES

	Note	31 Mar 2018 \$000	30 Sep 2017 \$000
Revolving credit facilities		308,908	282,851
Term loans		1,363,393	1,348,180
Hire purchase contracts		1,503,085	1,372,041
Finance leases		116,435	114,251
Subtotal		3,291,821	3,117,323
Unearned income		(184,577)	(169,965)
Deferred fee revenue and expenses		(5,720)	(6,486)
Gross loans and advances		3,101,524	2,940,872
Provision for credit impairment	3	(31,324)	(29,278)
Total net loans and advances		3,070,200	2,911,594

### 3. PROVISION FOR CREDIT IMPAIRMENT

#### Provision for credit impairment - balance sheet

	31 Mar 2018 \$000	30 Sep 2017 \$000
Collective provision	25,440	23,418
Individual provision	5,884	5,860
Total provision for credit impairment	31,324	29,278

#### Credit impairment charge - income statement

	2018 \$000	2017 \$000
For the six months ended 31 March		
New and increased provisions	6,195	5,785
Write-backs	(2,805)	(3,441)
Recoveries of amounts previously written off	(892)	(1,815)
Individual credit impairment charge	2,498	529
Collective credit impairment charge	2,022	1,680
Credit impairment charge	4,520	2,209

## NOTES TO THE FINANCIAL STATEMENTS

### 4. IMPAIRED AND PAST DUE LOANS

	31 Mar 2018	30 Sep 2017
	\$000	\$000
Individually impaired loans and advances	11,717	11,243
Loans that are at least 90 days past due but not impaired	5,519	2,428

### 5. BORROWINGS

	31 Mar 2018	30 Sep 2017
	\$000	\$000
UDC secured investments	957,739	1,039,133
Committed credit facility utilised	1,617,042	1,385,027
Total borrowings	2,574,781	2,424,160

The Company has a committed credit facility available on demand with its parent, ANZ Bank New Zealand Limited (ANZ Bank), of \$2,700 million (30/09/2017: \$1,800 million), of which \$1,617 million was utilised as at 31 March 2018 (30/09/2017: \$1,385 million). The current credit facility expires on 30 September 2019. The Company can extend the term of the credit facility subject to agreement with ANZ Bank.

The ANZ Bank committed credit facility and UDC secured investments would rank equally in the event of priority claims over the assets of the Company.

### 6. FAIR VALUE MEASUREMENTS

#### Financial assets and financial liabilities not measured at fair value

No assets or liabilities are carried at fair value. Below is a comparison of the carrying amounts as reported on the balance sheet and fair value of financial asset and liability categories other than those categories where the carrying amount is considered a reasonable approximation of fair value:

	31 Mar 2018		30 Sep 2017	
	Carrying amount \$000	Fair value \$000	Carrying amount \$000	Fair value \$000
<b>Financial assets</b>				
Net loans and advances	3,070,200	3,094,296	2,911,594	2,931,013
<b>Financial liabilities</b>				
Borrowings	2,574,781	2,576,901	2,424,160	2,427,731

### 7. MINIMUM CAPITAL REQUIREMENTS

The Company is required to comply with certain minimum capital requirements under Deposit Takers (Credit Ratings, Capital Ratios and Related Party Exposures) Regulations 2010 as introduced by the Reserve Bank of New Zealand (RBNZ). At 31 March 2018, the Company's capital ratio was 10.3% (30 September 2017: 10.0%).

The RBNZ requires the Company's capital ratio to be at least 8% at all times.



## NOTES TO THE FINANCIAL STATEMENTS

### 8. CREDIT RELATED COMMITMENTS AND CONTINGENT LIABILITIES

#### Credit related commitments and contingencies

	31 Mar 2018 \$000	30 Sep 2017 \$000
Contract amount of:		
Undrawn revolving credit facilities	291,208	295,869
Conditional commitments to fund at future dates	134,665	144,154
Letters of credit	-	2,681
Total	425,873	442,704

#### Other contingent liabilities

There are outstanding court proceedings, claims and possible claims for and against the Company. Where relevant, expert legal advice has been obtained and, in the light of such advice, provisions and/or disclosures as deemed appropriate have been made. In some instances we have not disclosed the estimated financial impact of the individual items either because it is not practicable to do so or because such disclosure may prejudice the interests of the Company.

In recent years globally there have been significant increases in the nature and scale of regulatory investigations and reviews, enforcement actions (whether by court action or otherwise) and the quantum of fines issued by regulators and customer claims. The Company also instigates engagement with its regulators. The nature of these investigations and reviews can be wide ranging and, for example, may include a range of matters including responsible lending practices, pricing and fees and adequacy of product disclosure documentation. The Company has received various notices and requests for information from its regulators as part of both industry-wide and UDC specific reviews, and has also made disclosures to its regulators at its own instigation. There may be exposures to customers which are additional to any regulatory exposures. These could include class actions, individual claims or customer remediation or compensation activities. The outcomes and total costs associated with such reviews and possible exposures remain uncertain.

### 9. OWNERSHIP OF THE COMPANY

On 11 January 2017, ANZ Bank announced that it had entered into a conditional agreement to sell the Company to HNA Group. On 21 December 2017, ANZ Bank announced that it had been informed that New Zealand's Overseas Investment Office had declined HNA's application to acquire UDC and the agreement with HNA was terminated in January 2018.

On 20 March 2018, ANZ Bank announced that it was continuing to examine a broad range of options for UDC's future including an Initial Public Offering (IPO) and trade sale.





# Independent auditor's review report

**To the shareholder of UDC Finance Limited**

**Report on the interim financial statements**

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements on pages 1 to 6 do not:

- i. present fairly in all material respects the company's financial position as at 31 March 2018 and its financial performance and cash flows for the six month period ended on that date; and
- ii. comply with NZ IAS 34 *Interim Financial Reporting* ("NZ IAS 34").

We have completed a review of the accompanying interim financial statements which comprise:

- the balance sheet as at 31 March 2018;
- the statements of comprehensive income, changes in equity and condensed cash flows for the six month period then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



## Basis for conclusion

A review of interim financial statements in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410") is a limited assurance engagement. The auditor performs procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

As the auditor of UDC Finance Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Our firm has also provided other services to the company in relation to the statutory audit, regulatory assurance services, and supervisory reporting. Subject to certain restrictions, partners and employees of our firm may also deal with the company on normal terms within the ordinary course of trading activities of the business of the company. These matters have not impaired our independence as reviewer of the company. The firm has no other relationship with, or interest in, the company.



## Use of this independent review report

This report is made solely to the shareholder as a body. Our review work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the independent review 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 shareholder as a body for our review work, this report, or any of the opinions we have formed.





## **Responsibilities of the directors for the interim financial statements**

The directors, on behalf of the company, are responsible for:

- the preparation and fair presentation of the interim financial statements in accordance with NZ IAS 34;
- implementing necessary internal control to enable the preparation of the interim financial statements that are fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



## **Auditor's responsibilities for the review of the interim financial statements**

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with NZ IAS 34.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on these interim financial statements.

This description forms part of our independent review report.

KPMG  
Auckland

20 June 2018